Highway Insurance Company

Solvency Financial Condition Report

2019

Introduction

Summary

This is the solvency and financial condition report ("SFCR") for Highway Insurance Company Limited ("HICO", "the Company"). Publication of an SFCR is a mandatory requirement of the Solvency II Directive[1] for all insurance companies domiciled in the EU. Solvency II, which entered into force on January 1, 2016, is a comprehensive updating of the way in which insurance companies in the EU are supervised by their local regulators.

The main Solvency II Directive is supplemented by further texts[2] which set out the required contents and structure[3] of the report. This introduction is intended to fulfil the requirement[4] that the SFCR should contain a clear and concise summary, which highlights material changes over the year.

Section A looks at the business and performance of HICO during 2019. It starts with a section describing the legal structure of the Company and its place in the Group before covering the two main sources of the Company's profit – the underwriting of insurance and the investment of the capital held in order to pay future claims. HICO reported a loss after tax for the year of £6.6m (2018: profit £3.7m) including the discontinued commercial lines of business, which generated a profit of £2m (2018: £12.8m loss).

The most notable change during 2019 was the change of ownership at the 31 December 2019, which was the second part of a joint venture entered into by the Company's former parent, Liverpool Victoria Financial Services (formerly Liverpool Victoria Friendly Services, "LVFS").

The first stage ("first completion") completed on the 28 December 2017, when the Company sold its Commercial broker lines renewal rights to Allianz Insurance plc as part of the wider joint venture deal which saw Allianz Holdings plc acquire 49% of Liverpool Victoria General Insurance Group Limited ('LVGIG'), an intermediary parent holding company. As a result the Company ceased writing Commercial broker new business during 2018. The Commercial broker business represents a separate major line of business for the Company and is therefore presented as a discontinued operation

On 31 December 2019, known as "second completion", Allianz Holdings plc acquired the remaining 51% of LVGIG to take full control.

As part of LVGIG's strategy to diversify and grow its business, on 1 January 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 with a small but growing Pet business.

Fairmead is the 7th largest Home insurance provider in the UK with more than 2 million customers using various distribution channels including Direct, Brokers, Managing General Agents (MGA's) and Independent Financial Advisors (IFA's).

Towards the end of 2020, it is anticipated that existing customers of Fairmead will start to be invited to renew their policies with the Company or one of its intermediate parents Liverpool Victoria Insurance Company ("LVIC").

Section B looks at the System of Governance. This is the set of rules and processes by which the Company is managed. This section describes the ways in which HICO ensures that its business runs effectively and in compliance with the regulations of Solvency II.

During 2019 the Company was governed by the LVGIG Board which included joint Allianz and LVFS appointed directors who rely on other managers to operate the Company on their behalf. Following 31 December 2019 HICO will be governed by a joint Allianz and LVGIG Board.

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[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51 – 56.

[2] Commission delegated regulation (EU) 2015/35, articles 290 - , Implementing Regulation (EU) 2015/2452

[3] See in particular Annex XX, Commission delegated regulation (EU) 2015/35

[4] 4 Article 292, Commission delegated regulation (EU) 2015/35

The actions of those other managers take place within the confines of the System of Governance.

During 2019, there have been no significant changes in the Company's system of governance in the year however, with the acquisition of 100% ownership in the immediate parent LVGIG, by AZ Holdings plc. HICO will align its governance with Allianz from 1st January 2020. The table below summarises the changes in membership of the Board at the year end:

D B Barral	Resigned 31 December 2019	D A Torrance	Appointed 1 January 2020
A R Cook	Resigned 31 December 2019	D J Larnder	Appointed 1 January 2020
K P Wenzel	Resigned 31 December 2019	C W T Dinesen	Appointed 1 January 2020
R A Rowney	Resigned 31 December 2019	N C Peiris	Appointed 1 January 2020
D S Neave	Resigned 31 December 2019	R M Munson	Appointed 1 January 2020
B D Smith	Resigned 31 December 2019	F K Dyson	Appointed 1 January 2020

The section confirms that all the required components of the System of Governance are in place. These are:

- Assessment and remuneration policies, to ensure that managers have the skills and capability required to run the Company and that they are paid appropriately;

- Independent safeguarding functions, whose responsibility is to ensure that the managers of the Company understand and manage risks appropriately;

- A process, the Own Risk and Solvency Assessment, by which all risks facing the Company are assessed, managed and reported to the Board.

Finally the section reviews how the Company relies on other companies to undertake some activities on its behalf. Although some activities are outsourced – section B.7 outlines the most material.

Section C reviews the risks which HICO faces. These are:

- Underwriting Risk

- Market Risk

- Credit Risk

- Liquidity Risk

- Operational Risk

Each kind of risk is covered in turn. The risk itself and the methods for understanding, managing and mitigating that risk are described, and any major concentration of that risk type is identified.

This section confirms that each risk type to which HICO is exposed is appropriately understood, managed and mitigated.

Section D reviews the balance sheet of HICO. The balance sheet is the main mechanism by which the solvency of the Company – the amount of capital it has available to protect it and its policyholders against a shock – is assessed. This section describes the methods used to value the items on that balance sheet in accordance with the Solvency II Directive and explains any significant valuation differences to the valuation applied in the preparation of the Annual Report and Financial Statements. The Company adopts the same recognition, measurement and valuation policies for IFRS purposes as the Group.

In section D.2 Technical Provisions are considered. Technical Provisions represent the current amount required to transfer insurance obligations immediately to another insurance entity. They include the funds the Company has put aside specifically to pay future claims, and so they represent the most important part of the balance sheet. They are also the most uncertain, as it is difficult to assess the funds required accurately.

Section E confirms that HICO is able to withstand unexpected shocks according to the standards required by Solvency II regulations. Own Funds refers to the capital available within the Company for this purpose, and section E.1 describes how that capital is managed. It also confirms that the Own Funds are of appropriate quality and will be available if required.

The amount of Own Funds required by Solvency II is defined by the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). The MCR is the level of Own Funds below which the Company cannot legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

HICO uses the Standard Formula to calculate its SCR. The capital surplus as at 31 December 2019 under the Standard Formula stood at £67m (2018: £72m), HICO's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is 142% (2018:144%). HICOs MCR at 31 December 2019 amounts to £61m.

The valuations reported within this report are based on information up to December 31, 2019. Therefore, based on the Company's interpretation of Article 77 (2) of the Solvency II Directive, the valuations and technical provisions including the premium provision do not reflect the impact of COVID-19.

The outbreak of COVID-19 has resulted in a pandemic causing extensive disruption across the globe. As at December 31, 2019, a very limited number of cases had been reported to the World Health Organisation. Since then the spread of the virus has been significant and the number of reported cases and deaths has increased substantially.

Whilst there remains significant uncertainty as to the impact of COVID-19 on HICO, significant progress has been made to mitigate the risks including an efficient migration of almost all staff to home working.

Financial and operational risks have been modelled in order to assess the solvency position under relevant stresses. The Company expects to continue to meet its solvency and capital requirements as required by current laws and regulations.

The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing. Further information relating to the COVID-19 pandemic is included within sections A, B, C, D and E of the report.

Finally, the SFCR contains a Statement of Directors' responsibilities.

Statement of directors' responsibilities

Financial period ended 31 December 2019

We certify that:

a) The Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

b) We are satisfied that:

- throughout the financial year in question, Highway Insurance Company Limited have complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and

- it is reasonable to believe that, at the date of the publication of the Solvency and Financial Condition Report, the Company has continued so to comply, and will continue so to comply in future.

The Solvency and Financial Condition Report was approved by the Board of Directors on 16 April 2020 and signed on its behalf by:

…….
Steve Treloar

Chief Executive Officer

Liverpool Victoria General Insurance Group

A. Business and Performance

A.1 Business

a) Name and legal form of undertaking

Highway Insurance Company Limited ('HICO') is a UK-incorporated and domiciled company limited by shares.

Registered office
57 Ladymead
Guildford
Surrey
England
GU1 1DB

b) Name and contact detail of the supervisory authority responsible for financial supervision.

Firm's reference number: 202972

The Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') are responsible for the financial supervision of the company.

PRA
Address: 20 Moorgate
London
EC2R 6DA
Phone: 020 7601 4444

FCA
Address: 12 Endeavour Square
London
E20 1JN
Phone: 020 7066 1000

c) Name and contact details of the external auditor

The independent auditors are PricewaterhouseCoopers LLP
Address: 3 Forbury Place
23 Forbury Road
Reading
Berkshire
RG1 3JH

d) Description of the holders of qualifying holdings in the undertaking

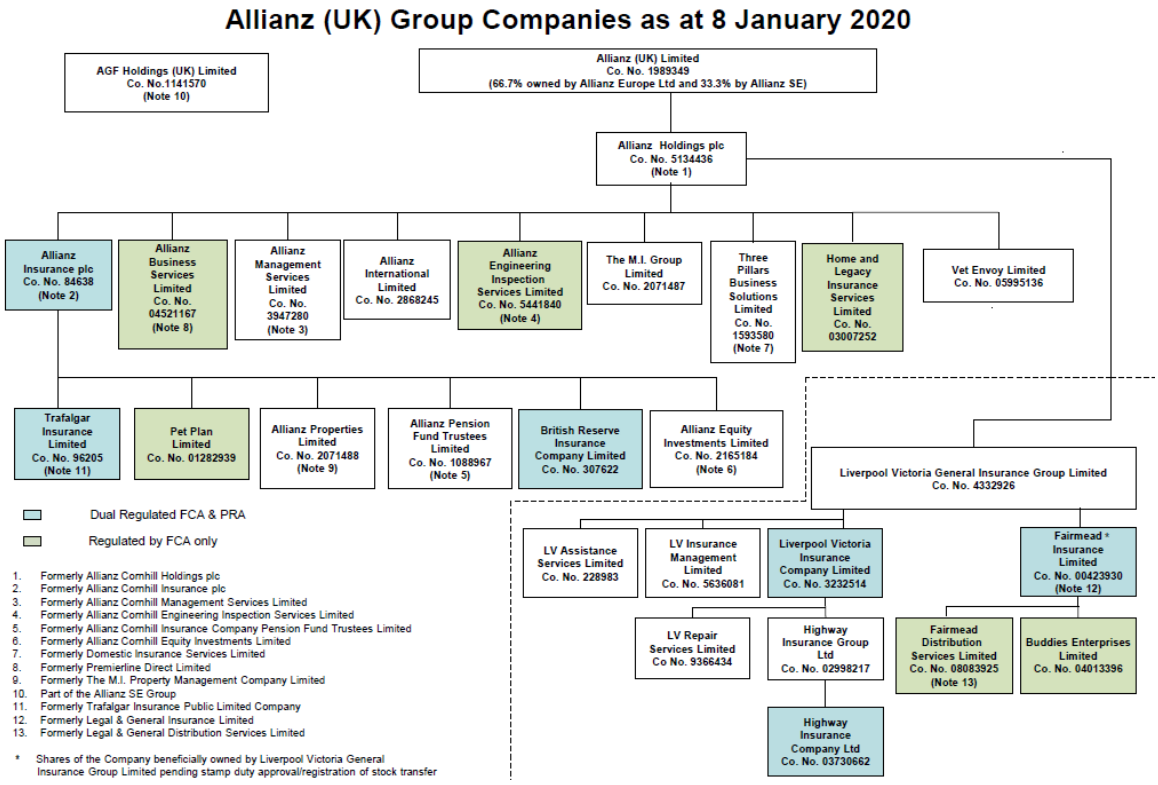
The Company is a wholly owned subsidiary of Allianz Holdings plc. The ultimate parent company is Allianz SE ('AZ SE'), a European multinational financial services company headquartered in Munich, Germany.

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

During 2017, the then intermediate holding company, LV Capital plc sold a 49% stake in LVGIG to Allianz Holdings plc, with the final 51% stake in LVGIG being sold to Allianz Holdings plc in 31 December 2019.

e) Details of the undertakings within the group

The structure chart below shows the Allianz UK Group as at 8 January 2020. At 31 December 2019, LVGIG did not own Fairmead Insurance Limited and its subsidiaries, which was held directly by Allianz Holdings plc.



For details of how HICo sits within the LVGIG group, please see company structure on page 10.

f) Material lines of business and material geographic areas.

Highway underwrites non-life insurance contracts within the UK.

Highway conducts general insurance business through broker distribution channels. The primary sources of premium income are from the sale of Motor insurance products. Motor insurance products include Private Car, Specialist Car, Fleet, Motorcycle and Commercial Vehicles.

As such the following Solvency II non-life lines of business are written on either a standalone or bundled product basis:

- Motor vehicle liability insurance
- Other motor insurance
- Fire and other damage to property insurance
- General liability insurance
- Legal expenses insurance
- Assistance
- Medical expense insurance

g) Significant business or other events occurring during the reporting period that have a material impact on the undertaking.

<u>Change in control</u>
On 31 December 2019, Allianz Holdings plc acquired the remaining 51% of LVGIG to take full control.

Acquisition of Legal and General Insurance Limited

As part of LVGIG's strategy to diversify and grow its business, on 1 January 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 with a small but growing pet business.

Fairmead is the 7th largest home insurance provider in the UK with more than 2 million customers using various distribution channels including Direct, Brokers, Managing General Agents (MGA's) and Independent Financial Advisors (IFA's).

Towards the end of 2020, it is anticipated that existing customers of Fairmead will start to be invited to renew their policies with the Company or one its intermediate parents Liverpool Victoria Insurance Company ('LVIC').

Business and Performance

Net earned premium has increased by 7% mainly driven by the transfer of the personal lines business from Allianz Insurance plc.

HICO (£m)	**2019**	2018
Net earned premium	**288**	309
Net claims incurred	**(207)**	(211)
Expenses incurred	**(99)**	(94)
Net underwriting result	**(18)**	4
Net investment income	**10**	(2)
Other	**0**	3
(Loss)/Profit before tax	**(8)**	5
Tax	**2**	(1)
(Loss)/Profit after tax	**(6)**	4
Other comprehensive Income	**9**	(4)
Tax on Other Comprehensive Income	**(2)**	1
Total comprehensive income	**1**	1

All income statement numbers presented in Section A are based on the IFRS Financial Statements adjusted for certain presentational adjustments made in the QRTs. Profit before tax is the same under both presentations.

A.2 Underwriting performance

All business is underwritten in the UK and the following provides an analysis of the underwriting income and expenses for 2019 in addition to a comparative for 2018.

2019	**Motor vehicle liability insurance**	**Other motor insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net earned premiums	207	64	17	0	-	**288**
Net claims incurred	(149)	(46)	(12)	0	-	**(207)**
Expenses incurred (excluding investment management expenses)	(70)	(22)	(7)	0	-	**(99)**
Net total	**(12)**	**(4)**	**(2)**	**0**	**-**	**(18)**
Claims ratio	**72.0%**	**71.9%**	**70.6%**	**0**	**-**	**71.9%**
Expense ratio	**33.8%**	**34.4%**	**41.2%**	**0**	**-**	**34.3%**
Combined ratio	**105.8%**	**106.3%**	**111.8%**	**0**	**-**	**106.2%**

2018	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Other	Total
	£m	£m	£m	£m	£m	£m
Net earned premiums	233	64	11	1		**309**
Net claims incurred	(159)	(44)	(7)	(1)		**(211)**
Expenses incurred (excluding investment management expenses)	(71)	(19)	(4)	-	**-**	**(94)**
Net total	**3**	**1**	**-**	**-**	**-**	**4**
Claims ratio	**68.2%**	**68.8%**	**63.6%**	**100.0%**		**68.3%**
Expense ratio	**30.4%**	**29.7%**	**36.4%**	**-**		**30.4%**
Combined ratio	**98.7%**	**98.4%**	**100.0%**	**100.0%**		**98.7%**

The ratios have been calculated as follows:

- Claims ratio = Net claims incurred ÷ Net earned premiums
- Expense ratio = Expenses incurred ÷ Net earned premiums
- Combined ratio = (Net claims incurred + Expenses incurred) ÷ Net earned premiums

Market conditions have remained very competitive, particularly in the Motor market where prices increased following the Ogden rate review. Overall, the Company saw an increase in premium written on a continuing basis rise by 25%. Throughout 2019, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing profitable growth in Home lines by diversifying its reliance upon Motor. The Company's underwriting result worsened during 2019, with the combined ratio rising from 99.0% to 105.9%. The result was impacted by large losses incurred in the second half of 2019, arising from large personal injury claims and increased vehicle repair costs. In addition, the change to the Ogden Discount Rate contributed a further £4m of unexpected claims costs as prior to the announcement of an Ogden rate change to -0.25% in England and Wales, the company was anticipating and setting reserves using a rate of 0%.

HICO has continued to maintain strong cost disciplines by controlling operating expenses and acquisition costs during the year. Investment in staff, systems, marketing and infrastructure has continued to ensure that it is well placed to deliver its profitable growth strategy.

A.3 Investment performance

The following table summarises the income and expenses with respect to investment activities:

	2019	2018
	£m	£m
Dividend income	**2**	1
Interest income	**10**	15
Realised gains/(losses)	**(1)**	(17)
Investment expenses	**(1)**	(1)
Total Investment Performance	**10**	(2)

The continued low underlying interest rate environment resulted in low income returns. Dividend income increased in 2019, which relates to dividends received from equities held at the start of the year of £2m (2018: £1m).

The following tables summarise the undertaking's overall investment performance by relevant asset class:

2019 Asset class (£m)	**Dividends**	**Interest**	**Realised / Unrealised gains / (losses)**	**Total**	**Average investment holding during 2019**	**Average investment return**
Government bonds	-	1.6	7.0	8.6	92.8	9.3%
Corporate bonds	-	8.0	2.6	10.6	440.4	2.4%
Equity	0.7	-	3.5	4.2	12.6	33.3%
Collective investment undertakings	0.8	-	-	0.8	137.6	0.6%
Collateralised securities	-	0.3	-	0.3	6.0	5.0%
Cash and deposits	-	0.1	(0.7)	(0.6)	22.4	(2.7)%
Put Options/Swaps/Futures/Forwards	-	-	(4.1)	(4.1)	N/A	N/A
Total	1.5	10.0	8.3	19.8		
Less investment expenses				(0.7)		
Net total				19.1		

2018 Asset class (£m)	Dividends	Interest	Realised / Unrealised gains / (losses)	Total	Average investment holding during 2018	Average investment return
Government bonds	-	2.4	(3.7)	(1.3)	117.2	(1.1)%
Corporate bonds	-	12.6	(10.8)	1.8	434.3	0.4%
Equity	1.1	-	(2.7)	(1.6)	25.9	(6.2)%
Collective investment undertakings	0.2	-	0.2	0.4	94.7	0.4%
Cash and deposits	-	-	0.1	0.1	41.3	0.2%
Put options/Swaps/Futures/ Forwards	-	0.3	(0.1)	0.2	N/A	N/A
Total	1.3	15.3	(17.0)	(0.4)		
Less investment expenses				(1.1)		
Net total				(1.5)		

A.4 Performance of other activities

The following items have been identified as material income and expenses, other than underwriting or investment income and expenses:

	2019	2018
	£m	£m
Other income	**0**	3.9
Subordinated debt charges	**(0.4)**	(0.4)
Other Expenses	**(1.3)**	(0.2)
Tax credit	**1.7**	(0.1)
Total	**0**	3.2

Other income is predominantly relating to profit share relating to the Quota Share arrangement. Whilst Highway cedes 20% of the business to the reinsurer, the maximum margin available to them is 1.75% with any surplus returned to Highway as profit share on commutation.

Highway issued subordinated debt of Eur12m in December 2004 and this has an original maturity date of November 2034. Accordingly, the projected finance charges linked to this debt of £0.4m have been included in the table above.

The tax charge is calculated based on the IFRS profits and losses reflecting the underwriting performance, investment performance, other income and charges related to subordinated debt. In addition, deferred tax assets can be recognised relating to capital allowances in excess of depreciation and any tax losses carried forward. Where a tax loss arises (as in 2016 due to the impact of Ogden) Board approved business plans are required to evidence and support the future recovery of the deferred tax asset by the utilisation of future available taxable profits.

A.5 Any other information

The Prudential Regulation Authority issued a statement on 23 March 2020 confirming that COVID-19 should be treated as a "major development" as per Article 54 (1) of the Solvency II Directive.

The valuations reported within this report are based on information up to 31 December 2019. Therefore, based on the Company's interpretation of Article 77 (2) of the Solvency II Directive, the valuations and technical provisions including the premium provision do not reflect the impact of COVID-19.

The coronavirus pandemic is currently affecting all aspects of our personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all of these uncertainties, HICO is well prepared for the situation. This applies in the context of our operational resilience but also in the context of our capital strength. The priority operations for LVGIG and its subsidiary companies including HICO are now being supported by home working. LVGIG has worked to keep its employees safe and taken steps so that key work can continue even if restrictions on public life remain highly constrained.

The current pandemic could have wide ranging impacts and these have been considered in order to assist in planning and evaluating the impact on the business. LVGIG continues to align its approach to the guidance of the UK Government as well as benefitting from Allianz Group guidance given LVGIG is now a 100% owned subsidiary of Allianz.

The solvency ratio as at 31 December 2019 is 142%. The impact of COVID-19 on HICO's solvency position has been assessed, taking into consideration relevant stresses given the circumstances. After consideration of the relevant stresses at the time of writing, the SCR would not breach the regulatory requirements or HICO's own risk appetite. HICO is expected to continue to have funds available in excess of the regulatory requirements without needing to take contingency action.

The relevant stresses have taken into consideration the impact on the underwriting result arising from potential higher insurance claims costs and the impact on investments. The adverse claims impacts are expected to be offset by lower than

expected claim frequencies on motor and home. The impact on investments is mitigated due to HICO's strategic asset allocation leading to the majority of our investments being held in gilts and corporate bonds.

Contingency options have been identified to reduce the Company's exposure to financial and operational risks, should there be further market or operational shocks.

B. System of Governance

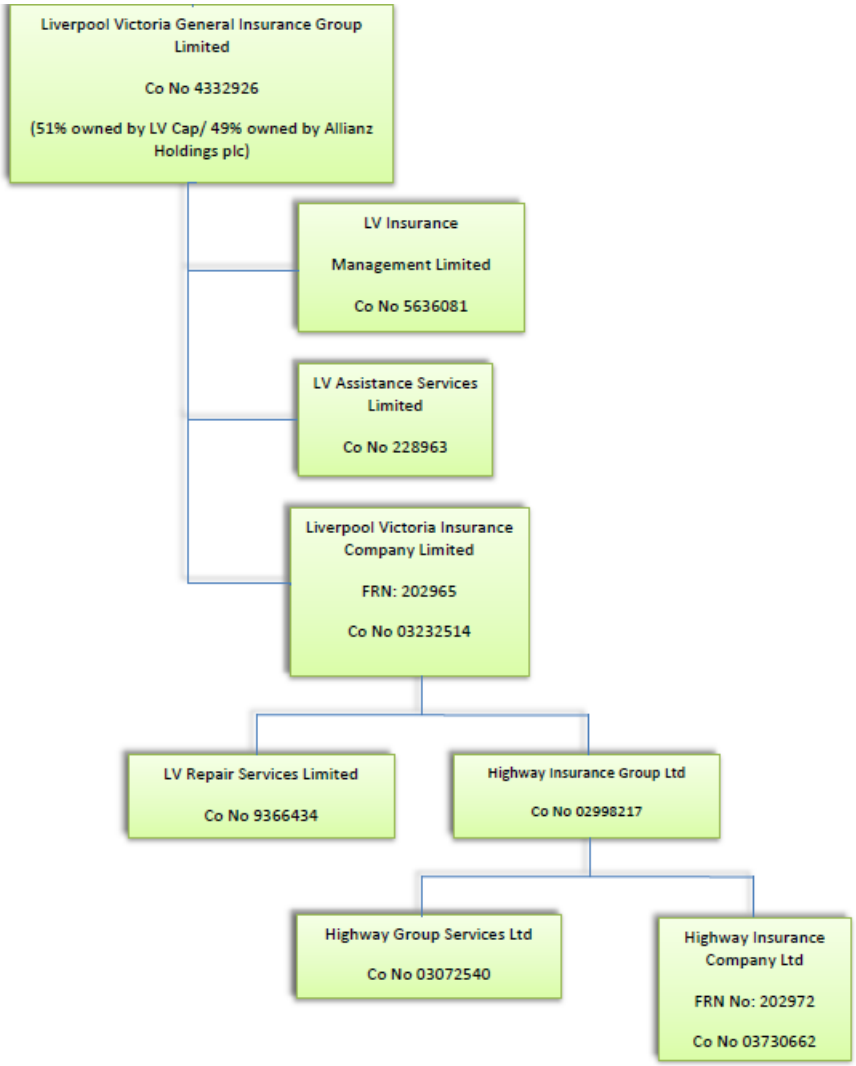
B.1 General information on the system of governance

The following disclosure provides information which addresses Guideline Article 308 (1)

The system of governance for HICO is aligned to the approach applied across Liverpool Victoria General Insurance Group (LVGIG). Therefore, the following section sets out details on the LVGIG approach together with how this is applied in the context of HICO.

Extract of LVGIG Corporate Structure Chart

The following illustration shows the LV= Group corporate structure and how HICO fits into LVGIG:



Up to the 31 December 2019, LVGIG Board was the statutory board of HICO, with LVGIG being a 51% owned subsidiary of LV Capital PLC (2018: 51%) and 49% owned by Allianz Holdings plc. On 31 December 2019, Allianz Holdings plc acquired the remaining 49% to have full control of LVGIG and its subsidiaries. From 1 January 2020, LVGIG and its subsidiary companies will align to that of Allianz SE. Full information about the governance of the insurance companies within the Allianz Group is disclosed in the Solvency and Financial Condition Report of Allianz SE.

Liverpool Victoria General Insurance Group Ltd (LVGIG) and all of its subsidiary companies are collectively referred to as the "GI Group". Liverpool Victoria Insurance Company Ltd (LVIC), LV Insurance Management and Highway Insurance Company Ltd (HICO) are deemed to be the Operating Companies of the GI Group.

LVIC and HICO are collectively administered from the LVGIG Board. The authority of the LVGIG Board is derived from legislation, the LVGIG Articles of Association and the Shareholders agreement dated 4th August 2017.

The LVGIG Board may delegate any of its powers (other than any Reserved Matters) to the Chief Executive Officer, who must report to the Board. In addition to the Board Sub-Committees and Operational Sub-Committees (as prescribed in clause 7 of the SHA), the Board may establish and dissolve other committees on an 'ad hoc' basis but iit shall not be permitted to dissolve the Board Sub-Committees.

The LVGIG Group, in recognition that it was part of the LV Group during 2019, sought to take account of the work of appropriate LVFS committees, and policies, to the extent that they are relevant to GI Group. This did not fetter either the LVFS or LVGIG directors' duties, to always act in the best interests of the company , its members and customers.

All matters not reserved to the Shareholders, this Board or that have been delegated to an executive management committee or the GI Board sub-committee, are delegated to the GI CEO, who may then elect to delegate this authority, whilst always retaining responsibility and oversight of such delegated authority.

System of Governance

There are three main elements to the System of Governance:

1. Boards and Committees;
2. Defined roles and responsibilities including Senior Management Functions ('SMF') and Delegated Authorities;
3. Policies and Standards.

1. Boards and Committees

The following section outlines the role of the LVGIG Board and its Committees and, where relevant, the extent to which Group wide Boards and committees may be relied upon as part of the overall governance.

As at the 31st December 2019, with the acquisition of the LVGIG by Allianz Holdings plc, new directors were appointed. Please see the Summary of changes on page 3.

Boards

LVGIG Board

During 2019 consisted of nine directors, made up of:

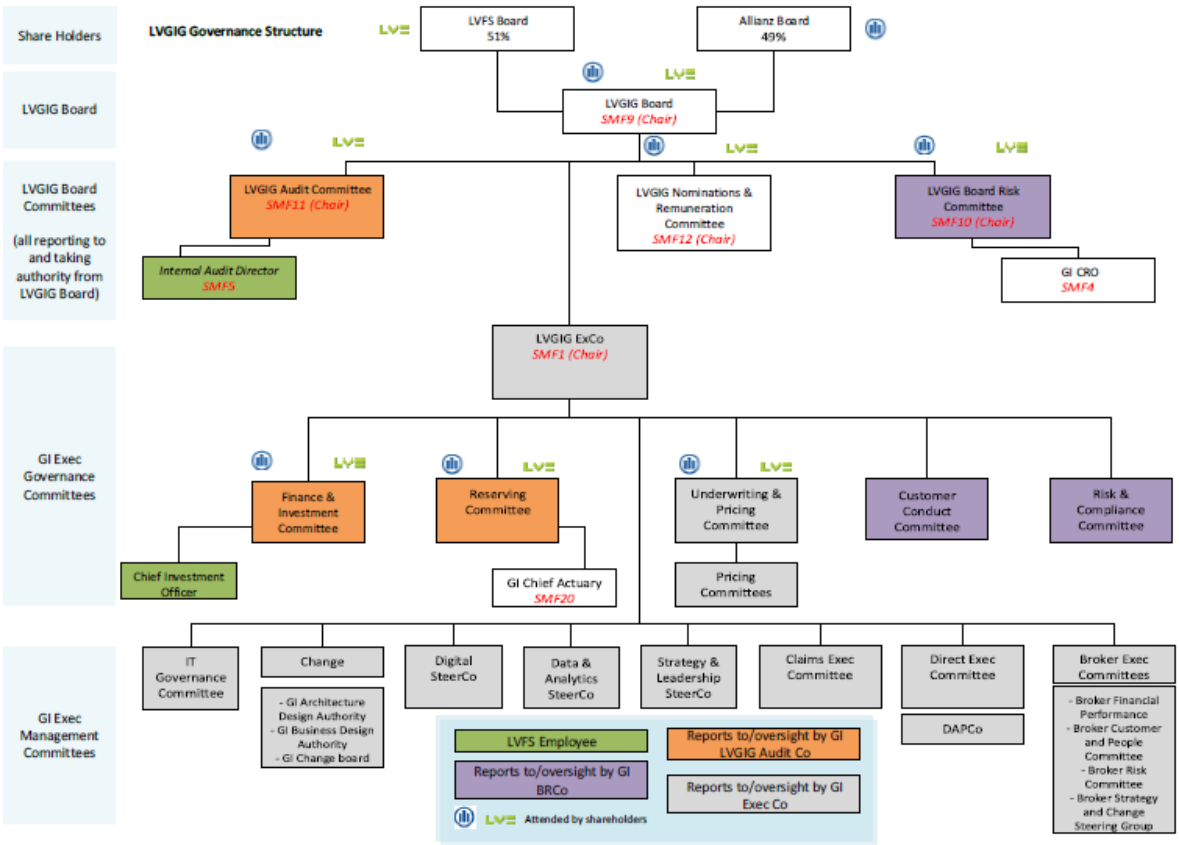
- A non-executive Chair appointed by LVFS
- Three independent non-executive directors (NED's), appointed by LVFS
- A Chief Executive Officer appointed by LVFS
- A Chief Financial Officer appointed by Allianz
- Two independent NED's appointed by Allianz
- One independent NED appointed by LVFS on recommendation from LVGIG

The LVGIG Board is responsible for:

- The overall strategic guidance of the Company and for overseeing the Company's internal controls;
- Oversight of the successful execution of strategy;
- Ensuring that the business of the Company is managed in accordance with the Shareholders Agreement, the Business Plan and the Policies, with the objective of long-term growth;
- Optimising the allocation and adequacy of the group's resources;
- Making all decisions which are not part of the day to day management of the Company; and
- Reviewing the internal and external governance arrangements having regard to trends and changes in legislation whilst ensuring alignment with the strategic priorities and the business plan

LVGIG Board Committees

LVGIG Board Committees Structure for the year ended 31st December 2019:



Audit Committee

Purpose:

- To review the financial reporting process and outputs so as to ensure the balance, transparency and integrity of published financial information and the GI Group's process for monitoring compliance with laws and regulations affecting financial reporting.
- To review the claims reserve recommendations from the GI Reserving Committee and the associated claims reserving governance and controls.
- To commission, as required, independent reports on the level of claims reserves and on the effectiveness of the governance and controls connected with the claims reserves process.
- To review the effectiveness of the GI Group's internal controls and risk management systems.
- To review the effectiveness of the internal audit function (whose remit covers all risk classes) and
- the effectiveness of the external audit process (the remit for which is external reporting matters).

Nomination and Remuneration Committee

Purpose:

- To review and evaluate the composition and structure of the Board and its Committees, having due regard for a balance of skills, experience, knowledge, background and diversity and to make recommendations for appointments to the Board following a formal, rigorous and transparent appointment procedure.
- To facilitate reviews of the effectiveness of Board performance, to make recommendations to the
- Board on areas for improvement and to oversee the implementation and monitoring of the recommendations from the review.
- To recommend to the Board the Company's policy on the structure of remuneration (including variable
- remuneration) across GI Group including the Executive Director's and certain other senior executives and managers.
- To determine specific remuneration packages for the "In scope Executives".
- For the avoidance of doubt, the remuneration of NEDs is outside the Committee's scope, but will be
- recommended to the committee from the Chair of the Board with prior discussion with the executive
- members of the Board.

Board Risk Committee
Purpose:

- To assist the GI Board in discharging its risk oversight responsibilities, focusing on current risk exposure, future risk strategy and the embedding and maintenance of an appropriate culture in relation to
- the management of risk.
- To assist the GI Board in discharging its risk oversight responsibilities in respect of investment risks.
- To provide assurance to the GI Board on the effectiveness of risk management and of the Risk Management Framework of the LV= Group and GI Group and act as the main conduit between management and the GI Board on risk matters.
- Make recommendations to the GI Board on the appropriateness of the design, calibration, validation findings, and results of the LV= Group's Economic Capital Model.
- Ensure the function has adequate independence and is free from management or other restrictions.

LVGIG Executive Committees

The GI Chief Executive Officer and other executives have approved a number of management committees to assist in the discharge of their accountabilities. The main executive committees are outlined below:

GI Executive Committee
This Committee is an Advisory, and Information Sharing committee to:

- Assist the GI CEO in the exercise of his general authority (as delegated from the LVGIG board) to manage the LV= General Insurance Business, including his responsibility for decision making and overseeing performance delivery, with particular reference to the on-going programme of strategic projects and initiatives;
- Keep all members of the Committee up to date on:
    - Current trading performance and financial results
    - Change agenda and progress
- Risk, Compliance and conduct
- Strategic focus
- Financial and Investment performance

Finance & Investment Committee
This committee incorporates LV='s Asset and Liabilities Committee (ALCO) and the GI Reinsurance Committee.
Purpose:

- To review the developments and changes in legal, regulatory and accounting requirements and their impact on asset and liability management, funding, investment strategy, liquidity and capital management policies.
- To review any other matters that affect asset and liability management, capital management, funding and liquidity.
- To exercise, on behalf of Audit Committee, management and oversight of the financial risks of LVGIG including:
    - Capital structure and related matters
    - Solvency
    - Assets and liabilities
    - Reinsurance
    - Investments
    - Liquidity
    - Cash flows
    - Counterparty risk
- Make recommendations to GI ExCo on financial risk strategies including:
    - Investment strategy; including the Strategic Asset Allocation
    - Reinsurance strategy
    - Credit limits
- Where making a decision or recommendation, the Committee shall consider each of the following points (and, where not applicable, specifically note in the minutes as such):
    - The material risks impacted by the decision / recommendation;
    - The alignment of the decision / recommendation with the risk appetite and risk strategy of GI;
    - The impact of the decision / recommendation upon the current and future solvency of GI
    - The impact of the decision / recommendation in terms of risk-adjusted performance;
    - Clear reasons for any decisions / recommendations contrary to that implied by the Internal Model results;
    - The effect that variations in key assumptions would have upon the risk, solvency and performance impacts of the proposal.

Reserving Committee
Purpose:

- To challenge the Actuarial Best Estimates ("ABE"), recommend Claims Margin and Claims Handling Expenses whilst reviewing other information impacting the full IFRS balance sheet reserves, including emerging trends, market intelligence and technical developments, which are relevant to the claims reserving process.
- To challenge the Solvency II Technical Provisions and to review other information impacting the Solvency II reserves including market intelligence and technical developments which are relevant to the Company.
- To review, discuss and challenge the report prepared by the Head of GI Reserving setting out their recommended claims reserves for the Liverpool Victoria Insurance Company ("LVIC") and the Highway Insurance Company ("HICO").
- To recommend to the Audit Committee the level of claims reserves to be set for LVIC and HICO and the associated GI Reserving Statement of Practice.

Underwriting & Pricing Committee
Purpose:

- Oversee the decisions from the individual Product Pricing Committees to manage the business exposure to underwriting risk, in particular:
    - Premium Risk
    - Large Claim Risk
    - Catastrophe Risk
- Provide guidance to the Executive on the appropriate Pricing Plan and Pricing Assumptions for the Quarterly Business review, in particular:
    - Claims Inflation
    - Market Price Increases
    - Future LV Price Increases
- Approve any changes to underwriting policy as outlined in the Underwriting Statement of Practice, or provide guidance if the change is outside of the Committee's delegated authority limit.
- Approve new Products, as outlined in the New Product Approval Process, or provide guidance if the change is outside of the Committee's delegated authority limit.

Customer Conduct Committee
Purpose:

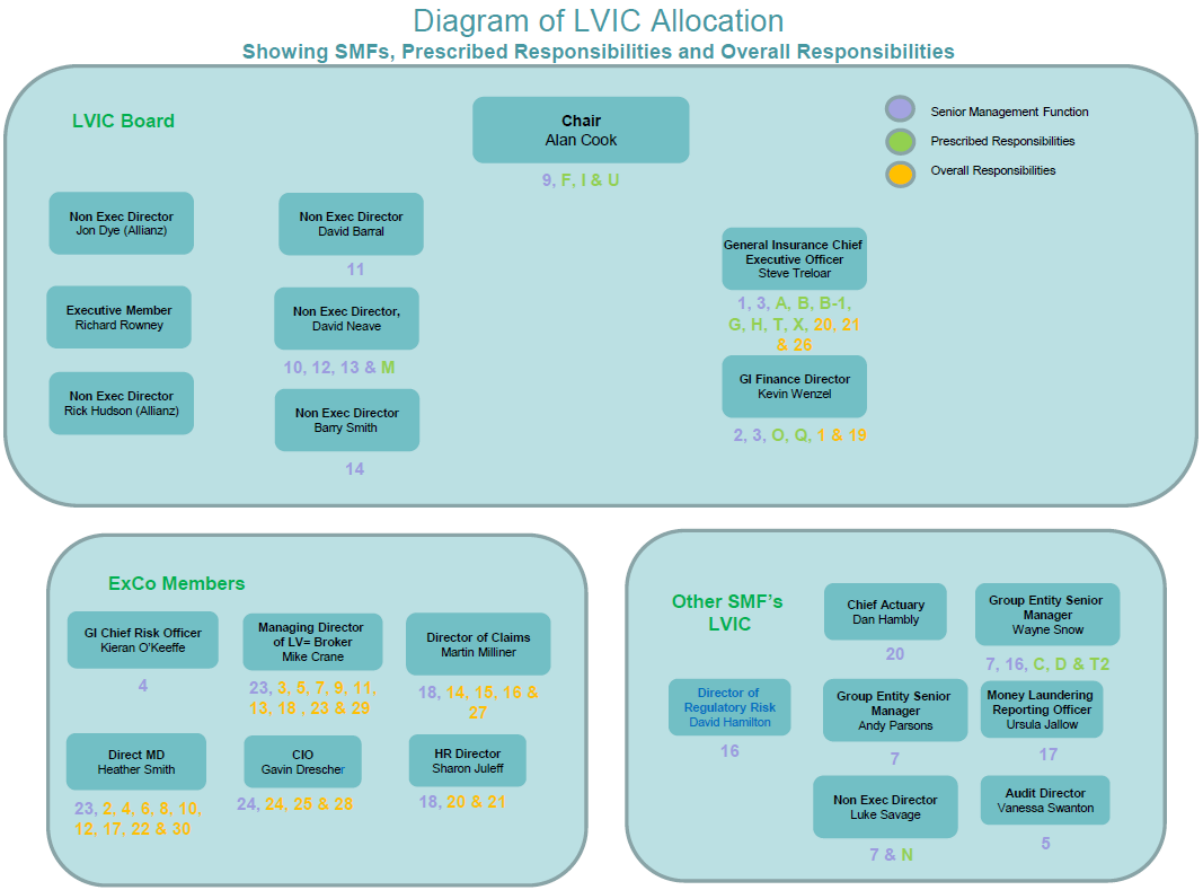
- Oversight of Conduct Risk for LVGIG:
    - To review Conduct Risk MI, customer insight, and risk events provided by the business to understand any current issues.
    - To discuss key topics relating to customers and conduct.
    - To agree any recommendations to be presented for approval to GI ExCo.
- To enable the main purposes of the Committee to be discharged effectively, key reports from around the business must be shared with the GI Conduct
- Committee Secretary at least 5 days before the meeting is to take place, to ensure that information can be collated and distributed for review by the committee.

Risk & Compliance Committee
The Committee will act as an oversight committee to:

- Review the effectiveness with which ALL risks are managed in the first line as particularised in the
- Oversight section below;
- Promote continuous improvement in risk management and compliance practices;
- Ensure risks are managed in a way that is consistent across LVGIG and in a manner that appropriately balances commercial objectives with LVGIG's statements of risk appetite;
- Ensure compliance with the LV= Group's Level 1 risk policies and applicable standards issued thereunder;
- Provide an effective conduit between first line and second line risk management;
- Review regulator requests for information from LVGIG
- Review emerging regulatory changes and assess LVGIG's readiness for these changes;
- Understand current relationship with the regulator.
- Make recommendations to the LVGIG BRC on the appropriateness of the design, calibration, validation findings, and results of the GI element of the LV= Group's Economic Capital Model.

2. Defined Roles and Responsibilities

Allocation of the Prescribed Responsibilities, Senior Managers Functions and Overall responsibilities in our Solvency II firms.



Key:
Senior Management Function codes and descriptions – Appendix A
Prescribed Responsibilities codes and descriptions – Appendix B
Overall Responsibilities codes and descriptions – Appendix C

Board Members:

General Insurance Chief Executive Officer
Reporting to the Chairman of the LVGIG Board, this person is responsible for developing and delivering the overall vision, strategy and direction of HICO and ensuring that the agreed strategic direction is embedded in the current financial year and future year business plans. This person is the Key Function Holder for effectively running the firm and for managing the regulatory, risk and control requirements of HICO.

GI Chief Financial Officer
Reports to the GI Chief Executive Officer, This person has overall responsibility for financial analysis and planning and recommending strategic plans. This includes applying the Group's framework, standards and policies to actuarial reserving, overseeing and reporting on the relationship with the firm's investment managers, and managing the regulatory, risk and control requirements within the GI Finance area. This person is a Key Function Holder for Finance, Investments and for effectively running the firm.

GI Chief Risk Officer
Reporting to the GI Chief Executive Officer, this person establishes the control framework, governance structures, culture, oversight and monitoring arrangements which oversee compliance with the risk framework. This person leads, develops and maintains the capabilities within HICO to support the achievement of the risk vision and strategic objectives with regard to the risk framework. This person is the Key Function Holder for the Risk, Compliance and Actuarial Functions and is responsible for recommending the Design, Implementation and Validations of HICO's Economic Capital Model.

Direct Division Managing Director
Reporting to the GI Chief Executive Officer, this person is responsible for developing, implementing and revising the strategy for the Direct division of the GI business and delivering results based upon targets established by the GI CEO and the Board. This person is responsible for the direct management of products, sales, service marketing, operational fulfilment, underwriting and risk management in order to achieve the strategic goals of the Direct business division.

Managing Director of LV= Broker
Reporting to the GI Chief Executive Officer, this person is responsible for developing, implementing and revising the strategy for the Broker division of the GI business and delivering results based upon targets established by the GI CEO and the Board. This person is responsible for the direct management of products, sales, service marketing, operational fulfilment, underwriting and risk management in order to achieve the strategic goals of the Broker business division.

GI Chief Information Officer
Reporting to the GI Chief Executive Officer, this person is responsible for building, delivering and integrating the Group Change and IT Strategy to significantly contribute to the delivery of the Group strategy. They provide oversight of the procurement and supplier management framework, the outsourcing policy, facilities management, the day to day running of IT systems and data security. This person also manages the regulatory, risk and control requirements in GI IT and is responsible for reporting progress against delivery of IT change plans in line with strategic appetite.

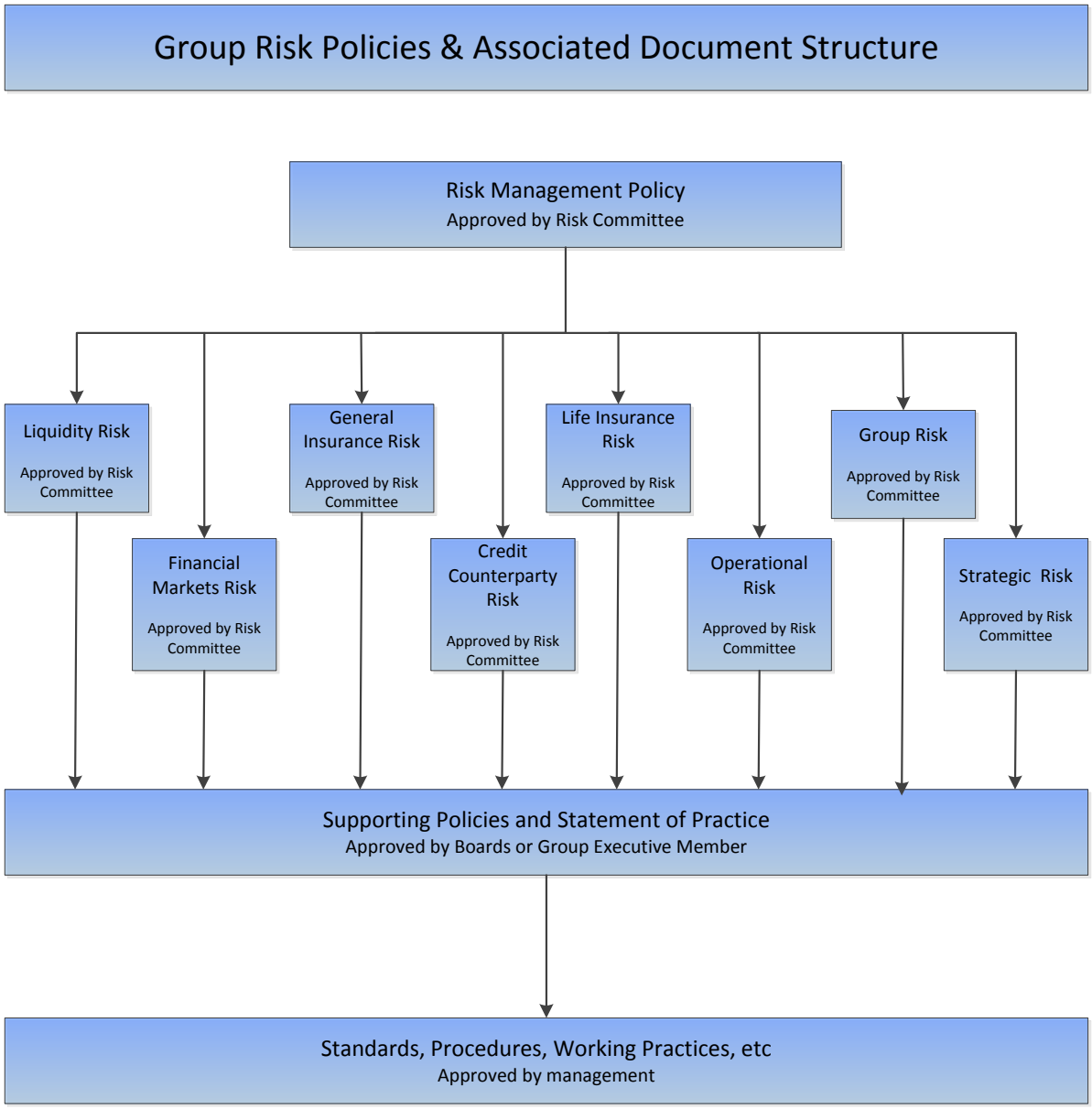
Claims Director
Reporting to the GI Chief Executive Officer, this person is responsible for defining and delivering the claims business strategy and commercial plans and reporting progress against these plans. This person is also responsible for defining the GI supplier strategy and the associated financial and service delivery targets. In addition, the Claims Director is responsible for managing the regulatory, risk and control requirements of the Claims, Procurement and Supplier Management functions.

HR Director
Reporting to the GI Chief Executive Officer, this person develops and delivers the LVGIG People Strategy and HR Business plan and delivers on HICO obligations under the employee certification scheme. The HR Director is also responsible for managing the regulatory, risk and control requirements of HICO and for participating in the co-ordination and formulation of GI strategy and shaping the strategic development of the LVGIG

3. Group Policies and Standards

LVFS has a suite of Board-approved Group policies in place that relate to all parts of the Group. Group Risk Management (GRM) over-see the Policy framework and the governance around it, ensuring that all risk policies are reviewed and re-approved on an annual cycle.

The GRM Policy sets out requirements which are common to all risk classes. This is supported by individual risk policies for each Level 1 risk within the LV= Risk Catalogue: Financial Markets Risk, Credit Counterparty, Life and General Insurance Risk, Liquidity Risk, Operational Risk, Group Risk and Strategic Risk. These policies are maintained in a prescribed format, informed by industry best practice, thereby creating a unified framework for HICO's risk management across all risk classes. These policies are adopted by the LVGIG Board and, where relevant, LVGIG has defined its own policies, statements of practice, and standards, which are also reviewed and approved annually as shown below.



Group Risk Policies set out the approach to managing relevant risk types, using a consistent framework which has been established by GRM. Risk policies are owned by the Group CRO, and GRM are responsible for ensuring that policies cover all relevant areas of risk management and for overseeing that they are properly embedded into business practices.

In addition, the Risk Management Policy is supported by other policies such as the ORSA Policy, Statements of Practice and Standards which set out more detailed operational standards and processes which are mandated across the Group. These Statements of Practice and Standards are owned by members of the executive who are responsible for ensuring they are properly embedded in to business practices.

Transition to the Allianz ERMF

To facilitate the transition into Allianz majority ownership as of 2020, the LVGIG Risk Development Programme (RDP) has adopted key components of the Allianz ERMF, adapting these as appropriate to meet LVGIG's specific requirements.

KPMG undertook a gap analysis of LVGIG ERMF and the Allianz ERMF in H2 2018 and recommendations, such as the development & alignment of respective emerging risk processes, were incorporated into the LVGIG RDP plan.

Key areas which have been developed to align the Allianz ERMF include:

- **Risk Taxonomy –** LVGIG's Taxonomy is based on the Allianz Taxonomy and has been developed to ensure it reflect LVGIG's regulatory accountabilities and can be pragmatically embedded (i.e. Insurance Risk has been split to reflect the responsibilities of the Direct & Broker MD's)

- **Risk Assessment –** The criteria for assessing risks and the 'scoring' methodology is based on the Allianz approach and local lower-level thresholds have been applied

- **Control Assessments –** The criteria for assessing the effectiveness of risks has been aligned with the Allianz approach and local lower-level thresholds have been applied

After Second Completion (1 January 2020) LVGIG will adopt the Allianz ERMF. Prior to this, the following arrangement applies:

- LVGIG formally attest to compliance with the LVFS Risk Policies on a six monthly basis. While LVFS achieve this via attestation to the Risk Standards, LVGIG does not adopt the LV= Risk Standards per se but may use these Standards to determine their compliance requirements. LVGIG evidences their adherence to the LVFS Risk Policies in a proportionate manner whilst migrating over to the Allianz ERMF.
- LVGIG operates its own Risk Appetite Framework. This is modelled, where possible, upon the Allianz Risk Appetite Framework and its categorisation (taxonomy). LVGIG provides mappings of the Allianz taxonomy to the LVFS categorisation. Where appropriate LVGIG adopt or mirror LVFS Risk Appetite statements e.g. reflecting LVFS's risk appetite for receiving dividends from LVGIG.
- Until separation, LVGIG supply a GI sub-section as its part of the LVFS Group ORSA. Additionally, LVGIG undertake and report Stress and Scenario Testing in line with LVFS requirements
- LVGIG have access to all other components of the LVFS ERMF and may use this information to inform the development of its own Risk Framework and to support LVGIG's demonstration of compliance with the LVFS ERMF.

Standard Formula and Internal Model

The LVGIG regulated entities (LVIC and HICO) remain on a Standard Formula basis between first and second completion. After this point, consideration will be given as to when an application to use an Internal Model basis might be appropriate. During this time, LVGIG maintain an Economic Capital Model (previously its Internal Model) to support the ORSA process and certain business decisions.

Between first and second completion, the LVGIG Capital Modelling team work closely with the Allianz Capital Modelling team to:

- Understand the Allianz Standard Formula model, in particular the data inputs. LVGIG will work to align its Standard Formula data inputs to this as much as is practically possible so that after second completion, the LVGIG inputs can drop straight into the Allianz model.
- Understand the structure of the Allianz Internal Model, in particular the Insurance Risk components. These are calibrating locally (UK), with other components calibrated at Group level, e.g. Market Risk. LVGIG will look to develop its calibrations to align to the Allianz UK approach, where this is appropriate and practical to do so. It is possible that these aligned calibrations would not be brought into the LVGIG Economic Capita Model (due to incompatibility) and instead would act as shadow calibrations that could be dropped into the Allianz model after second completion.

All companies within the LVGIG Group are employed by Liverpool Victoria General Insurance Group and incur the cost of staff through management charges. Accordingly there are no remuneration elements recorded for this company.

B.2 Fit and proper

The Company seeks to ensure that it only employs people of good repute and integrity, and who have the skills, experience and qualifications to meet the business and regulatory requirements of their role. Everyone employed by the Company must meet a set of mandatory requirements, as defined in the Group's Fit and Proper Policy and which are underpinned by the following principles:

- Honesty, integrity and reputation;
- Competency and capability;
- Financial soundness.

The policy establishes various procedures that must be followed both at the point of appointment and on an ongoing basis. This includes a standardised recruitment process, based on a consideration of factors including experience, skills, qualifications, behaviours and attitude. A Group Referencing Standard establishes the key checks to be performed to ensure that candidates meet the Fit and Proper requirements.

The consideration of an individual's fitness includes an assessment of their professional and formal qualifications, knowledge and relevant experience. It also considers the duties of the role and the skills of the person to fulfil those duties. The assessment of whether a person is proper must also include a review of their honesty and financial soundness based on evidence regarding their character, personal behaviour and business conduct including any criminal, financial and regulatory aspects.

In addition, key management personnel are aligned to the Senior Insurance Managers Regime. This includes Board members as well as Risk Management, Internal Audit, Compliance, Actuarial, the Money Laundering Reporting Officer and other roles seen as being a Significant Influence Function. Collectively, these personnel possess specific professional qualifications, experience and knowledge across multiple areas.

On an annual basis, we conduct an attestation exercise across all senior management including key function holders, as part of our ongoing work to assess their fitness, propriety and any potential conflicts of interest.

In addition, the performance of Board members is reviewed annually both individually and as a collective. The senior independent director, with the assistance of the non-executive directors and taking into account the views of the executive directors, reviews the performance of the chairman and the chairman reviews the performance of all other directors.

B.3 Risk management system

During 2019, the LVGIG Board was responsible for determining and controlling the nature and extent of the principal risks which the Company faces, including those that would threaten its business model, future performance, solvency and/or liquidity positions. Board members discharge their duties in this respect through the monitoring of robust enterprise wide risk management and internal controls frameworks which cover the full range of risks to which the Company is exposed. These are supported by a suite of clear risk principles, policies and standards which are maintained and managed by experienced risk specialists under a three lines of defence model.

On behalf of the LVGIG Board, the Risk Committee regularly monitors the operation and effectiveness of such risk management and internal control systems which then enables the Board and all LVGIG employees to make better informed business decisions that generate value for LVGIG, whilst ensuring good customer outcomes and confidence to the Group's stakeholders. Similarly the LVGIG Risk Committee monitors the effectiveness of risk management for the LVGIG Board.

Risk Management Framework

The effective management of the Group's risks is a fundamental building block which supports the delivery of the Group's strategy and helps to identify opportunities to make the best use of the Company's capital. The Group's risk management practices are continually evolving in order to embrace industry practice; however over 2019 the approach continued to revolve around the following key components:

• A risk culture and governance structure which facilitates and enables robust challenge and oversight and encourages all LVGIG employees to actively engage in risk management;

• A risk appetite framework which sets out the type and amount of risk the Group is able and willing to accept.

• A Risk Management Framework (ERMF) which sets out the principles, policies, minimum standards and operations for risk management across the Group;

• The Own Risk and Solvency Assessment (ORSA) which is an ongoing regulatory process by which the Board assesses the current and projected risk and solvency position of the Group and its regulated entities;

• A risk and control assessment process which is used to identify, assess, control and report risks in accordance with the risk appetite and ERMF;

• Stress and scenario testing which considers a range of severe yet plausible and reverse stress scenarios which are designed to challenge the continued financial and operational resilience of the Company on a forward looking basis. It is reviewed at least annually, with changes approved by the Chief Risk Officer and the Risk Committee.

The Group operates an ERMF, which brings together risk management strategies, objectives, processes, and reporting procedures. The ERMF has been developed by LVGIG's former parent LVFS however, going forward LVGIG aims to align to the Allianz Group framework.

The key elements of the framework and its implementation are described further in the sections below.

Risk Culture and Governance Structure

Over a number of years, the Group's risk management approach and engagement with the business has sought to embed a culture of risk ownership and accountability throughout the Group, supported by a robust risk framework and governance infrastructure which delivers the necessary risk management capability.

The fundamental building blocks which enable the risk management approach are described below:

Risk culture: The way that the Group employees think and act as individuals and as a business. It encompasses the Group's attitudes, capabilities and behaviours such as "tone from the top", risk transparency, risk competency, and is achieved through rewarding appropriate risk behaviours.

This culture drives how LVGIG Board and employees identify, understand and openly discuss, and act upon, both current and future risks;

Risk mandate: To support the risk management approach, the Group operate the 'three lines of defence' (3LOD) operating model which maintains a clear distinction between:

• First line of defence – Run the business and are accountable for the day-to-day risk taking and management;

• Second line of defence – Protect the business and are accountable for advice, oversight and challenge;

• Third line of defence – Reassure the business and are accountable for providing independent assurance.

B.4 Internal control system

Internal control encompasses all those systems and processes that ensure that the organisation is managed efficiently and effectively, with appropriate policies and business processes to ensure achievement of business objectives. The Board is ultimately accountable for governance arrangements and for establishing an internal control system. Senior management is responsible for implementing this system across the LVFS Group. Section B3 sets out the key risk management elements of this internal control system.

The LVGIG Risk Management Framework sets out mandatory internal control requirements, and defines an internal control system comprising a range of functions, roles and activities that represent an appropriate control environment for the business. When taken together, these define the processes that are in place to manage, control and monitor risks of all types, as well as the means of escalating and responding to alerts and indicators.

The internal control system enables the Group to operate efficiently and respond to any significant or evolving risks that could prevent or limit the achievement of its business objectives. The key functions that the Group has established for risk management, internal control and reporting, and the 'three Lines of Defence' model ensures that everyone in the Group is clear about their responsibility in relation to internal control activities.

Compliance

The LVGIG Compliance function, now sits within the Allianz Group, and is a fundamental element of the Second Line of Defence, with key compliance responsibilities included in the following roles:

• Director of Compliance reports to the Chief Risk Officer and whose primary responsibilities relate to advising on conduct risk compliance and oversight of non-prudential regulatory change. The Chief Risk Officer retains accountability for advising the business on compliance with prudential risk matters, including the impact of prudential regulatory change on the Group's risk profile.

• The LVGIG Compliance team reports to the Director of Compliance and is responsible for designing and facilitating the implementation of the Regulatory Risk Management Framework.

The LVGIG Compliance Policy sets out mandatory requirements to reasonably assure that the Group remains compliant with the legal environment within which it operates, and remains within Risk Appetite. It includes the principles by which the compliance system is designed and operated, and sets out the key components of the system that support understanding and effective operation across the Group.

The policy is owned by the Director of Compliance, who is responsible for ensuring that it is produced and kept current and is reviewed by all SBUs and SSUs prior to formal approval submission. It is approved by the Chief Risk Officer who is accountable for ensuring maintenance of the policy content as well as supporting policies, processes and procedures.

The policy requires that Group Compliance implement and maintain a Regulation and Legislation Matrix which sets out individual departmental responsibilities for compliance. Each such department is required to:

• Establish a robust compliance system to identify and assess the impact of new requirements or changes to requirements in the legal environment.

• Advise the Board, senior management and other personnel regarding changes to the legal environment, as appropriate. In addition, Group Compliance is responsible for developing and implementing:

• Compliance Plan: An annual compliance plan which oversees the implementation of changes to the legal environment and strategic priorities of the Compliance function, to feed the Group Risk annual plan for review and approval by the Management Risk Committee and the Board Risk Committee.

• Compliance Monitoring Plan: An annual risk-based compliance monitoring plan which sets out the key independent assurance activities to be undertaken, for review and approval by the LVGIG Risk Committee.

B.5 Internal audit

During 2019, the Internal Audit (IA) remit took authority from the LVGIG Audit Committees through the Committees' approval of IA's Charter and Annual Plan. The Internal Audit Director assessed whether this Charter was appropriate and in alignment with IA objectives on an annual basis. The Internal Audit Director communicated the results of this assessment to the Audit Committees and seeks approval of the Charter each year.

The Internal Audit Director is responsible for determining IA's strategy and related programme of work so that management and the Board receive an appropriate level of independent assurance coverage across LVGIG, and objective audit reports.

The scope of IA's assurance is determined by the business strategy as well as an independent ongoing assessment of the key risks facing LVGIG and how well these risks are being managed. To provide this assurance IA determines, using a risk based approach: whether the assets, reputation, viability and sustainability of LVGIG are being safeguarded; whether controls are in place and working effectively in accordance with LVFS policies and procedures as well as with applicable laws and regulations and that records and reports of LVGIG are accurate and reliable.

IA functions professionally, adhering to the Code of Ethics, Standards and Guidelines of the Chartered Institute of Internal Auditors (including the CIIA guidance on Effective Internal Audit in the Financial Services Sector second edition September 2017) and of other relevant professional bodies. It meets the requirements of the FCA, PRA and other regulatory authorities in those areas upon which its work impacts.

IA also liaise with External Audit on a regular basis to enable the external auditors to optimise their reliance on the work of IA and to discuss issues emerging from their respective work.

Independence and Objectivity

IA's role is to provide independent and objective assurance to the Audit Committees and Executive Management on the effectiveness of systems of risk management and internal controls across LVGIG and its subsidiaries, in order to mitigate key business risks and to assess the sustainability of the organisation; to assist the Audit Committees in meeting statutory and regulatory reporting responsibilities and in meeting Corporate Governance best practice; and to support operational management by providing best practice advice on risk and control. IA reports independently to the Audit Committees on its work.

The Internal Audit Director has a direct reporting line to the Chair of the LVFS Audit Committee, and also has unrestricted access to the Chair of the LVGIG Audit Committees. In order to carry out IA's mission effectively, the Internal Audit Director and the IA department will have unrestricted access to LVGIG records, including Board level information, personnel and premises to the degree necessary and relevant to discharge the Internal Audit Director's duties.

B.6 Actuarial function

The Actuarial Function is an element of the Second Line of Defence, led by the Chief Risk Officer, who reports directly to the Group Chief Executive. It comprises two Chief Actuaries (SIMF20), who have the appropriate skills and capabilities to discharge their roles. The General Insurance Chief Actuary is the SIMF20 role holder for the Company.

The Actuarial Function provides oversight and challenge to the calculation of the technical provisions of the Company and reports to the LVGIG Board and relevant governance committees on the appropriateness of the methodologies, models, assumptions and data used. It reviews and compares the best estimate assumptions against experience and uses this information to inform the Board and relevant governance committees as to the reliability and adequacy of the calculation of the technical provisions. The Actuarial Function also reports to the HICO Board on the appropriateness of the General Insurance underwriting, pricing and reinsurance policies and arrangements applied.

The Actuarial Function contributes to the oversight, challenge, and validation of the Group Internal Model, including attendance at relevant committees. It provides advice and guidance to the Chief Risk Officer on the operation of the Risk Management Framework, especially the Capital Management Framework. This includes assistance with the oversight of risk exposures and advice on various capital management initiatives.

The calculation of the GI technical provisions is performed by the GI Reserving Function, which sits within the GI Finance function, part of the First Line of Defence. The GI Finance function is headed by the General Insurance Finance Director, who reports to the General Insurance Managing Director, who in turn reports to the Group Chief Executive, independently of the Chief Risk Officer.

The actuarial teams within the First Line of Defence that perform calculations on behalf of HICO are:

- the GI Reserving team, who are responsible for calculating the GI technical provisions in accordance with the approved methodology and assumptions (including overseeing the quality of the data used) and reporting these to the relevant governance committees;
- The Methodology and Economic Capital team, who are responsible for calculating the GI capital requirements in accordance with the approved methodology and assumptions (including overseeing the quality of the data used) and reporting these to the relevant governance committees; and
- the ALM and Capital Efficiency team, who are responsible for asset-liability matching and capital optimisation.

The GI Reserving team proposes the methodology and assumptions to use for the calculation of the GI technical provisions, which along with the corresponding results are independently reviewed by the GI Chief Actuary. The proposed methodology, assumptions and results and the independent Actuarial Function review are considered by the GI Reserving Committee and the GI Audit Committee before being recommended to the HICO Board for approval.

The financial results for HICO are consolidated into the LV Group results which are reviewed by the Actuarial Function, GVIMC and the Audit Committee, before being approved by the LVFS Board.

The GI Chief Actuary (SIMF20) is a Fellow of the Institute and Faculty of Actuaries and has complied continuously with the specific professional obligations this requires.

B.7 Outsourcing policy

Up to December 31st 2019:

To establish a consistent approach and control the risks inherent in outsourcing, LVGIG maintains a 'Sourcing and Outsourcing Policy' which applied to the Group, as it existed under LVFS. The Policy was determined by the LVFS Board and documents the mandatory requirements for when the LVFS Group chose to consider or carry out the outsourcing of a function or activity to a service provider or, to source a service or product from a third party. It set out how LVGIG impact assessed, selected, appointed and contracted sourcing and outsourcing, and the reporting and monitoring arrangements that were implemented when an outsourced arrangement was put in place.

The Policy defines what was considered to be critical or important functions and services and confirms the underlying risks which needed to be considered, managed and mitigated when determining if outsourcing was suitable. The Policy also confirmed the mandatory terms and conditions which were expected to be included in the contracts of outsourcing arrangements and the level of due diligence that had to be carried out. Finally the policy defines the approval process and reporting/monitoring requirements for outsourcing arrangements.

LVGIG defines critical or important relationships as those that typically involve:

- The design and pricing of insurance products
- Claims handling
- The investment of assets or portfolio management
- The provision of regular or constant compliance, internal audit, accounting, risk management, or actuarial support. These are considered key functions which entail additional requirements when outsourcing.
- The provision of data storage;
- The provision of business critical IT systems;
- The provision of on-going, day-to-day systems maintenance or support;
- Underwriting, or settling claims in the name of LVGIG by an authorised insurance intermediary

As required by the Sourcing and Outsourcing Policy, each outsourcing arrangement considered was reviewed to determine it the outsourcing solution proposed was appropriate. As part of identifying and assessing the risks associated with the proposed outsourced arrangement the business considered the risks associated with the transition from a current outsourced arrangement to any new outsourced arrangement.

The business was also required to consider how the outsourced arrangement will fit in with the wider organisation, reporting structure, business strategy and LVFS'S regulatory obligations. The outcome of this must be submitted to the board as part of the approval process.

When transitioning outsourced arrangements from one provider to another, the former LVFS board and the new jointly managed LVGIG Board determined, that management must ensure a smooth transition which ensures LVGIG did not breach HICO's regulatory obligations or its ability to deliver continuous and satisfactory services to HICO's customers.

In 2019 the approach to oversight included the following controls;

- All outsourcing arrangements must have a signed contract incorporating LV= standard terms and conditions
- Financial health monitoring using an industry leading automated alerting system
- Ongoing monitoring of third party directors against the HMRC Sanctions list
- Before contracting, LV= request all suppliers complete and information security questionnaire via a third party. Subsequently the risks are assessed against LVGIG's appetite
- Data protection screening assessment

While the above included multiple layers of controls, LVGIG had additional oversight specifically in relation to Critical or Important third parties - validated by PWC. The 'Supplier Management Oversight Report' (SMOR) was rolled out across LVFS Group in 2017 and is an evidence based annual review which delves further into the third parties internal controls. This includes but not limited to details relating to Policy Compliance, Exit Planning, BCP, Supplier Capability, Performance Reviews, and Conduct Risk.

At the end of 2019, LVGIG had the following Critical or Important arrangements in place

Description of Function or Activities	Rationale for outsourcing
Common ratings system development	No in-house capability
Outbound Printing and Inbound scanning services	Outsourced due to the lack of sufficient internal IT infrastructure to maintain this “in-house”
Data centres	Mitigates significant risks and addresses cost effective issues in building and managing our own data centre
Archiving & Scanning	Specialist knowledge and security of archiving compared to in-house
Investment of Group Assets	To improve investment returns to members and policyholders
Outbound Printing and Inbound scanning services for Britannia Rescue	Outsourced due to the lack of sufficient internal IT infrastructure to maintain this “in-house”
Legal Services	Outsourced as part of an industry standard service.
Customer Payment Data Capture	Software solution that exceeds LV=’s own system capability.
Windscreen claims handling	Industry wide outsourced solution utilises to increase efficiency and improve customer experience
Out of hours home emergency cover	Industry wide outsourced solution utilised to ensure a 24/7 service is in place for the customer
Pet insurance underwriting, operations and claims handling	Outsourced to align with LVGIG's strategic approach to the market
Travel insurance underwriting and claims management	Outsourced to align with LVGIG's strategic approach to the market

After 1st January 2020

On 1st January 2020, LV General Insurance Group became wholly owned by Allianz. As part of the arrangement, Allianz will Procure and manage non-claims related suppliers, highlighted bold in the above table. LV General Insurance Group retains oversight of these services.

All members of the Allianz SE Group, including LV General Insurance Group, adhere to the Allianz Group Outsourcing Policy. This policy defines a critical outsourced function or service and associated treatment.

B.8 Additional information

There has been no need for specific changes to the System of Governance as the result of the COVID-19 pandemic. This is because the System of Governance is designed to be robust to significant external events.

During the COVID-19 pandemic, there has been continued involvement and input from the Board, including from the non-executive directors. The non-executive directors have received updates describing the financial and operational impacts on the Company. Feedback has been provided on these topics to executive management.

The Risk function is responsible, among other things, for assessing risks and monitoring risk capital. This also includes the ongoing assessment of risks resulting from pandemics such as COVID-19.

In order to assess current developments, the Risk function has analysed the current and potential future impacts of the current pandemic. Financial risks have been closely monitored by means of at least weekly assessments of the Company's solvency position.

Our ability to continue to meet our customers' needs has been supported by a move to home working focusing on the priority areas of claims and servicing existing customers. Operational risks associated with this move have been mitigated by the investments made by the Company in IT to support this home working. Further information on the monitoring of risks is provided within Section C.

.C. Risk Profile

C.1 Overview

C.1.1 Overview of risk exposures

The chart below shows the 2019 Year End split of the Standard Formula Solvency Capital Requirement (SF SCR) by risk type. The largest exposure, 79% of the SCR, relates to Premium & Reserve Risk followed by Operational Risk with 11%.

Post diversification SCR	**2019 YE**	2018 YE	**Change**
Premium and Reserve risk	79%	82%	-3%
Operational risk	11%	11%	0%
Counterparty Default risk	4%	3%	1%
Spread risk	4%	3%	1%
Catastrophe risk	2%	1%	1%
Other	0.5%	0.5%	0.0%
Total SCR	**100%**	100%	

The breakdown of risk exposures is broadly in line with that seen at 2018 Year end. The main movement is a reduction in premium and reserve risk as a result of implementing the new business plan which shows slower premium growth over the coming year.

C.1.2 Measurement of risk exposures

HICO measures its risk exposures using a variety of metrics. This allows management to identify the key areas of risk exposure and make informed decisions as to whether the current levels of exposure are consistent with LV=’s risk appetite.

LVGIG uses the following metrics:

- Regulatory capital is measured using the Standard Formula approach prescribed by EIOPA, and reported to the PRA on a quarterly basis.

- LVGIG maintains its own internal view of capital measurement with an Economic Capital Model. This informs risk appetite, using internal and local knowledge to assess risk in a more bespoke way than can be done using the Standard Formula approach.

- An analysis of change is performed on the regulatory capital requirements on a quarterly basis, looking at individual risks as well as the whole SCR.

- Capital and Own Funds are monitored using sensitivities and approximations on a regular basis and the results reported to Senior Management.

- Stress and scenario testing is performed quarterly for the Own Risk and Solvency Assessment (ORSA) and business planning exercises.

C.1.3 Prudent person principle

LVGIG operates within an investment framework which ensures that all assets are invested in accordance with the prudent person principle. The investment framework is suitably flexible to manage the different investment needs of the diverse business areas within LVGIG. All investment and strategic management decisions are set within Board approved risk appetite limits. Working within this risk framework, considerations of commerciality, treating the customer fairly and policyholders’ reasonable expectations are embedded into the investment strategies for each business as appropriate.

All invested assets are managed by investment managers under an investment management agreement. Within the agreement, there are a number of investment guidelines which reflect the risk appetite limits and investment management parameters. All investment guidelines are approved by the Board or a delegated authority of the Board.

C.1.4 Risk concentration

LVGIG offers a wide range of product options catering to differing policyholder needs and a widely diversified customer base in terms of age, gender and geographical location throughout the UK. As such, LVGIG has a diverse and balanced mix of business and risk exposures.

In addition, LVGIG uses a variety of measures to limit any excess concentrations:

- Investing in a range of assets governed by investment mandates and asset counterparty limits
- Managing counterparty risk through risk limits on exposure and concentration; and
- Limiting excess concentrations of underwriting risk through a range of reinsurance strategies.

As LVGIG has written the majority of its business in the UK, results are sensitive to demographic and economic changes arising in the UK.

C.2 Underwriting risk

In determining the price of its insurance products and when reporting the financial results relating to these products, LVGIG makes a number of assumptions related to the future amount and timing of payments. Underwriting risk arises from the actual outcome being different to these assumptions.

C.2.1 Underwriting risk exposure

Highway's Underwriting Risk is dominated by the uncertainty in the amount of claims and expenses it incurs from both expired and unexpired risk obligations and in relation to the level of premiums to be written on future new business. This is captured within the Premium and Reserve Risk.

Underwriting risk	**2019 YE**	2018 YE	**Change**
Premium and Reserve risk	97%	99%	-2%
Catastrophe risk	3%	1%	2%
Lapse Risk	0%	0%	0%
Total	**100%**	100%	

As Highway is still be a predominantly motor writer, Premium and Reserve risk will continue to comprise most of the underwriting risk. However, Catastrophe Risk has increased as the broker home book grows.

C.2.2 Material changes over the reporting period

All risks within underwriting risk have remained stable over the year.

C.2.3 Risk mitigation techniques

Reinsurance purchase is the main tool used to keep underwriting exposure within risk appetite.

A range of reinsurance contracts are entered into, typically annually, across different lines of business to mitigate the losses arising from individual large losses and catastrophe events.

- Excess of loss programmes are used for motor lines to limit the impact of individual losses. The current programme protects HICO within Premium Risk while the historic programmes protect losses occurring within Reserve Risk.
- Catastrophe reinsurance, which covers total losses stemming from an event across property lines, reduces catastrophe risk.

In addition, LV= entered into a Loss Portfolio Transfer and Whole Account Quota Share programme at the end of 2015. The Quota Share programme has been renewed each year since at a similar level of cover, keeping the capital benefit stable. These programmes further reduce Premium risk, Reserve Risk and Catastrophe risk.

C.3 Market risk

Market risk arises as part of the general investment performance and impact of discounting on liabilities. The risk to LVGIG arises from the performance of the investments being different from that assumed in the planning process.

C.3.1 Market risk exposure

Within Market Risk the key exposure is to Spread Risk which comprises 90% of the SCR post-diversification.

Market risk	**2019 YE**	2018 YE	**Change**
Spread risk	90%	84%	6%
Interest Rate risk	9%	16%	-7%
Concentration risk	2%	0%	2%
Equity risk	0%	0%	0%
Currency Risk	0%	0%	0%
Total	**100%**	100%	

Spread risk has increased over 2019 due to the implementation of a new investment strategy over the last 18 months.

C.3.2 Material changes over the reporting period

There have not been any material changes to market risk over 2019.

C.3.3 Risk mitigation techniques

Risk mitigation is implemented within interest rate risk where the asset strategy aims to match the duration with our liability profile. This ensures lower sensitivity to interest rates than there otherwise would be.

C.3.4 Risk concentrations

Concentrations in any one company or industry are limited by investment policies in place.

C.4 Credit counterparty risk

Credit counterparty risk arises from the holding of certain investment assets, reinsuring risks to third parties, and from normal trade credit such as brokers and premium finance. The risk to LVGIG is that a counterparty defaults on its obligations or fails to meet them in a timely manner.

HICO's largest counterparty exposure is to a single AA-rated reinsurer following the initial Loss Portfolio Transfer (LPT) and Whole Account Quota Share (QS) arrangement where a portion of risk was ceded away; this accounts for approximately 32% of the reinsurance recoverables due. This amount will reduce overtime as the new reinsurer for the Quota Share arrangement is within the Allianz Group.

Besides these arrangements, HICO's counterparty exposures are shared between a panel of reinsurers with no other single external counterparty accounting for more than 10% of recoverables due.

C.5 Liquidity Risk

Liquidity Risk is the risk that LVGIG, though solvent, either does not have sufficient financial resources available to meet their obligations when they fall due, or can secure them only at excessive cost. This may arise either because of the nature of the investments held or adverse market conditions.

Liquidity within LV= is maintained at a prudent level, with a buffer to cover contingencies. LVGIG does not hold capital for liquidity risk but has a liquidity risk appetite statement which requires that LV= must be able to meet its BAU and stressed liquidity requirements from high quality liquid assets.

There were no material changes to liquidity risk during 2019.

C.6 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk arises as a natural consequence of business activity and is managed actively within the LVGIG Risk and Compliance function.

Operational risk is monitored in detail on a monthly basis within regular risk reporting. This includes monitoring of 45 different areas of operational risk across the business. There have been no significant developments in operational risk over 2019.

C.7 Emerging Risks

As well as monitoring near-term risks, the Risk Committee also considers potential risks, threats and opportunities which may impact LV= at some point in the future. This is monitored on a monthly basis through our regular ORSA reporting. The current view of emerging risks, including actions completed and upcoming, is shown below.

Risk	Risk Description	Activity to date/Next Steps
Brexit	There is still uncertainty over the further trade agreement between the UK and the EU. If no trade deal is reached before the transitional period ends in 31/12/20, this could adversely impact underwriting, reserving and investment performance and cause operational difficulties.	• Monitoring and management via fortnightly EXCO Brexit meetings chaired by the CRO took place throughout 2019 • Impact assessments to continue to be revised by Pricing/Reserving/Investment functions as required by EXCO. • Output from Allianz internal assessments to continue to be sourced.

Renewal pricing	The FCA are due to conclude a market study into GI pricing practices in early 2020. It is possible that the market study results in remedies that will impact general insurers and the wider financial services industry.	• Continue implementing pricing improvements in anticipation of new FCA requirements • Project team assigned reporting to GIRCC
Cyber Risk	A severe IT failure paralyses the infrastructure leaving us without access to key systems and unable to service customers or take on new business. DR solutions are not accessible and we are forced to resort to analogue solutions.	• RCSA for The confidentiality, integrity and availability of Physical & Electronic information (O7 & O8) • RCSA for Underperformance or failure of systems (O5) • RCSA for Business Continuity (O6) RST1 - 'Lapse / cancellation of large volume of policies' • BCP Plans • Ongoing audit of upcoming data center transfer • Reverse Stress Testing (RST4 - Data breach)
Car Financing Collapse	PCP driven car credit boom experienced over the last decade could end suddenly, reducing new car sales and potentially reducing overall car ownership.	• Continue monitoring for FCA policy intervention expected following the FCA's March 2019 Final Findings on Motor Finance and October 2019 consultation paper on plan to ban commission models that give motor dealers incentives to raise customer interest rates.
Silent Cyber	Traditional GI products have unintentional exposure to silent cyber risk, in the form of damage or injury arising from a cyber-incident.	• GI Underwriting completed a detailed review of Silent Cyber exposure in 2018, with specialist assistance sourced externally. Silent cyber risk found to be within appetite and annual reviews agreed. May 2019 annual review found no material change to risk
InsurTech	New entrants and/or innovation by competitors could dramatically change the landscape of the UK insurance industry. Global data giants with scale, and access to extensive behavioral and personal data on millions of potential insurance buyers could significantly disrupt the industry. InsurTech is poised to disrupt all forms of insurance, and it has the potential to impact most, if not all, aspects of the insurance business model.	• Stress Testing (SST3 & SST4) • RCSA S6 – Competition • Assess in line with TRA process
Climate Change	Climate change resulting in volatile weather patterns	• RCSA's for Natural Catastrophe's – I3 for Direct and I8 for Broker
Autonomous Vehicles	Widespread adoption of autonomous vehicles	• Monitoring diversification plans • Monitoring the development of autonomous vehicles

C.8 Sensitivities

As Premium, Reserve and Catastrophe risk are the most material insurance risks within the Standard Formula, we show sensitivities for these. The table below shows the impact on the SCR of both increases and decreases.

Sensitivities		**Impact**	
Item	**Size**	**£m**	**%**
Baseline SCR		161	
Premium Risk	10% increase to next year premium	5	3%
Premium Risk	10% decrease to next year premium	-2	-2%
Reserve Risk	10% increase to overall claim provision	7	4.5%
Reserve Risk	10% decrease to overall claim provision	-7	-4.4%
Catastrophe Risk	25% increase to the 1-in-200 gross loss	0	0%
Catastrophe Risk	25% decrease to the 1-in-200 gross loss	0	0%

For premium risk, an increase (or decrease) to the next year of premium was considered. This could be caused as a result of the impact of a change in anticipated premium rates or volumes. The impact is not symmetrical; the impact of reduction in premium is reduced as a result of the standard formula methodology, which looks at the higher of the coming year and previous year's premium.

Within Reserve risk, the impact of a shock of 10% which might emerge from an event similar to those which resulted from the Ogden discount rate change and LASPO were considered. The impact here is symmetrical, as anticipated.

The catastrophe reinsurance programme is designed to absorb the Standard Formula gross 1 in 200 loss stresses. Neither the reduction nor increase in catastrophe risk are material, given that the losses are already heavily mitigated by the reinsurance programme.

C.9 Additional information

The COVID-19 pandemic has the potential to have significant impacts on each of the main risk categories covered above (Underwriting, Market, Credit, Liquidity and Operational). Taking each of these in turn:

- Underwriting risk will be impacted by increased costs to settle claims although this could be mitigated or significantly exceeded by lower than expected claim frequency on motor and home.
- Market risk will be impacted by the widening of corporate bond spreads. HICO's solvency position is being monitored weekly, using the latest market valuation data. The solvency position is resilient to these market movements due to the strategic asset allocation and in particular the strategy to invest in investment grade bonds
- Credit risk could be impacted by increased frequencies of downgrade and defaults. Credit risk is monitored and actively managed and mitigated by the Company's investments department which receives regular updates from our investment managers and the Allianz Group Credit Risk team.
- Liquidity risk could be impacted by the inability of customers to keep up premium payments, or reductions in the liquidity of our chosen investment classes. Our liquidity risk is managed through regular scenario analysis and is mitigated by our strategic asset allocation which focusses on liquid gilt and corporate bond investments. HICO therefore has readily available funds to meet customer claims and to continue to meet the Company's financial obligations as they fall due, without needing to take contingency actions.
- Operational risk could increase due to the increase in home working, although this is already being actively mitigated through revised policies and processes associated with home working. The Company has also assessed its distribution channels to identify operational risks which may manifest in broker processes, such as renewal processing.

Based on scenario analysis carried out by the Risk function using the latest information available at the end of March 2020, it is expected that HICO will be resilient to these risks.

The statements on the risks associated with the COVID-19 pandemic are subject to the proviso that risk identification and assessment are of a provisional nature at the time of reporting (end of March 2020).

D. Valuation for Solvency Purposes

D.1 Assets

For Solvency II valuation purposes, assets and other liabilities are valued consistently with IFRS provided that IFRS valuation methods are consistent with Article 75 of Directive 2009/138. Assets and liabilities represent the fair value amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

Reconciliation between IFRS and Solvency II valuation		2019				
		IFRS	Presentational adjustment	Solvency II valuation adjustment	Solvency II	Solvency II
	Note	£m	£m	£m	£m	£m
Deferred acquisition costs	1	30	-	(30)	-	-
Intangible Assets	#	1	-	(1)	-	-
Deferred tax assets	2	-	-	5	5	5
Investments (other than assets held for index-linked and unit-linked funds)						
- Equities	3	-	-	-	-	25
- Bonds	3	376	192	-	568	510
- Collective Investment undertakings	3	-	114	-	114	161
- Deposits other than cash equivalents	3	60	(35)	-	25	20
Reinsurance recoverables	4	185	-	49	234	229
Insurance and intermediaries receivables	5	41	-	(41)	-	-
Reinsurance receivables	6	12	-	(12)	-	-
Receivables (trade, not insurance)	#	-	-	-	-	9
Cash and cash equivalents	7	278	(266)	-	12	22
Any other assets, not elsewhere shown	8	11	(6)	(1)	4	2
Total Assets		994	(1)	(31)	962	984

Supporting Notes

1. Goodwill

For Solvency II valuation purposes, goodwill is valued at £nil.

2. Deferred acquisition costs

For Solvency II valuation purposes, deferred acquisition costs are set to £nil however the cashflows relating to items which are chargeable as deferred acquisition expenses, are included within the Technical Provisions valuation if they fall within the projected timeframes (see D.2. Technical Provisions).

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

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

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

3. Deferred tax assets

Under IFRS, there is no deferred tax asset (DTA) as the timing differences relating to intangible assets less capital allowances in excess of depreciation and on Available For Sale assets give rise to a net deferred tax liability.

	£m
Deferred tax assets – IFRS	**0**
Solvency II Valuation Adjustment	5
Deferred tax assets - Solvency II valuation	**5**

There are a number of changes that are made to the IFRS Balance Sheet in moving to a Solvency II basis which impact the Solvency II profit. A Deferred Tax provision is established to recognise the timing differences arising. These differences relate to the changes in the valuation of deferred acquisition costs, technical provisions, reinsurance recoveries, trade payables and subordinated debt.

As at 31 December 2019 there were total Solvency II taxable losses of £27m, with a consequent £5m taxation impact. The recoverability of the deferred tax asset due to the losses arising from a move to Solvency II has been justified based on future profits per the Board approved business plans. These profits demonstrate that the timing differences arising from IFRS accounting and tax treatment plus the timing differences arising from the move to Solvency II results are fully covered and utilised by future taxable profits at the prevailing corporation tax rates at times of recovery. The future profit projections utilised ensure that profits cannot be inadvertently counted twice. The reversal of the risk margin is not included in the profit projections.

Recoverability of the deferred tax asset (DTA) arising from the total taxable loss of £27m has been justified based on the Board approved business plans over the period 2020 to 2021. The DTA established over this period is based on the announced Corporation Tax rates, as follows.

Year	Loss Utilised (£m)	CT Rate	DTA (£m)
2020	12	17.50%	2
2021	14	17.00%	2
2022	1	17.00%	1
Total	**27**		**5**

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements

4. Equities, Bonds, Collective Investment Undertakings and Deposits other than cash equivalents

For Solvency II valuation purposes, financial assets are valued consistently with IFRS. However there are mapping differences between the IFRS and Solvency II hierarchies with certain assets being presented differently under IFRS.

Under IFRS, financial assets are classified as either fair value through profit and loss ('FVTPL') or available for sale ('AFS'). During 2018 HICO sold most of its FVTPL designated assets, with the remaining sold in the first half of 2019, in order to align its accounting policy with its new parent AZSE.

AFS are held at fair value but with the unrealised gain or loss, held in a revaluation reserve (rather than recognising it as income through FVTI), until it becomes realised.

Available for sale investments include listed and unlisted debt securities and are investments intended to be held for an indefinite period of time, that may be sold in response to liquidity or changes in interest rates, exchange rates or market movements.

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

Derivatives are classified at fair value through income as they are held for trading, although HICO removed all its derivative positions during 2019. Financial assets designated at fair value through income at inception are measured at market prices, or prices consistent with market ratings should no price be available. Day one gains are recognised only where valuations use data from observable markets. Any unrealised or realised gains or losses are taken to the Statement of Comprehensive Income, as fair value gains or losses, or realised gains or losses respectively, as they occur.

Financial assets at fair value; further information is provided in the table below.

Fair value estimation

For Solvency II valuation purposes, the fair value measurement hierarchy is as follows:

- Quoted market prices in active markets for same assets and liabilities (QMP). This is the default valuation method and is broadly consistent with Level 1 category assets under IFRS.
- Quoted market price in active markets for similar assets (QMPS). Maximum use is made of relevant market inputs such as quoted prices for identical or similar assets in an inactive market, observable inputs other than quoted prices and market corroborated inputs derived from observable market data. This is broadly consistent with Level 2 category assets under IFRS.
- Other alternative valuation method (AVM). Unobservable inputs reflecting the assumptions market participants would use when pricing the asset or liability, including assumptions about the risk inherent in both the inputs and the valuation technique. The undertaking uses various valuation approaches, including market, income and cost approaches. This is broadly consistent with Level 3 category assets under IFRS.
- Adjusted Equity Method (AEM) for Participations.

The following table presents the financial assets measured at fair value at 31 December 2019.

	QMP	QMPS	Total
	£m	£m	£m
Equities	-	-	
Bonds	237	331	568
Collective Investments Undertakings	114	-	114
Deposits other than cash equivalents	25	-	25
Investments	**377**	**331**	**708**

5. Reinsurance recoverables

The undertaking cedes insurance risk in the normal course of business. Reinsurance assets represent balances recoverable from reinsurance companies.

For Solvency II valuation purposes, reinsurance recoverables are valued using the cash-flow projection method and in a consistent manner with the calculation of the best estimate liabilities (see D.2 Technical provisions). In calculating reinsurance recoverables under Solvency II, adjustments are made for the time difference between recoveries and direct payments and also for expected losses due to the default of a counterparty. The adjustment is based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

Under IFRS, recoverable amounts are estimated in a manner consistent with the outstanding claims provision. Reinsurance premiums are recognised in the same period as the underlying contract that they relate to.

	£m
Reinsurers' share of claims liabilities	185
Total Reinsurance recoverables - IFRS	**185**
Best estimate liability adjustments	49
Total Reinsurance recoverables – Solvency II valuation	**234**

6. Insurance and intermediaries receivables

For Solvency II valuation purposes, any future premiums (included in insurance receivables) which fall due after the valuation date and any premium debts (included within intermediaries receivables), are subject to best estimate liability calculation of technical provisions (see D.2 Technical Provisions).

Under IFRS, insurance and intermediaries receivables are recognised when due and include amounts due from policyholders, agents, brokers and intermediaries. Insurance and intermediaries receivables are initially recognised at fair value and then subsequently held at amortised cost. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the Statement of Comprehensive Income.

	£m
Due from agents, brokers and intermediaries	41
Total Insurance and intermediaries receivables - IFRS	**41**
Best estimate liability adjustments	(41)
Total Insurance and intermediaries receivable - Solvency II valuation	**-**

7. Reinsurance receivables

For Solvency II valuation purposes, reinsurance receivables are included within the BEL calculations.

Under IFRS, reinsurance receivables are recognised when due. Reinsurance payables are initially recognised at fair value and subsequently held at amortised cost.

	£m
Due from reinsurers	12
Total Reinsurance receivables - IFRS	12
Reinsurance payables included in BEL calculations	(12)
Total Reinsurance payables - Solvency II valuation	-

8. Cash and cash equivalents

For Solvency II valuation purposes, cash is valued consistently with IFRS with a reclassification adjustment for short-term bank deposits which are included in investments as bonds.

Under IFRS, cash and cash equivalents comprise cash at bank and in hand, and short-term deposits with an original maturity of three months or less. These are valued at fair value based on amounts receivable on demand.

	£m
Bank Balances	12
Short-term bank deposits	266
Total Cash and cash equivalents - IFRS	278
Reclassify short-term deposits into bonds	(266)
Total Cash and cash equivalents - Solvency II valuation	12

9. Any other assets, not elsewhere shown

For Solvency II valuation purposes, prepayments and accrued income are valued consistently with IFRS. On the Solvency II balance sheet, the accrued interest on bonds is included in the market value of Investments.

Under IFRS, prepayments and accrued income balances are all due within one year. These are valued at fair value based on amounts receivable on demand.

	£m
Accrued interest	6
Other prepayments and accrued income	5
Prepayments and accrued income - IFRS	11
Reclassify accrued interest on bonds to Investments	(6)
Total any other assets, not elsewhere shown - Solvency II valuation	5
Solvency II valuation adjustment	(1)
Total any other assets, not elsewhere shown - Solvency II valuation	4

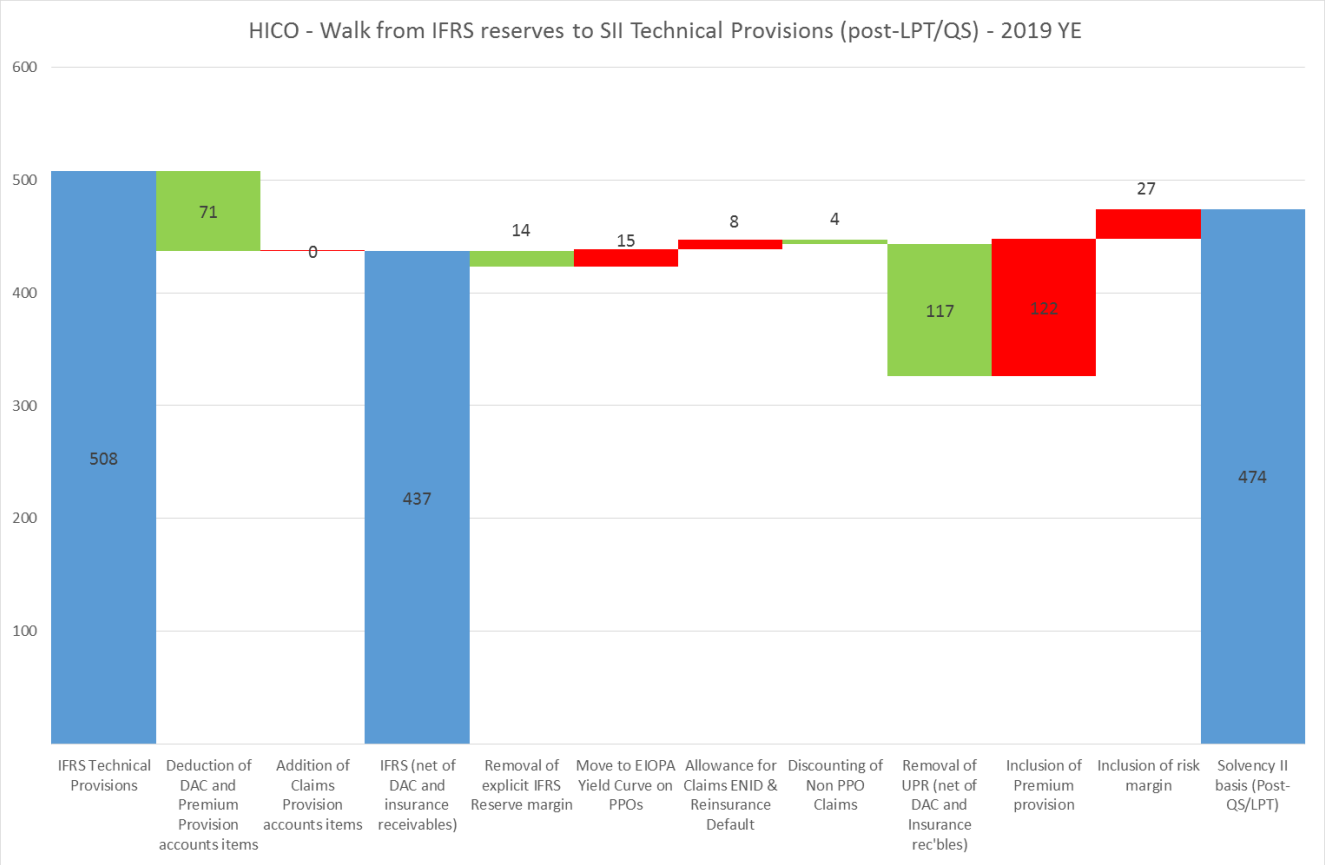
D.2 Technical Provisions

The Technical Provisions are calculated as the sum of the Claims Provisions, Premium Provisions and the Risk Margin. The table below summarises the Gross Technical Provision recorded as at year end 2019:

HICO Entities (£m)	Total	Motor Liability	Motor Other	Property Damage	General Liability	Legal Expenses	Assistance	Medical Expenses	Settled PPOs
Gross Claims Provision	561	435	-4	11	1	0	0	0	117
Gross Premium Provision	121	80	32	10	0	0	0	0	0
Gross Best Estimate Liabilities	**682**	**515**	**28**	**21**	**1**	**0**	**0**	**0**	**117**
Risk Margin	27	21	0	1	0	0	0	0	5
Gross Technical Provisions	**709**	**536**	**28**	**21**	**1**	**0**	**0**	**0**	**122**

The 'Settled PPOs' Line of Business relates purely to claims that have settled as a Periodic Payment Order (PPO) whereby the claimant is granted, in addition to a lump sum payment on settlement, a regular income for life to pay for future care costs and loss of earnings. Such payments are generally linked to an inflation index representing the expected increases in salaries for care workers.

The following waterfall chart provides an overview of the transition from the IFRS Technical Provisions to the Solvency II equivalent.



The Solvency II elements are as follows:

The removal of the explicit IFRS Claims Margin held over and above the Actuarial Best Estimate reduces the provision by £14m.

Updating the PPOs discounting from RPI as assumed under IFRS to the prescribed Solvency II yield curve increases the provision by £15m.

The allowance of both the ENID load and the provision for reinsurance default in the Solvency II Technical Provisions increases the provision by £8m.

Moving non-PPOs from their undiscounted value under IFRS to the prescribed discount rate as required under Solvency II reduces the provision by £4m.

Removing the IFRS UPR and the inclusion of the Solvency II Premium Provision, which reflects the best estimate of all possible outcomes associated with unearned business, results in a net £5m increase.

Finally the Solvency II Technical Provisions includes a Risk Margin, which for HICO amounts to £27m; leading to the overall Solvency II Technical Provision of £474m.

Methods and main assumptions

The business estimates the Technical Provisions using a range of standard actuarial and statistical techniques. This includes, where appropriate, stochastic models.

For attritional claims, these methods rely primarily on Standard Actuarial Techniques for more developed accident periods, which use historic claim development triangles to attempt to predict the future development of claims which are reported but not settled and claims that are yet to be reported. For more recent periods, trended methods are adopted.

For known non-PPO large claims a separate stochastic method is adopted that assumes claims settle with a severity that is consistent with a standard statistical distribution.

The cashflow used for the IBN(Y)R held for large claims is derived from a separate stochastic model and uses a similar methodology as the reported claim model described above, which is again used as part of the ABE calculation. The model is frequency/severity based and is employed to generate the level of provision required and the reporting delay for these claims. Based on the time of reporting a cashflow is produced from the model for each claim within a simulation. Averaging across all simulations provides the expected net undiscounted cashflow for IBNR claims by taking into account existing reinsurance structures including allowing for indexation clauses within the reinsurance contracts. The same methodology is used for the large reported claims, with the extraction and averaging over simulations to produce the cash-flows, which are subsequently discounted. The IBNR amounts are also adjusted to allow for the explicit PPO IBNR.

For PPO claims a cashflow model is used to project cashflows for both claims that have settled on a PPO basis and those identified as having the potential to settle as a PPO in the future. This model projects both gross and reinsurance cashflows separately. The models used for PPOs are deterministic and for settled PPOs the settled amounts are known. The primary assumptions made relate to future wage inflation for care workers, investment returns (by which cashflows are discounted), base mortality of claimants and any expected reduction in life expectancy due to the severity of the injuries suffered by the claimant.

The Premium Provision is the discounted cashflow in respect of premium receivables, claims and expenses arising from incepted unearned and un-incepted business.The calculation of the Premium Provision requires a set of assumptions to be made. The unearned premium and un-incepted premium runs-off over the subsequent twelve months and is adjusted to allow for several factors affecting claims and expenses. The Premium Provision is calculated in a single model. The model projects all relevant cashflows for each line of business and discounts these using the relevant yield curve. The Premium Provision requires cashflow projections for all items associated with in-force business, i.e. premium (net of IPT), claims and expenses (acquisition, administration and claims handling) and other ancillary income. The Premium Provision is calculated separately for each Solvency II Line of Business. The calculations are performed on an aggregated basis as opposed to an individual policy basis.

Expenses and other cashflows associated with the servicing of claims and policies are allowed for. As are events that are not in the data (ENIDs).

Future cashflows used for the calculation of the Solvency II technical provisions are derived from payment patterns consistent with the IFRS ABE. All cashflows under Solvency II are discounted using the risk-free rate as required by the SII regulations.

Risk Margin

The risk margin is calculated using an in-house model that makes a full calculation of all future SCRs without using simplifications, as permissible by the Solvency II regulations.

All methods are supplemented by regular interaction with Claims and Underwriting functions.

Uncertainty

Insurance is a business based around uncertainty. In calculating the Technical Provisions, judgement is used in deciding appropriate models to use and in calibrating the models. As such, there is inherent uncertainty around the value of the technical provisions both in terms of the amount and timing of future cashflows. The ENIDs aim to capture this uncertainty.

ENIDS

The approach used to derive the ENIDs loading has considered a combination of a mean load statistical approach for the attritional claims and a set of stresses and scenarios for large claims, PPOs and weather events. The statistical approach for attritional claims builds on a presentation at the Institute and Faculty of Actuaries Reserving Seminar 2016 which provided an alternative approach to the Lloyd's Truncated Statistical Distribution approach called the mean load approach. The data segmentation is by product and the loadings derived are split by product.

Differences in valuation methodologies

The Solvency II BEL is based upon the IFRS ABE. However, elements of the ABE which are required under IFRS are not required under Solvency II and vice versa. Broadly, these can be summarised as follows:

- Past Deferred Acquisition Costs (DAC) are not included in the cashflow projections. However, the future DAC-able expenses in the unincepted business are included;
- An explicit claims margin is inadmissible under SII. However this is replaced by an allowance for Events Not In Data (ENIDs) which is calculated using standard actuarial techniques;
- Under IFRS where liabilities are discounted (only PPOs) the Group can make an appropriate assumption as to expected asset returns whereas under Solvency II all liabilities (PPOs and non-PPOs) must be discounted using the yield curve specific to the UK as set by EIOPA; and
- The UPR (net of DAC and Premium receivables) under IFRS is inadmissible under Solvency II. However, this is replaced by the premium provision.

Recoverables from reinsurance contracts and special purpose vehicles

The business enters into a number of reinsurance contracts. This includes an excess of loss arrangement to cover liability-related exposure with a retention set in line with the Group risk appetite. At the 2015 year-end the Group also entered into a General Insurance portfolio-wide Loss Portfolio Transfer arrangement for accident years 2015 and prior inclusive. The Group has entered into quota share arrangements on a losses occurring basis with effective date of 1st January 2016, covering each of the four calendar years to 31st December 2019. A further quota share has also been entered into with an effective date of 1st January 2020.

At present, there are no special purposes vehicles in place for the Group's reinsurance.

Material changes in the relevant assumptions made in the calculation of the technical provisions

The Solvency II BEL relies upon the calculation of the IFRS ABE for many of its assumptions. As such, many of the elements of assumptions are updated throughout the year in line with changes in the IFRS ABE. In particular:

- Cashflow patterns;
- Expenses; and
- Allowance for reinsurer counterparty default.

Premium Provision assumptions are updated in line with the reforecasting of the business plan throughout the year.

A re-calibration exercise was carried out this year on large claims that are yet to be reported. This has meant a number of changes in assumptions since the 2018 year-end:

- Claim frequency and severity assumptions were changed as a result of the re-calibration. This resulted in a favourable impact on the Technical Provisions net of XoL reinsurance.
- In addition, reinsurance loss ratios on large claims at 2019 year-end for the Premium Provision calculation were set using the reinsurance recovery rate derived in the re-calibration. The reinsurance recovery rate used is 50.0%.

Note there has been a change in the assumed Ogden discount rate between the 2018 and 2019 year-ends, from 0.0% to -0.25% p.a.

HICO does not apply the use of the matching adjustment, volatility adjustment or transitional measures on technical provisions.

D.3 Other liabilities

Reconciliation between IFRS and Solvency II valuation		2019			
		IFRS	Presentational adjustment	Solvency II valuation adjustment	Solvency II
	Note	£m	£m	£m	£m
Deferred tax liabilities	#	**1**	-	(1)	**-**
Reinsurance payables	1	**9**	-	(9)	**-**
Payables (trade, not insurance)	2	**34**	-	(9)	**25**
Subordinated liabilities	3	**10**	-	2	**12**
Total Other Liabilities		**54**	**-**	**(17)**	**37**

#- Disclosure note not provided as Solvency II value equal to IFRS or the amounts are immaterial.

There are no material off-balance sheet assets or liabilities which fall into the scope of this narrative.

Supporting Notes

1. Reinsurance payables

For Solvency II valuation purposes, reinsurance payables are valued consistently with IFRS.

Under IFRS, reinsurance payables are recognised when due. Reinsurance payables are initially recognised at fair value and subsequently held at amortised cost.

	£m
Due to reinsurers	9
Total Reinsurance payables - IFRS	**9**
Reinsurance payables included in BEL calculations	(9)
Total Reinsurance payables - Solvency II valuation	**-**

The maturity profile of the liability recognised in the IFRS financial statements is summarised in the following table:

						£m
	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years	UL	Total
Reinsurance payables	**9**	**-**	**-**	**-**	**-**	**9**

2. Payables (trade, not insurance)

For Solvency II valuation purpose, trade payables are initially valued consistently with IFRS and then adjusted to remove the MIB levy as part of the BEL calculations.

Under IFRS, trade payables are recognised when due. Payables are initially recognised at fair value and subsequently held at amortised cost.

Payables (trade, not insurance)	**£m**
Bank Overdrafts	6
Amounts owed to group undertakings	1
Other taxes and social security costs	10
Other payables	7
Accruals and deferred income	10
Total Payables (trade, not insurance) - IFRS	**34**
Reclassification of payables included in BEL calculations	(9)
Total Payables (trade, not insurance) - Solvency II valuation	**25**

3. Subordinated liabilities

€12m subordinated note is repayable in 2034. Interest is payable on the Notes at the 3 month euro deposit rate plus a margin of 365 basis points.

For solvency II valuation purposes, the subordinated notes have been measured using the risk free rate at the valuation date, whilst keeping the spread versus risk free rate at point of issue constant, thus eliminating the effect of changes in credit rating. The model uses the discounted cashflow approach with the spread measured against the risk free rate to equate back to the amount of debt issued. It also allows for accrued interest at point of valuation. The debt is not callable and has a maturity date of 2034.

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

Subordinated liabilities	**£m**
Subordinated notes (€ 12m)	10
Subordinated liabilities - IFRS	**10**
Revaluation of subordinated debt	2
Subordinated liabilities - solvency II valuation	**12**

D.4 Alternative methods for valuation

Information is provided for material assets and liabilities valued using alternative methods.

Justification for using alternative methods

The Group aims to use quoted market prices or observable inputs to value all assets and liabilities however where there is no external market or readily observable inputs, the Group will use an alternative method such as discounted cash-flow or mark-to-model.

Assumptions used in valuation approach and areas of uncertainty

Alternative methods for valuation include the use of estimates and assumptions that are not market observable but are based on a combination of internally developed models, calibrated to market observable data where possible as well as independent third-party evidence. Valuation uncertainty arises where there is reliance on third-party adherence to expected valuation standards or potential variation in the expected range of the key inputs into models.

The following material assets have been valued using alternative valuation methods in accordance with Article 263 of the Delegated Acts:

1) Deferred tax assets of £5m; this has been valued in line with IFRS, adjusted for the tax impact of temporary differences including goodwill, intangible assets and reserves as valued under Solvency II regulations. The value of the deferred tax asset arising was validated based on Board approved plan future taxable profit projections. The profits used will not include any reversal of the risk margin.

2) Reinsurance recoverables of £229m; this has been valued using the cash flow projection method, in a consistent manner with the calculation of the best estimate liabilities and adjusted for expected losses due to the default of reinsurance counterparties. Further information regarding the best estimate liabilities can be found earlier in Section D.

3) Receivables (trade, not insurance) of £9m and Any other assets, not elsewhere shown of £15m are valued consistently with IFRS. Management believe this to be representative of the fair value at the reporting date.

The following material liabilities have been valued using alternative valuation methods in accordance with Article 263 of the Delegated Acts:

1) Best Estimate Liability and Risk Margin £709m; this has been valued under Solvency II methodologies and further information can be found in Section D.2 of this report.

2) Payables (trade, not insurance) £34m; trade payables are initially valued consistently with IFRS. The MIB levy is then removed from the payable balance and included within the Best Estimate Liability calculations. Further information on this calculation can be found in Section D.3 of this report.

D.5 Any other information

Please note that these additional comments on COVID-19 are unaudited.

The recent volatility in financial markets, in particular the increase in spreads on the corporate bond portfolio, and the impact on asset and liability values is being monitored with management plans in place to react as necessary. Investment valuation reports are obtained daily to reassess our exposure and we consider the existing strategic asset allocation is still appropriate. The valuations reported do not reflect the impact of COVID-19 based on the Company's interpretation of Article 77 (2).

The financial impact of potential claims is difficult to estimate at this stage although we anticipate an increase in travel claims which could be more than offset by fewer claims on motor and home products as a consequence of the government instruction for people to stay at home. Reinsurance arrangements in place provide further mitigation.

However, whilst there is still a significant degree of uncertainty, the Company expects to continue to meet its solvency and capital requirements as required by regulation. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

E. Capital Management

E.1 Own funds

The Company seeks to create value for its shareholders by investing in the development of the business while maintaining an appropriate level of capital available. The risk appetite for each type of principal risk is set based on the amount necessary to meet the solvency II capital requirements.

a) Policies and objectives The Company's key capital management objectives are:

i) To ensure the Company strategy can be implemented and is sustainable;
ii) To ensure the Company 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 Solvency II capital requirements imposed by its UK regulator, the PRA.

These objectives are reviewed at least annually, 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. The Company is required to hold sufficient capital to meet the Solvency II capital requirements based on the higher of the Solvency Capital Requirement or Minimum Capital Requirement.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

Management intends to maintain surplus capital in excess of the SCR and MCR to meet the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

b) Measurement and monitoring of capital

Method 1 as referred to in Article 230 of the Solvency II Directive is applied by the organisation to calculate the Company

The capital position of the Company is monitored on a regular basis and reviewed formally on a quarterly basis by the Group ALCO. The Company's key capital management objectives are reviewed and benchmarks are set by which to judge the adequacy of the Group's capital and ensure that sufficient capital is available.

The Company's capital requirements are forecast on a regular basis and compared with the available capital and the Company's minimum internal rate of return. The internal rate of return forecast to be achieved on potential investments is also measured against minimum required benchmarks taking into account the risks associated with the investment.

In the event that sufficient capital is not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy.

The items reported under Own Funds are classified by the regulations and split into three categories depending on different factors such as quality, liquidity and timeline to availability when liabilities arise. Tier 1 includes ordinary share capital, non-cumulative preference shares and relevant subordinated liabilities. Tier 2 includes cumulative preference shares, and subordinated liabilities with a shorter duration. Tier 3 own funds are those which do not satisfy the Tier 1 or Tier 2 requirements.

Different limit amounts held under the three tiers apply to the MCR and SCR. As Tier 1 comprises the highest quality with the longest redemption period, the majority of the eligible amount of own funds to cover the MCR and SCR is composed of Tier 1 own funds.

c) Own fund items

The following table details the structure, amount and quality of basic own funds.

	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Ordinary share capital	75	-	-	75
Reconciliation reserve	136	-	-	136
Subordinated liabilities	-	12	-	12
An amount equal to the value of net deferred tax assets	-	-	5	5
Total Basic Own Funds	**211**	**12**	**5**	**228**
Total Basic Own Funds after deductions	**211**	**12**	**5**	**228**

The following tables detail the eligibility of own funds to meet the SCR and MCR.

Total available Own Funds to meet the SCR	211	12	5	228
Total eligible Own Funds to meet the SCR	**211**	**12**	**5**	**228**

Total available Own Funds to meet the MCR	211	12		223
Total eligible Own Funds to meet the MCR	**211**	**12**		**223**

Tier 1 consists of both Ordinary Shares of £75m and the reconciliation reserve, including a capital reverse of £106m (2018: £106m), which carries no requirement for Highway to repay.

Tier 2 consists of subordinated debt issued by Highway for EUR 12m.

Tier 3 relates to deferred tax assets of £5m

Analysis of significant changes in own funds during the reporting period

	Highway		
	1 January 2019 £m	Movement £m	**31 December 2019 £m**
Eligible own funds			
Tier 1 capital	222	(11)	**211**
Tier 2 capital	12	-	**12**
Tier 3 capital	5	-	**5**
Total capital	239	(11)	**228**
Made up by:			
Equity shares	75	-	**75**
Subordinated liabilities	12	-	**12**
Deferred tax	5	-	**5**
Reconciliation reserve / surplus	147	(11)	**136**
Total capital	239	(11)	**228**
Total eligible own funds to meet SCR	239	(11)	**228**

- Tier 1 capital includes movements in excess of assets over liabilities, adjusted for the movement in deferred tax. This has reduced by £11m over the reporting period.
- Tier 2 capital represents the subordinated debt. As the subordinated debt is a loan in Euro's.
- Tier 3 capital represents the deferred tax asset.

Ancillary own funds

At 31 December 2019 there were no ancillary own funds.

Deductions from own funds

At 31 December 2019 there were no deductions from own funds

Explanation of the key elements of the reconciliation reserve

Reconciliation reserve	**£m**
Capital reserve	106
Retained earnings on a Solvency II basis	30
Total	**136**

Highway has not applied any loss absorbency mechanisms as at the end of 2019.

Material Differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for Solvency II purposes

The following table provides a reconciliation of equity under IFRS to Solvency II excess of assets over liabilities.

	£m
Analysis of Equity - IFRS	
Ordinary shares, allotted and fully paid	75
Capital reserve	106
Available for sale reserve	5
Retained Earnings	59
Total Equity - IFRS	**245**
Solvency II Adjustments (excluding reclassifications)	
Assets	
- Reduction in valuation of DAC (Section D.1)	(30)
- Increase in valuation of reinsurance recoverable (Section D.1)	49
- Reduction in valuation of insurance and intermediaries recoverable (Section D.1)	(41)
- Reduction in valuation of reinsurance receivable (Section D.1)	(12)
- Deferred Tax Assets	5
- Other	(1)
	(32)
Technical provisions	
- Increase in valuation of technical provisions	(15)
Other liabilities	
- Reduction in reinsurance payables (Section D.3)	9
- Reduction in payables (trade, not insurance) (Section D.3)	9
	3
Total Change due to Solvency II adjustments	**(29)**
Total Equity - Solvency II basis	**216**
Add in subordinated liabilities (Tier 2)	12
Total own funds Solvency II basis	**228**

Excess of Assets over Liabilities Solvency II basis	
Total Assets	962
Total Technical Provisions	(709)
Total Other Liabilities	(37)
Excess of Assets over Liabilities Solvency II basis	**216**

Differences in the asset and liability valuation methodology used for Solvency II purposes and that used under IFRS are set out in Section D.

Own-fund items that are subject to the transitional arrangements

Tier 2 consists of subordinated debt issued by Highway for EUR 12m in December 2004 which has an original maturity date of November 2034 and has the following terms and conditions;

- Ranks after the claims of all policyholders and beneficiaries and non-subordinated creditors
- Does not include features to cause insolvency
- Is only repayable at the option of Highway
- Includes no incentives to repay or redeem
- Allows the suspension of repayment or redemption of the debt if it would otherwise fail to meet SCR/MCR
- Provides for the distribution to be mandatorily deferred where there was non-compliance with SCR/MCR or where the distribution would lead to such non-compliance
- It was free from encumbrances and was not connected with any other transaction

Under the Solvency II transitional rules, the Highway subordinated debt is included in the Tier 2 category of Basic Own Funds for 10 years from 1 January 2016.

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E. Capital Management

E.2 SCR and MCR

E.2.1 SCR and MCR

The following table shows the valuation of the HICO SCR and MCR.

	2019 YE	2018 YE
HICO SCR (£m)	**161**	**167**
HICO MCR (£m)	**61**	**64**

The HICO SCR decreased by £5m over the reporting period, mostly driven by reduced premiums over the plan period.

The Minimum Capital Requirement (MCR) as at 31 December 2019 was £61m. The calculation of the MCR is laid out in the S.28.01.01 QRT annexed to this report. The MCR is determined using a calculation, as specified in the Solvency II regulations, involving the technical provisions, capital at risk and SCR, subject to a floor specified in Euros and converted to pounds sterling. The MCR reduction is a combination of the reduced written premium within 2019 and a reduction to the Best Estimate of Liabilities (BEL).

E.2.2 Basis of calculation

HICO uses a Standard Formula basis to calculate the SCR. The approach to calculating the SCR and MCR is in accordance with the Solvency II Directive. HICO is not using any material simplifications or undertaking specific parameters in the calculation of the SCR and does not have any regulatory capital add-ons.

E.2.3 SCR split by risk

The following table summarises the risk modules which contribute to the Solvency Capital Requirement applicable under Standard Formula.

HICO Year end 2019 - all figures in £m	
Market risk	18
Counterparty default risk	11
Life underwriting risk	2
Health underwriting risk	0
Non-life underwriting risk	131
Diversification	(20)
Basic solvency capital requirement	**143**
Operational risk	17
Loss-absorbing capacity of deferred taxes	0
Solvency capital requirement	**161**

E.2.4 Loss Absorbing Capacity of Deferred Taxes (LACDT)

As above, the allowance for LACDT reduces the SCR by £0 for HICO. LACDT is considered for the HICO SCR, however there is not sufficient evidence for future profits arising under the stressed scenario to justify any LACDT.

E.3 Use of a duration-based equity risk sub-module

HICO has not applied the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between Standard Formula and any Internal Model used

This does not apply as HICO does not currently use an Internal Model to calculate its SCR.

E.5 Non-compliance with the MCR and the SCR

HICO has been compliant with the MCR and SCR throughout the reporting period.

E.6 Any other material information

Please note that these additional comments on COVID-19 are unaudited.

In view of the Solvency II capital ratio of 142% as at 31 December 2019, and the stress tests performed, HICO does not expect any breach of its Solvency Capital Requirement. This statement also applies in the context of the current COVID-19 pandemic. Based on the information available at the end of March and under current laws and regulation, we expect HICO to continue to be sufficiently capitalised in compliance with the regulatory Solvency Capital Requirement. The risks associated with the further course of the current pandemic are assessed on the basis of specific analyses. HICO is continuing to perform regular stress testing as described in Section C and has identified contingency options which can be taken if necessary.

The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

Report of the external independent auditors to the Directors of Highway Insurance Company Limited ('the Company')

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02 and S.19.01.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measure on technical provisions as set out in the Appendix to this report;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to

public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is not appropriate; or
- the directors have not disclosed in the Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Solvency and Financial Condition Report is authorised for issue.

We have nothing to report in respect of the above matters.

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

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report 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 in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations, which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

The Directors have elected to comply with the External Audit Part of the PRA Rulebook for Solvency II firms as if it applied to the Company, notwithstanding that the Company is a small firm for external audit purposes (as defined in the PRA Rulebook).

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with our letter of engagement dated 13 November 2019 and External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook as if it applied to the Company, and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Matters

The Directors have requested that we consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial

statements as if the Company was subject to the External Audit Part of the PRA Rulebook for Solvency II firms. 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 in this regard.

PricewaterhouseCoopers LLP

Chartered Accountants

Reading

17 April 2020

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit.

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.12.01.02
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional on technical provisions
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

Balance sheet

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019SOL2
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.02.01

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	0
Deferred tax assets	R0040	4,574
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	**706,510**
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	*R0100*	
Equities - listed	R0110	0
Equities - unlisted	R0120	0
Bonds	*R0130*	*567,978*
Government Bonds	R0140	76,058
Corporate Bonds	R0150	486,081
Structured notes	R0160	0
Collateralised securities	R0170	5,839
Collective Investments Undertakings	R0180	113,554
Derivatives	R0190	16
Deposits other than cash equivalents	R0200	24,961
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	**R0230**	
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	0
Reinsurance recoverables from:	**R0270**	**234,349**
Non-life and health similar to non-life	R0280	140,498
Non-life excluding health	R0290	140,498
Health similar to non-life	R0300	0
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	93,851
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	93,851
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	0
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	368
Own shares (held directly)	R0390	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	0
Cash and cash equivalents	R0410	11,943
Any other assets, not elsewhere shown	R0420	4,194
Total assets	**R0500**	**961,938**
Liabilities		
Technical provisions - non-life	**R0510**	**586,617**
Technical provisions - non-life (excluding health)	**R0520**	**586,617**
TP calculated as a whole	R0530	0
Best estimate	R0540	564,719
Risk margin	R0550	21,898
Technical provisions - health (similar to non-life)	**R0560**	
TP calculated as a whole	R0570	0
Best estimate	R0580	0
Risk margin	R0590	0
TP - life (excluding index-linked and unit-linked)	**R0600**	**122,010**
Technical provisions - health (similar to life)	**R0610**	
TP calculated as a whole	R0620	0
Best estimate	R0630	0
Risk margin	R0640	0
TP - life (excluding health and index-linked and unit-linked)	**R0650**	**122,010**
TP calculated as a whole	R0660	0
Best estimate	R0670	117,404
Risk margin	R0680	4,605
TP - index-linked and unit-linked	**R0690**	
TP calculated as a whole	R0700	0
Best estimate	R0710	0
Risk margin	R0720	0
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	0
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	0
Financial liabilities other than debts owed to credit institutions	R0810	0
Insurance & intermediaries payables	R0820	145
Reinsurance payables	R0830	4
Payables (trade, not insurance)	R0840	25,127
Subordinated liabilities	**R0850**	12,246
Subordinated liabilities not in BOF	R0860	0
Subordinated liabilities in BOF	R0870	12,246
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	**R0900**	**746,149**
Excess of assets over liabilities	**R1000**	**215,789**

Premiums, claims and expenses by line of business

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.05.01

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110				257,106	80,948		34,635	344									**373,033**
Gross - Proportional reinsurance accepted	R0120																	**0**
Gross - Non-proportional reinsurance accepted	R0130																	**0**
Reinsurers' share	R0140				62,771	19,622		7,963	83									**90,439**
Net	**R0200**				**194,335**	**61,326**		**26,672**	**260**									**282,593**
Premiums earned																		
Gross - Direct Business	R0210				272,207	83,714		21,840	345									**378,106**
Gross - Proportional reinsurance accepted	R0220																	**0**
Gross - Non-proportional reinsurance accepted	R0230																	**0**
Reinsurers' share	R0240				65,197	19,976		5,291	89									**90,553**
Net	**R0300**				**207,010**	**63,739**		**16,549**	**256**									**287,554**
Claims incurred																		
Gross - Direct Business	R0310				185,830	57,967		15,500	217									**259,514**
Gross - Proportional reinsurance accepted	R0320																	**0**
Gross - Non-proportional reinsurance accepted	R0330																	**0**
Reinsurers' share	R0340				37,218	11,779		3,042	42									**52,082**
Net	**R0400**				**148,612**	**46,188**		**12,458**	**175**									**207,432**
Changes in other technical provisions																		
Gross - Direct Business	R0410																	**0**
Gross - Proportional reinsurance accepted	R0420																	**0**
Gross - Non-proportional reinsurance accepted	R0430																	**0**
Reinsurers' share	R0440																	**0**
Net	**R0500**																	**0**
Expenses incurred	**R0550**				**69,867**	**21,658**		**6,690**	**96**									**98,311**
Other expenses	R1200																	**964**
Total expenses	**R1300**																	**99,275**

Life and Health SLT Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.12.01

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, including Unit-Linked)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**										0						0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020										0						0
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	**R0030**								117,404		117,404						0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								93,851		93,851						0
Best estimate minus recoverables from reinsurance/SPV and Finite Re	R0090								23,553		23,553						0
Risk Margin	**R0100**								4,605		4,605						0
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110										0						0
Best estimate	R0120										0						0
Risk margin	R0130										0						0
Technical provisions - total	**R0200**								122,010		122,010						0

Non - life Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.17.01

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance:				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligations
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	**R0010**																	**0**
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0050**																	**0**
Technical Provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross - Total	R0060				**79,947**	**31,563**		**9,796**	**97**									**121,404**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140				-904	501		-180	2									**-581**
Net Best Estimate of Premium Provisions	R0150				**80,852**	**31,063**		**9,976**	**94**									**121,985**
Claims provisions																		
Gross - Total	R0160				**434,935**	**-3,800**		**10,883**	**1,297**									**443,315**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240				139,403	-760		2,176	259									**141,079**
Net Best Estimate of Claims Provisions	R0250				**295,532**	**-3,040**		**8,707**	**1,038**									**302,236**
Total Best estimate - gross	**R0260**				**514,883**	**27,763**		**20,680**	**1,394**									**564,719**
Total Best estimate - net	**R0270**				**376,384**	**28,022**		**18,683**	**1,132**									**424,221**
Risk margin	**R0280**				20,713	382		765	37									**21,898**
Amount of the transitional on Technical Provisions																		
TP as a whole	R0290																	**0**
Best estimate	R0300																	**0**
Risk margin	R0310																	**0**
Technical provisions - total																		
Technical provisions - total	**R0320**				**535,596**	**28,145**		**21,445**	**1,431**									**586,617**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**				**138,499**	**-259**		**1,997**	**262**									**140,498**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**				**397,097**	**28,404**		**19,448**	**1,169**									**446,119**

Non-life Insurance Claims Information

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
Accident year/Underwriting year: Z0020 | 1 - Accident year
EIOPA QRT: S.19.01

Gross Claims Paid (non-cumulative)

		Development year (absolute amount)											In Current year	Sum of years (cumulative)
		0	1	2	3	4	5	6	7	8	9	10 & +		
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
Prior	R0100											577		
2010	R0160	103,230	76,070	32,112	26,008	18,236	6,693	2,518	3,555	6,056	472			
2011	R0170	106,297	77,265	31,020	24,623	18,924	3,133	1,837	859	150				
2012	R0180	88,319	67,999	26,240	22,249	15,373	11,216	7,911	1,311					
2013	R0190	82,784	54,533	17,438	12,427	8,883	5,986	3,538						
2014	R0200	86,412	49,780	16,326	11,074	8,397	6,600							
2015	R0210	91,683	52,175	21,029	23,412	10,160								
2016	R0220	103,949	56,268	20,388	14,844									
2017	R0230	104,511	58,634	21,654										
2018	R0240	130,400	66,695											
2019	R0250	142,199												

	R0100	577	577
	R0160	472	274,950
	R0170	150	264,109
	R0180	1,311	240,618
	R0190	3,538	185,588
	R0200	6,600	178,587
	R0210	10,160	198,459
	R0220	14,844	195,450
	R0230	21,654	184,800
	R0240	66,695	197,095
	R0250	142,199	142,199
Total	R0260	**268,201**	**3,003,635**

Gross undiscounted Best Estimate Claims Provisions

		Development year (absolute amount)											Year end (discounted data)
		0	1	2	3	4	5	6	7	8	9	10 & +	
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100											19,276	
2010	R0160	0	0	0	0	0	0	22,016	28,616	3,668	4,707		
2011	R0170	0	0	0	0	0	2,198	1,171	802	704			
2012	R0180	0	0	0	0	43,674	45,789	29,464	27,542				
2013	R0190	0	0	0	49,233	42,665	31,026	27,839					
2014	R0200	0	0	43,289	26,720	12,053	5,220						
2015	R0210	0	113,649	67,911	26,555	18,218							
2016	R0220	176,547	91,252	57,314	22,374								
2017	R0230	191,436	105,881	78,228									
2018	R0240	192,620	115,721										
2019	R0250	155,682											

	R0100	10,837
	R0160	4,559
	R0170	701
	R0180	21,471
	R0190	25,256
	R0200	5,175
	R0210	17,736
	R0220	22,143
	R0230	72,996
	R0240	111,306
	R0250	151,134
Total	R0260	**443,315**

Own funds

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.23.01

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	75,000	75,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	136,215	136,215			
Subordinated liabilities	R0140	12,246			12,246	
An amount equal to the value of net deferred tax assets	R0160	4,574				4,574
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	**228,035**	**211,215**		**12,246**	**4,574**

Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					

Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**228,035**	**211,215**		**12,246**	**4,574**
Total available own funds to meet the MCR	**R0510**	**223,461**	**211,215**		**12,246**	
Total eligible own funds to meet the SCR	**R0540**	**228,035**	**211,215**		**12,246**	**4,574**
Total eligible own funds to meet the MCR	**R0550**	**223,461**	**211,215**		**12,246**	
SCR	**R0580**	**160,736**				
MCR	**R0600**	**61,363**				
Ratio of Eligible own funds to SCR	**R0620**	**141.87%**				
Ratio of Eligible own funds to MCR	**R0640**	**364.16%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	215,789
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	79,574
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**136,215**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	1,130
Total Expected profits included in future premiums (EPIFP)	**R0790**	**1,130**

Solvency Capital Requirement - for undertakings on Standard Formula

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.25.01

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	18,102		None
Counterparty default risk	R0020	11,097		
Life underwriting risk	R0030	2,088	None	None
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	131,491	None	None
Diversification	R0060	-19,512		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**143,266**		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	17,470
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	0
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	160,736
Capital add-on already set	**R0210**	
Solvency capital requirement	R0220	160,736
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Approach to tax rate

		Yes/No
		C0109
Approach based on average tax rate - Yes/No	R0590	

Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
DTA	R0600	
DTA carry forward	R0610	
DTA due to deductible temporary differences	R0620	
DTL	R0630	
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	
LAC DT justified by reference to probable future taxable profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Entity: HICO - Highway Insurance Company Limited
Scenario: 2019 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.28.01

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	376,384	194,335
Other motor insurance and proportional reinsurance	R0060	28,022	61,326
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	18,683	26,672
General liability insurance and proportional reinsurance	R0090	1,132	260
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240	23,553	
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	60,868	
MCRL Result	R0200		495

Overall MCR calculation		C0070
Linear MCR	R0300	61,363
SCR	R0310	160,736
MCR cap	R0320	72,331
MCR floor	R0330	40,184
Combined MCR	R0340	61,363
Absolute floor of the MCR	R0350	3,187

		C0070
Minimum Capital Requirement	**R0400**	**61,363**