Highway Insurance Company

Solvency Financial Condition Report

2020

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. Although the UK has left the EU, the PRA has adopted an equivalent approach. 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 2020. 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 before tax for the year of £1.9m (2019: loss of £8.3m) including the discontinued commercial lines of business, which generated a loss before tax of £1.2m (2019: £2.5m profit).

As part of LV General Insurance Group's (LVGIG's – see section A.1(e) for relationship to HICO) strategy to diversify and grow its business, on 3 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, a small number of former Broker customers of Fairmead migrated to the Company going live with another new Home offering including Home Legal and Home Emergency, with the Company now being well placed to take on and write more Broker Home business. Throughout 2021, further Brokers will be invited to renew their custom with the Company or its intermediate parent company, 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 2020, the Company was governed by the joint Allianz Holdings plc/LVGIG Board. The Board rely on other managers to operate the Company on their behalf. The actions of those other managers take place within the confines of the System of Governance. The table below summarises the changes in membership of the Board at the year end:

D A Torrance	Appointed 1 January 2020
D J Larnder	Appointed 1 January 2020
C W T Dinesen	Appointed 1 January 2020
N C Peiris	Appointed 1 January 2020 / Resigned 31 December 2020
R M Murison	Appointed 1 January 2020
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;

[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

· 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 2020 under the Standard Formula stood at £48m (2019: £67m), HICO's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is 128% (2019:142%). HICO's MCR at 31 December 2020 amounts to £69m.

The valuations reported within this report are based on information up to December 31, 2020. 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 reflect the ongoing impact of COVID-19.

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 2020

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations. We are satisfied that:

a) throughout the financial year in question, Highway Insurance Company Limited has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

The Solvency and Financial Condition Report was approved by the Board of Directors on 7 April 2021 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 3461 7000

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

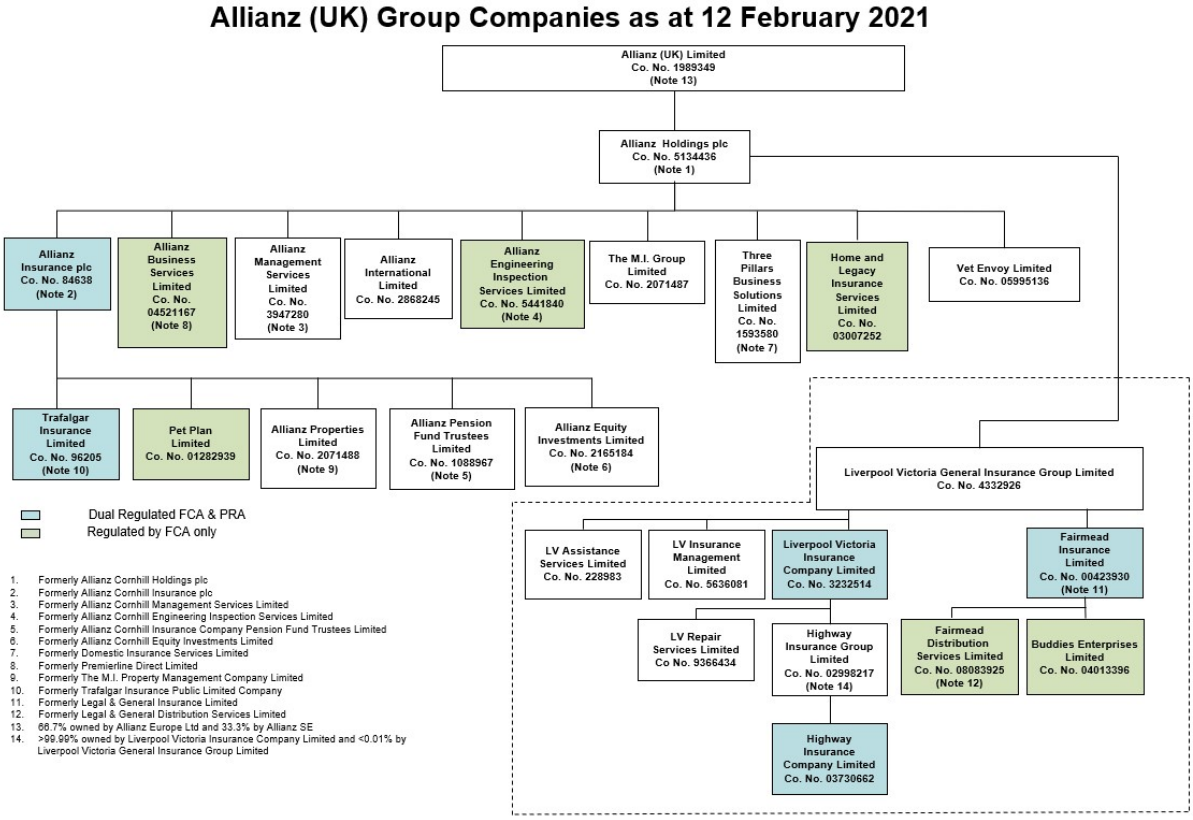
d) Description of the holders of qualifying holdings in the undertaking

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.

e) Details of the undertakings within the group

The structure chart below shows the Allianz UK Group as at 13 October 2020. On 3 January 2020, LVGIG purchased Legal and General Insurance Limited, ('LGIL') subsequently renamed as Fairmead Insurance Limited ('Fairmead').



f) Material lines of business and material geographic areas.

HICO underwrites non-life insurance contracts within the UK.

HICO 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 and Motorcycle.

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

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

<u>Acquisition of Legal and General Insurance Limited</u>
As part of LVGIG's strategy to diversify and grow its business, on 3 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, a small number of former Broker customers of Fairmead migrated to the Company going live with another new Home offering including Home Legal and Home Emergency, with the Company now being well placed to take on and write more Broker Home business. Throughout 2021, further Brokers will be invited to renew their custom with the Company or one of its intermediate parent companies, Liverpool Victoria Insurance Company ('LVIC').

Business and Performance

Net earned premium has increased by 3% mainly driven by the transfer of the personal lines business from Allianz Insurance plc.

HICO (£m)	**2020**	2019
Net earned premium	**298**	288
Net claims incurred	**(224)**	(207)
Expenses incurred	**(93)**	(99)
Net underwriting result	**(19)**	(18)
Net investment income	**23**	10
Other income	**5**	1
Other expenses	**(11)**	(1)
(Loss)/Profit before tax	**(2)**	(8)
Tax charge	**0**	2
(Loss)/Profit after tax	**(2)**	(6)
Other comprehensive Income	**9**	9
Tax on Other Comprehensive Income	**(1)**	(2)
Total comprehensive income	**6**	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 2020 in addition to a comparative for 2019.

2020	**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	204	64	30	-	-	**298**
Net claims incurred	-151	-49	-24	-	-	**-224**
Expenses incurred (excluding investment management expenses)	-61	-19	-13	-	-	**-93**
Net total	**-8**	**-4**	**-7**	**-**	**-**	**-19**

Claims ratio	**74.0%**	**76.6%**	**80.0%**	**-**	**-**	**75.2%**
Expense ratio	**29.9%**	**29.7%**	**43.3%**	**-**	**-**	**31.2%**
Combined ratio	**103.9%**	**106.3%**	**123.3%**	**-**	**-**	**106.4%**

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%	0.0%	-	71.9%
Expense ratio	33.8%	34.4%	41.2%	0.0%	-	34.3%
Combined ratio	105.8%	106.3%	111.8%	0.0%	-	106.2%

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 highly competitive, particularly in the Motor market. Overall, the Company saw an increase in premium written on a continuing basis rise by 10% writing new business in both historical channels and the Clear Home product through the Broker channel, taken on from Allianz. Throughout 2020, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing profitable growth in the recently re-entered Home lines of business including the Clear Home product transferred from Allianz, diversifying its reliance upon Motor.

The Company's underwriting result from continuing operations increased during 2020, delivering a loss ratio of 76.1% (2019: 75.5%). The Motor accounts benefited from reduced claims frequency due to reduced levels of driving in the National and regional lockdowns through the year, this was offset by increased vehicle repair costs and prior year strengthening. The Home account was impacted by winter storms and heightened levels of subsidence in August and September.

The Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy.

During the year the Company invested in significant restructuring costs in relation to the acquisition of the Fairmead Home business. These costs are reported within other expenses and consisted of:

- redundancy costs for roles that will leave over the course of 2020 through to early 2023,
- building new products, and
- setting up processes for the transfer of Personal Lines customers to the LVGIG underwriters LVIC and HICO.

The first transfers started towards the end of 2020 and plan to continue throughout most of 2021 and into 2022

A.3 Investment performance

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

	2020	2019
	£m	£m
Dividend income	**1**	2
Interest income	**8**	10
Realised gains/(losses)	**15**	(1)
Investment expenses	**(1)**	(1)
Total Investment Performance	**23**	10

The continued low underlying interest rate environment resulted in lower interest income.

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

2020 Asset class (£m)	**Dividends**	**Interest**	**Realised / Unrealised gains / (losses)**	**Total**	**Average investment holding during 2020**	**Average investment return**
Government bonds	**-**	**1.0**	**10.2**	**11.2**	**141.9**	**7.9%**
Corporate bonds	**-**	**6.4**	**7.8**	**14.2**	**474.2**	**3.0%**
Equity	**-**	**-**	**-**	**-**	**-**	**-**
Collective investment undertakings	**1.3**	**-**	**3.7**	**5.0**	**75.2**	**6.7%**
Collateralised securities	**-**	**0.1**	**0.1**	**0.2**	**9.1**	**2.2%**
Loans and mortgages	**-**	**0.4**	**-**	**0.4**	**14.7**	**2.7%**
Cash and deposits	**-**	**0.2**	**0.4**	**0.6**	**27.4**	**2.2%**
Total	**1.3**	**8.1**	**22.2**	**31.6**		
Less investment expenses				**(0.8)**		
Net total				**30.8**		

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		

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:

	2020	2019
	£m	£m
Other income	**5**	1
Other expenses	**(11)**	(1)
Tax charge	**(0)**	(2)
Total	**(6)**	(2)

Other income predominantly represents profit share relating to the quota share arrangement. In 2020 HICO ceded 20% of the business to the reinsurer, the maximum margin available to them is 1.65% with any surplus returned to HICO as profit share on commutation. From 2021 onwards, HICO will cede 40% of the business with Allianz Re Dublin however there is no maximum margin, therefore any profit share will relate to historic cohorts.

The Company invested in significant restructuring costs in relation to the acquisition of the Fairmead Home business. These costs are reported within other expenses and consisted of:

- redundancy costs for roles that will leave over the course of 2020 through to early 2023,
- building new products, and
- setting up processes for the transfer of Personal Lines customers to the LVGIG underwriters LVIC and HICO.

The tax charge is calculated based on the IFRS Profits and Losses reflecting the underwriting performance, investment performance 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, 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 valuations reported within this report are based on information known up to 31 December 2020. Therefore, the valuations and technical provisions including the premium provision reflect the ongoing impact of COVID-19.

The coronavirus pandemic was a new and significant source of uncertainty 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 was well prepared for the situation. This applied to both our operational resilience but also our capital strength. During 2020 operations for LVGIG and its subsidiary companies including HICO were supported by switching the workforce from office based to home working, which is now well established. For those employees who are unable to work from home, 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.

LVGIG continues to align its approach to the guidance of the UK Government as well benefitting from Allianz Group guidance given LVGIG is now a 100% owned subsidiary of Allianz.

The solvency ratio as at 31 December 2020 is 128%. HICO is expected to continue to have funds available in excess of the regulatory requirements without needing to take contingency action.

B. System of Governance

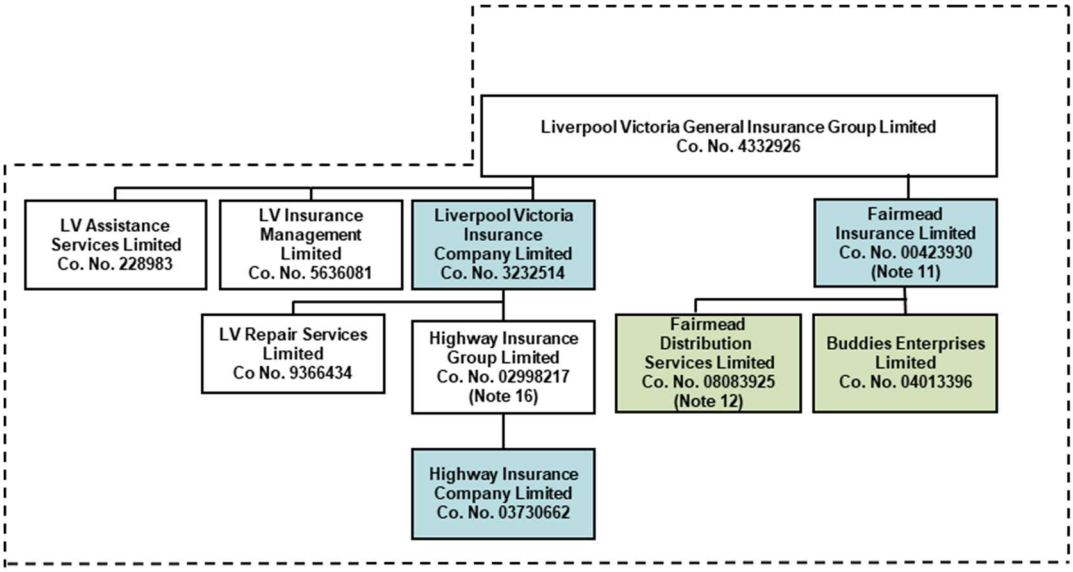
B.1 General information on the system of governance

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) which is a subsidiary of Allianz Holdings plc ("Allianz"). 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 LVGIG corporate structure and how HICO fits into LVGIG.



The Allianz Holdings plc Board is the statutory board for LVGIG and therefore HICO.

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) and Highway Insurance Company Ltd (HICO) are deemed to be the insurance operating entities, with LV Insurance Management and LVGIG as management services companies for the Group.

LVIC and HICO are collectively administered from the Allianz Holdings plc Board. The authority of the Allianz Holdings plc Board is stated in the Allianz Holdings plc Board Terms of Reference.

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 Approved Persons and Delegated Authorities;
3. Policies, Standards and Functional Rules are referred to as Corporate Rules of the Allianz Group and are overseen by *Group Governance and Control Committee*.

1. Boards and Committees

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

Boards

Allianz Holdings plc Board

The Allianz Holdings plc Board consists of nine directors, made up of:

- A non-executive Chair
- Five independent non-executive directors (NED's)
- Chief Executive Officer of Allianz
- Chief Executive Officer of LVGIG
- Chief Financial Officer of Allianz

The Allianz Holdings plc Board is collectively responsible for the long-term success of the Company. The Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations to stakeholders and others are met.

Specifically, the Board is responsible for:

- All aspects of the Company's performance
- Establishment and maintenance of the system of internal control
- Approval of new appointments to FCA/PRA Controlled Functions
- Setting and reviewing the Company's risk appetite
- Reporting to and maintaining appropriate relationships with the Company's regulators
- Ensuring accurate financial reporting

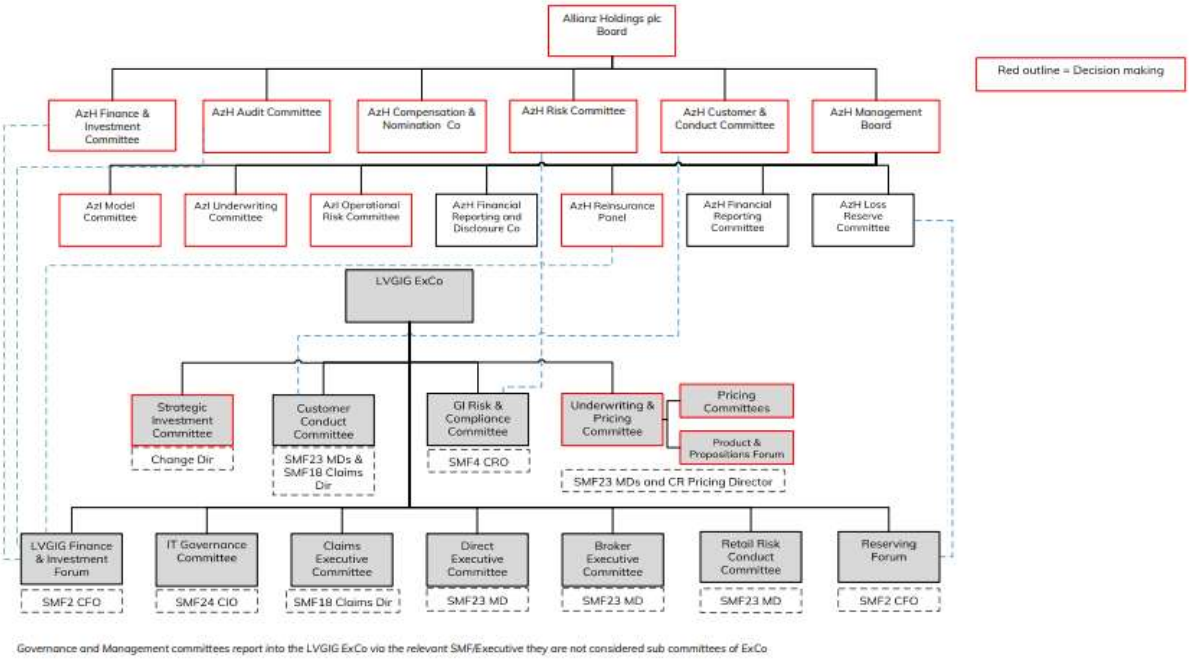
In addition, there are matters specifically reserved for the Board's attention/decision which are detailed in the Terms of Reference (and these incorporate Finance & Investment Committee investment transaction limits, above which Board approval will be required).

In its deliberations, the Board shall have regard to any relevant conduct risk issues/implications.

The Terms of Reference, formal records, meeting packs, minutes and member information for the Allianz Holdings plc key decision-making Boards and committees are kept by the Company Secretary.

Allianz Holding Board Committees

LVGIG Board Committees Structure:



Audit Committee
Purpose:

Internal Control

- The Committee shall keep under review the effectiveness of the Company's and its subsidiary companies (together "the Group") financial reporting and internal control policies and procedures.

Internal Audit

- The Committee shall consider applications for the post of and approve the appointment of the head of the internal audit function; any dismissal of the post holder should be considered by the Committee.
- The Committee shall consider and approve the terms of reference of the internal audit function, and shall be advised of the planned programme of audits and the reason for any change or delay in the programme and monitor the adequacy of the functions resources.
- The Committee shall review the management of financial matters and focus upon the freedom allowed to the internal auditors.
- The committee shall ensure that the function has unrestricted scope and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors.
- The Committee shall review promptly the quarterly summary reports on the Group from the internal auditors and other relevant internal control reports requested and received from 3rd parties.
- The Committee may meet the Head of Internal Audit at least once a year, without management being present, to discuss the Internal Audit remit and any issues arising from the internal audits carried out. The Head of Internal Audit shall be given the right of direct access to the Chairman of the Committee and the Chairman of the Board.
- The Committee shall safeguard the independence of the Internal Audit Function. When the Head of the Internal Audit Function has been in post for more than seven years, the Committee shall explicitly discuss, annually, the Chairman's assessment of his or her independence.

External Audit

- The Committee shall consider and make recommendations to the Board as regards the appointment and re-appointment of the Company's external auditors.
- The Committee shall meet with the external auditors at least once each year and shall ensure that any auditors' management letters and management's responses are reviewed. The Committee may also meet the external auditors at least once a year, without management being present, to discuss their remit and any issues relating to or arising from their audit.
- The Committee shall keep under review the relationship with external auditors including (but not limited to):
    - the independence and objectivity of the external auditors;
    - the consideration of audit fees which should be paid as well as any other fees which are payable to auditors in respect of non-audit activities; and
    - discussions with the external auditors concerning such issues as compliance with accounting standards, risks to the quality and effectiveness of the financial reporting process including the assessment of fraud risk and any proposals which the external auditors make in their letter to management vis-à-vis the Company's internal control processes.
    - annually assess, and report to the board on, the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process.
    - The Committee shall pre approve non-audit services to ensure that the provision of such services does not impair the external auditor's independence or objectivity in line with the UK Positive List proposed by Allianz SE Group and control processes established by the Allianz SE Group Audit Committee. The committee shall review and update the UK Positive List regularly and at least annually (following the Allianz SE Group Audit Committee's annual approval of its Positive List).

Financial Statements

- The Committee shall keep under review the appropriateness and consistency of accounting policies both on a year to year basis and across the Group.
- The Committee shall review and challenge where necessary the Company's financial statements taking into account:
    - areas of significant judgement;
    - the extent to which the financial statements are affected by any unusual transactions;
    - the clarity of disclosures;
    - significant adjustments resulting from the audit;
    - the going concern assumption;
    - compliance with relevant accounting standards
    - compliance with legal requirements; and
    - reviewing the Company's statement on internal control systems prior to endorsement by the Board and to review the policies and process for identifying and assessing business risks and the management of those risks by the Company.

Reporting Responsibilities

- In the light of its other duties, the Committee shall make whatever recommendations to the Board it deems appropriate.

Other Matters

- The Committee shall be responsible for co-ordination of the internal and external auditors.
- The Committee shall oversee any investigation of activities, which are within its terms of reference and act as a court of the last resort.
- The Committee should, on a regular basis, review its own performance, constitution and terms of reference to ensure its operating at maximum effectiveness.

General

- In its deliberations, the Committee shall have regard to any relevant conduct risk issues/implications.

Compensation and Nomination Committee

The Committee is responsible for all compensation and nomination matters relating to executives and employees of AZUK which are not covered by the Group Compensation Committee (GCC). The Committee has the following high-level objectives:

Compensation:

- To implement the design, governance and operation of the AZUK compensation system as well as to oversee the AZUK compensation system.
- To ensure the identification of AZUK Local Risk Takers and to control their compensation according to the applicable regulation.
- To ensure the appropriateness of AZUK Executive's compensation system.
- To monitor the implementation of its and of the Group Compensation Committee's decisions by defining the relevant control processes and participation in the compliance confirmation process.

Nomination:

- Regularly review the structure, size and composition of the Board ensuring robust succession plans are in place.
- Keep under review the leadership needs of the organisation.
- Keep up to date and fully informed about strategic issues.
- Be responsible for identifying Non-Executive Director Candidates when vacancies arise.
- Review the results of any Board performance evaluation process and review annually the time required from Non-Executive Directors.

Board Risk Committee

The Committee is responsible to the Allianz Holdings plc Board for oversight of the risks, both current and emerging, that the Allianz Holdings plc group companies face (including conduct-related risk) and the links between different risks. It will oversee the Enterprise Risk Management framework (within which Allianz Holdings plc and its subsidiaries ("the AZH group") manage those risks), and the activities of the Risk Function. It is responsible for highlighting any risk issues that may require attention by the Board or by the Allianz SE group.

Management Board

Purpose:

- To develop and recommend the Business Strategy to the Board;
- To implement the Business Strategy and Corporate Plan as approved by the Board;
- To monitor the performance of the Company against its Corporate Plan;
- To consider and report to the Board on the Company's management accounts and financial statements normally on a quarterly basis;
- To ensure that the Company's information technology and human resource strategies support the business strategy;
- To monitor and review the operation of the Company's Corporate Governance and management and control structure and report any significant changes to the Board;
- To monitor and review compliance with all regulatory requirements and the operational effectiveness of the Compliance Department;
- To determine the terms of reference of sub committees of the Management Board and direct and monitor their performance; establish and monitor procedures for the effecting of material contracts of the Company in the ordinary course of business; and
- To monitor, review and make recommendations to the Board in respect of the Company's Risk Management Policy.
- To approve the Health and Safety policy.
- In its deliberations, the Committee shall have regard to any relevant conduct risk issues/implications.
- To oversee the activities of its sub-committees.

Finance and Investment Committee

The Finance & Investment Committee ("FICo") is responsible for the activities defined in these Rules of Procedure in relation to Allianz Holdings plc and its subsidiaries in overseeing/managing the investment portfolios of the Companies and overseeing their investment-related risks. The Committee is a sub-committee of the Board of Allianz Holdings plc and has responsibilities concerning and reports by exception on investment risk matters to the Board Risk Committee.

Customer and Conduct Committee

The Committee is responsible to the board of Allianz Holdings PLC (the 'Board') for oversight of material customer and conduct matters both current and emerging. The Committee is responsible for highlighting any such matters that may require attention by the Board or by the Allianz SE Group. The Committee acts within the direction set by the Allianz Holdings plc Board.

Allianz Holdings Loss Reserving Committee
This committee is a sub-committee of the Allianz Management Board and the responsibilities of this Committee are to:

- Consider a presentation on the results of the actuarial reserving analyses. This presentation will include actuarial best estimate reserves. These will be shown by line of business and accident year wherever relevant. Uncertainties will be highlighted and discussed.
- Consider any issues raised or reported on by other committee members which might affect loss reserves.
- Consider whether any further reserve-related investigations are required, either in respect of the current quarter or for future consideration.
- Recommend to the Executive Directors the loss reserves to be included in the company's quarterly financial statements.

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 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
- Discuss the following:
    - Risk, compliance and conduct
    - Strategic focus
    - Financial and Investment performance

Strategic Investment Committee
This committee is accountable for monitoring and controlling Portfolio delivery to ensure change investment returns business benefits and outcomes. Its key accountabilities are:

- Ensure continued alignment of investment Portfolio to LVGIG business strategy.
- Serves as the primary decision authority over investment within the LVGIG Portfolio, including prioritization of investment.
- Recommends investment appetite within LVGIG
- Reviews investment forecasts vs. actuals across the LVGIG Portfolio.
- Seeks to address Epic/Initiative overspend and underspend within the LVGIG Portfolio, and alignment with GI OpEx position.
- Ensure that delivered Epics/Initiatives are realizing expected benefits.
- Approves Epic Proposals and Epic Reports to proceed into Inception and Delivery phases, respectively, from all Business lines within LVGIG.

Finance & Investment Forum
Purpose:

- The Forum is for Information Sharing and covers LVGIG and its subsidiaries. It is of note that Fairmead although a subsidiary company has its own committees to manage the equivalent items for that legal entity.
- The Forum is established to review, monitor and make recommendations as appropriate on the key areas of:

1. Investment strategy
    - The strategic asset allocation including investigating any new asset classes and the use of derivatives.
    - Maintaining appropriate levels of asset and liability matching with reference to the company risk appetite.
    - To maintain an appropriate level of liquidity in line with the company risk appetite.
    - To consider the credit risk of investments and the investment mandates for fund managers to manage these exposures.
2. Financial reporting
    - To review the developments and changes in legal, regulatory and accounting requirements and the impacts.
    - To review the various reports including internal management accounts.
3. Financial risks
    - To monitor management and oversight of the financial risks of LVGIG including:
    - Capital structure and related matters

- Solvency
- Assets and liabilities including market risk and credit risk
- Reinsurance
- Investments
- Liquidity
- Cash flows
- Counterparty risk including Broker credit limits and agreements
- Financial risk from climate change

4. Reinsurance
    - To investigate appropriate reinsurance structures to manage volatility and capital requirements within risk appetite.
    - To monitor the performance of reinsurance programme and recoveries.
    - To consider and monitor the counter party credit risk of reinsurers.
5. Capital management
    - To monitor the capital and solvency levels of the LVGIG insurance entities.
    - To investigate ways to optimise capital efficiency with regard to the company risk appetite.
6. Financial plans and forecasts
    - To review proposed financial plans and subsequent forecasts against these.

The Forum will also consider the interactions between LVGIG, Fairmead and Allianz with respect to sharing and consolidation of financial information.

Reserving Forum
This is an information sharing forum with the purpose of discussing the IFRS Actuarial Best Estimates ("ABE"), Claims Margin and Claims Handling Expenses. Other information impacting the full IFRS balance sheet reserves, including emerging trends, market intelligence and technical developments is reviewed where relevant to the claims reserving process.

Pricing & Underwriting 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.

IT Governance Committee
This committee is an Advisory and Information Sharing committee to track that we are compliant and remain current with updates relating to areas of:

- Current or emerging risks relating to the IT infrastructure, stability, service, security or risk to internal operations or business continuity of LVGIG.
- Emerging risks in respect of effective epic and project delivery.
- Key risk indicators.
- IT/System related risk events:
    - Progress of actions and root cause analysis
    - Impact on Customers and potential conduct issues that need to be addressed by the business
    - Control improvements
- Audit action progress – IT specific and group access management.
- Financial performance for LVGIG IT:
    - Cost and FTE across run and change
    - Budgets and full year forecast
    - Financial risk
- System performance specifically focused on:
    - P1 & P2 incidents and the impact to the internal operations of the business
    - Plans for system performance improvement, change control status and forward looking projects
- Resource availability verses requirements from the change portfolio and LVGIG IT:
    - Flight risks
    - Personnel issues
    - Continuity planning
- GI IT strategy and progress against the plan.

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.

Risk & Compliance Committee
Purpose:
The GI Risk and Compliance Committee is responsible for assisting the Board in its oversight of risk and compliance, reviewing risk appetite, risk profile and reviewing the effectiveness of the risk management framework. The Members are Principal Risk Owners (PRO's) and provide regular reporting on the risks they own. The responsibilities of PRO's include:

- Identifying & assessing risks
- Setting thresholds and limits for KRIs
- Monitoring & managing the exposure of the risk
- Managing risk events, undertaking root cause analysis, control reviews and implementing control improvements as required
- Escalate matters where relevant to the Board Risk Committee

Retail Executive Committee
Purpose:
The Committee is an Advisory and Information Sharing committee to:

- Assist the GI Retail Managing Director in the exercise of their general authority (as delegated from the GI CEO) to manage the GI Retail Business, including their responsibility for decision making and overseeing performance delivery.
- Keep all members of the Committee up to date on:
    - Current trading performance, business and regulatory issues;
    - Customer metrics, Financial results, Risk Management, Change Agenda and People.

Claims Executive Committee
The Committee is an Advisory and Information Sharing committee to:

- Assist the GI Claims Director in the exercise of his general authority to manage LVGIG Claims, including his responsibility for decision making and overseeing performance delivery;
- Assist the GI Claims Director in the exercise of his duties and responsibilities under the Senior Managers & Certification Regime (SM&CR)
- Keep all members of the Committee up to date on:
    - Claims business performance
    - Strategic & operational performance and issues
    - Financial performance and issues
    - Customer performance and issues
    - People performance and issues
    - Risk & assurance performance and issues
    - Claims change performance and prioritisation
    - Business approvals requiring committee oversight
    - Periodic Activities

Broker Executive Committee
The responsibilities of this committee are shared amongst four separate committees:

1. Broker Financial Performance Committee

The Committee is an Advisory and Information Sharing committee to:

- Assist the Broker MD in the exercise of his general authority to manage the LVGIG Broker Business, including his responsibility for decision making and overseeing performance delivery;
- Assist the Broker MD in the exercise of his duties and responsibilities under the Senior Insurance Managers Regime (SIMR);
- Keep all members of the Committee up to date on Business Financial performance & planning, Pricing and Product & Distribution strategy.

2. Broker Strategy and Change Steering Group

The Steering Group is an Advisory and Information Sharing committee to:

- Assist the Broker MD in the exercise of his general authority to manage the LVGIG Broker Business, including his responsibility for decision making and overseeing performance delivery;
- Assist the Broker MD in the exercise of his duties and responsibilities under the Senior Insurance Managers Regime (SIMR);
- Keep all members of the Steering Group up to date on Business, Systems & MI strategy & roadmap and formal projects.

3. Broker Customer & People Committee

The Committee is an Advisory and Information Sharing committee to:

- Assist the Broker MD in the exercise of his general authority to manage the LVGIG Broker Business, including his responsibility for decision making and overseeing performance delivery;
- Assist the Broker MD in the exercise of his duties and responsibilities under the Senior Insurance Managers Regime (SIMR)
- Keep all members of the Committee up to date on Customer and People insight & initiatives, matters relating to staff (recruitment, training, talent & succession management), Diversity & Inclusion, Gifts & Hospitality, Conflicts of Interest, Customer Conduct and Customer outcomes.

Note: “Customer” for the purpose of this Committee is defined as broker partners and the end customer (policyholders).

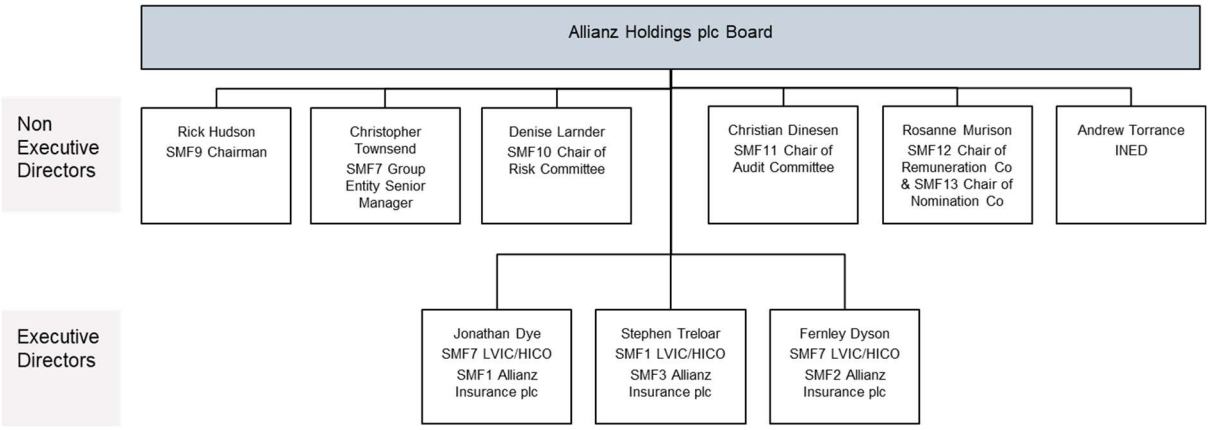
4. Broker Risk and Business Standards

The Committee is an Advisory and Information Sharing committee to:

- Assist the Broker MD in the exercise of his general authority to manage the LVGIG Broker Business, including his responsibility for decision making and overseeing performance delivery;
- Assist the Broker MD in the exercise of his duties and responsibilities under the Senior Insurance Managers Regime (SIMR)
- Keep all members of the Committee up to date on:
  - Risk Management (including risk events & risk profile)
  - Regulatory, compliance and customer conduct issues
  - Claims & Complaints management issues
  - 1st, 2nd and 3rd line audit results & issues
  - Business approvals requiring committee oversight
  - Fraud issues
  - Periodic Activities

2. Defined Roles and Responsibilities

The controlled functions for the Allianz Holdings plc Board are shown in the diagram below:



Note: Christopher Townsend's role is awaiting regulatory approval

Members of the LVGIG Executive with responsibilities for HICO are listed below:

LVGIG Executive

General Insurance Chief Executive Officer

Reporting to the Group Chief Executive, 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 and with a dotted line to the Allianz Chief Financial 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.

Managing Director, Retail

Reporting to the GI Chief Executive Officer, this person is responsible for developing, implementing and revising the strategy for the Retail 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 Retail business.

Managing Director, 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.

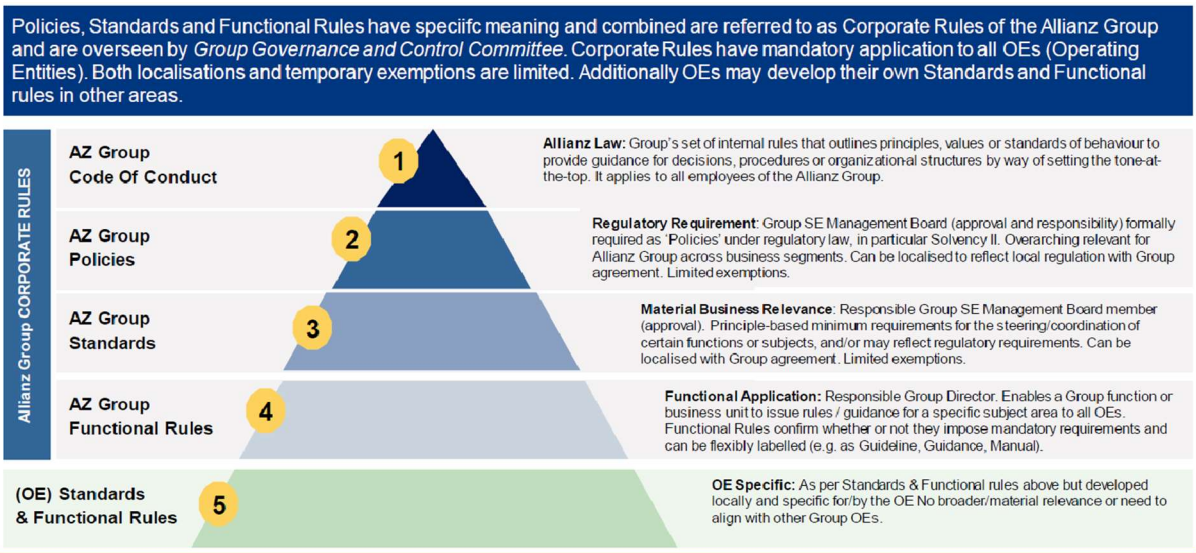
Claims Director
Reporting to the GI Chief Executive Officer, this person is responsible for defining and delivering the claims business strategy and commercial plans and reporting progress against these plans. This person is also responsible for defining the GI supplier strategy and the associated financial 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 Allianz HR Director, 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.

Pricing Director
Reporting to the Chief Executive Officer, this person is responsible for all pricing activity across both the Retail and Broker business areas. This includes leading on any price related regulatory responses for LVGIG.

Strategy & Transformation Director
Reporting to the Chief Executive Officer, this person is responsible for strategy, transformation, change initiation and execution across LVGIG, focussing on the key strategic priorities determined by the Strategic Investment Committee.

3. Group Policies and Standards



There is currently a LVGIG-wide project ongoing to align to the Allianz policy structure and this is expected to complete by 31 December 2021.

Standard Formula and Internal Model

The LVGIG regulated entities (LVIC and HICO) remain on a Standard Formula basis. LVGIG has begun the process of adopting the Allianz Group Internal Model, which will require local approval from the PRA before it can be used for regulatory purposes. An application to the PRA is targeted in 2022.

The LVGIG Capital Modelling team work closely with the Allianz Capital Modelling team to:

- Ensure that the LVGIG data inputs into the Group SCR calculation are complete and accurate.
- Understand the structure of the Allianz Internal Model, in particular the Insurance Risk components. These are calibrated locally (UK), with other components calibrated at Group level, e.g. Market Risk. LVGIG have developed its calibrations in a consistent manner to Allianz UK.

B.2 Fit and proper

The approved persons performing key functions as per the financial services register at 31 December 2020 were as follows:

Mr Michael Crane	Managing Director Broker
Mr Gavin Drescher	Chief Information Officer
Mr Daniel Hambly	Chief Actuary
Mr Martin Milliner	Claims Director
Mr Kieran O'Keeffe	Chief Risk Officer
Ms Heather Smith	Managing Director Retail
Mr Stephen Treloar	Chief Executive Officer
Mr Kevin Wenzel	Chief Finance Officer

Everyone employed by LVGIG needs to meet defined criteria for being Fit and Proper as defined in the Fit and Proper Policy, owned by Human Resources. This policy requires that everyone meets the following principles:

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

Key management personnel of the Company are aligned to the FCA/PRA Approved Persons regime. Collectively, these personnel possess professional qualifications, experience and knowledge in multiple specialisms. This includes, but not limited to:

- Business strategy including financial and actuarial analysis.
- Regulatory framework and requirements.
- System of governance and risk management.
- Insurance and financial markets.
- Information technology and project management.

A standard recruitment process exists, which is based on multiple factors including consideration of experience, skills, qualifications, behaviours and attitude. The Referencing Minimum Standard establishes the key checks to be performed to ensure that candidates meet the Fit and Proper standards. The following key checks are completed:

- 2 year employment history.
- Right to work in the UK.
- 5 year address history.
- Fraud checks.
- Credit checks.
- Sanctions checks.
- Qualification checks (depending on role).

An application to the FCA/PRA is required when recruiting Approved Persons/Key Functions and the organisation conducts additional checks for these roles including:

- 5 year employment history.
- Completion of fitness, propriety and conflicts of interest questions
- FCA/PRA prohibitions.
- Directorships.
- Criminal Records Bureau.

All referencing for any approved persons/key functions need to be completed prior to commencement of employment.

On an annual basis, a Fitness, Propriety and Conflicts of Interests attestation is conducted for all Approved Persons/Key Functions. This check includes directorships, financial soundness and conflicts of interest.

B.3 Risk management system

LVGIG Risk Strategy

Principles for LVGIG's Risk Strategy
Taking risk and management of capital is the core business of LVGIG. The goal of GI Risk Management is to support and improve the business and decision-making process by embedding risk awareness across the organisation.

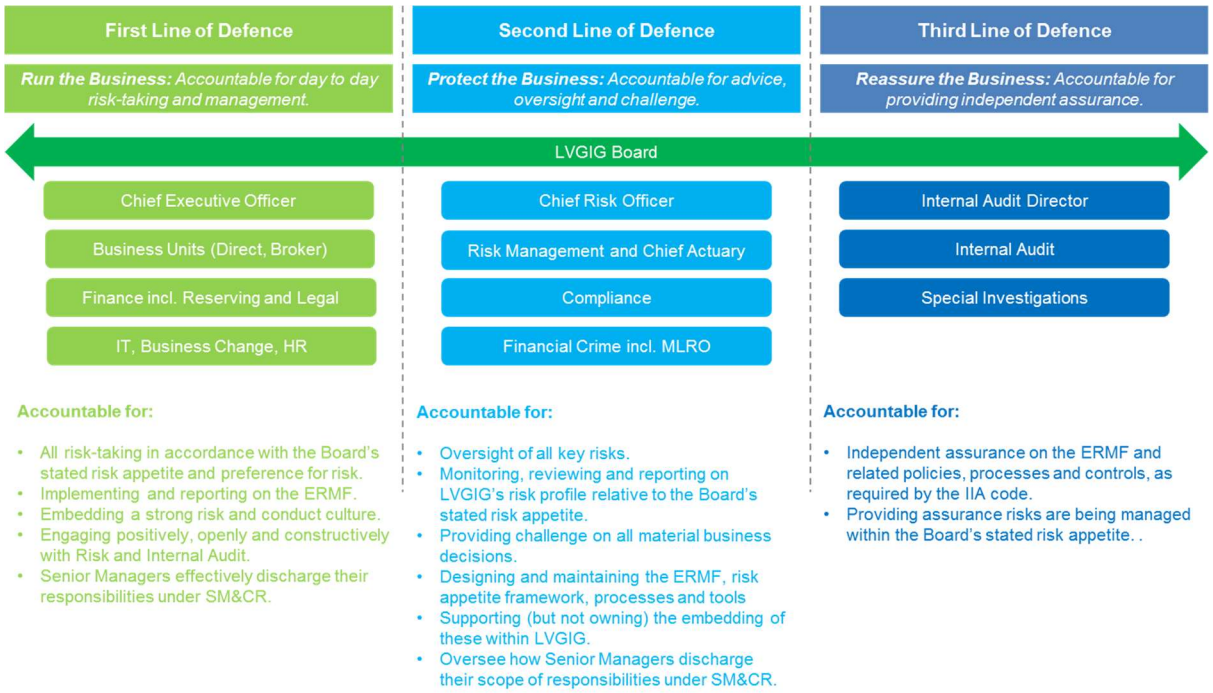
We integrate strategy, business and risk planning to align strategic and business goals with the risk appetite of LVGIG. A major part of the risk strategy is the definition of risk management objectives that support an appropriate risk and capital balance.

The Chief Risk Officer (CRO) has defined the following risk principles for LVGIG:

- Risk Management is an integral part of LVIGIG's performance management.
- The risk strategy is an integral part of LVGIG's business strategy.
- The strategic and business planning process is supported by the ORSA results, e. g. balance sheet projection and risk assessment.
- Available capital, required capital and risk appetite are considered in strategic and business decision-making.
- Solvency Capital Ratio (SCR) and Capital Coverage Ratio (CCR) are the basis to allocate capital to business units risk types and set limits.
- GI Risk Management is the owner of the risk management framework – the business segments are required to have an effective risk management in place that follows the GI Risk Management requirements.
- Requirements from a regulatory perspective must be complied with at all time.
- Management compensation within LVGIG does not set incentives contradictory to the risk strategy.

LVGIG's Approach to Risk Management

Risk Governance
Risk Management activity is an enabler for the business achieving its goals. LVGIG's approach to risk management is based on the Three Lines of Defence Model. The structure and accountabilities within the Three Lines of Defence Model are outlined below:



GI Risk Management develops and directs the implementation of the ERMF, monitors compliance with this framework and escalates material breaches to the Board. However, accountability for managing risk and implementing the ERMF resides with the First Line.

B.4 Internal control systems

The Allianz Holdings plc Board are ultimately accountable for governance arrangements and establishing the internal control system - Senior Management is responsible for implementing this system across HICO. This model aims to ensure that everyone in HICO is clear about their responsibility in relation to internal control activities, as well as to reduce potential areas of conflict and promote efficient internal control systems.

The objectives of the internal control system are to provide reasonable assurance that HICO maintains:

- Effectiveness and efficiency of operations:
  - Conducts its business in an orderly and efficient manner;
  - Safeguards the assets of the business; and
  - Takes proactive action to prevent and detect errors and fraud.
- Reliability of financial reporting:
  - Inputs and prepares accounting records accurately and completely; and
  - Prepares and reports reliable and quality financial information in a timely manner.
- Compliance with applicable laws and regulations.
  - Complies with all laws and regulations to which LV= is subject

The internal control system enables LVGIG to operate efficiently and respond to any significant or evolving risks that could prevent or limit the achievement of its business objectives through implementing the following requirements:

- Control Environment: A control environment and business culture that enables the achievement of its business objectives;
- Risk Identification: A Risk Management System and procedures which enables the identification of all material risks to the achievement of its business objectives;
- Risk Assessment: A Risk Management System and procedures which enables the identification, assessment, control and reporting of all material risks to the achievement of its business objectives and the assessment of controls to manage these risks within LVGIG's risk appetite;
- Control Activities: Business processes/procedures that provide reasonable assurance that necessary control activities are in place that contribute to the mitigation of risks to the achievement of objectives to acceptable levels as defined by LVGIG's risk appetite;
- Control Standards: A policy framework and policy suite that are fit for purpose and provide the Board's minimum standards for the management of Operational, Financial and Compliance controls;
- Information and Communication: Clear information and communication in respect of LVGIG's internal control system, including responsibilities and objectives for internal control; and
- Monitoring Activities: Established and maintained periodic and regular attestation reviews of the effectiveness of Operational, Financial and Compliance controls within business processes, and reports on the status of control design and performance through the regular risk assessment process/procedures.

Compliance with these requirements supports an integrated and standardised approach to establishing and maintaining an effective and efficient internal control system.

The internal control system includes a range of functions, roles and activities that, when taken together, represent an appropriate control environment for the business. The control system defines 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.

Compliance Function

The Allianz UK Compliance Function is part of the second line of defence; providing advice, support and challenge to the first line of defence in respect of risk issues. This includes providing assurance of compliance effectiveness, including assessments of the adequacy of measures business areas take to prevent non-compliance. Its core purpose is to protect and provide assurance that LVGIG is operating within stated regulatory risk and conduct risk appetites.

The Allianz UK Compliance Function manages the relationship with the regulators on behalf of HICO. This includes managing correspondence, breach reporting, Firm Systematic Framework (FSF) visits, thematic reviews and requests for information as well as meetings.

In addition, the Allianz UK Compliance Function provides support to the LVGIG First-Line Compliance Function. Reporting to the LVGIG CRO, the LVGIG Compliance function provide a first line function. GI Compliance review and approve all customer facing collateral, both digital and physical. They also review and approve key processes, and are key stakeholders in any change projects within the business, providing advice, guidance and approval as required.

The Allianz UK Compliance Function has developed and implemented:

- Compliance Plan: The annual compliance plan which oversees the implementation of changes to the Legal Environment and strategic priorities of the Compliance Function. This was reviewed and approved by the Board Risk Committee, with regular progress updates and any key findings discussed by the Committee;
- Compliance Monitoring Plan: The annual risk-based compliance monitoring plan which sets out the key independent assurance activities to be undertaken. This was reviewed and approved by the Board Risk Committee. Outcome reports were provided to the Business and the Board Risk Committee, supplemented with appropriate management information.

The Allianz UK Compliance Function has continued to ensure the Board are provided with reports regarding whether LVGIG is operating within the regulatory guidelines and legislation.

The Allianz UK Compliance Function have supported LVGIG in ensuring that the areas business knows which regulatory rules apply to it, which rules are due to change, and how this will affect what and how HICO operates. The Compliance Function continues to support LVGIG on the applicable rules and give advice and guidance whilst the business implements any changes.

The Allianz UK Compliance Function is also represented on external committees, where the information obtained is used to ensure LVGIG is aware of all the changes that are being considered and discussed. This provides LVGIG with the opportunity to influence potential changes before they are finalised and be ready to implement changes which are necessary to comply with changes in the legal/regulatory environment.

B.5 Internal audit

The Internal Audit function takes its authority from the Allianz Holdings plc Audit Committee, through the Committee's approval of the Internal Audit Policy and Annual Plan. The Internal Audit Policy and Annual Plan are aligned with the requirements set out in the Allianz SE Group Audit Policy. The function is led by the Head of Internal Audit, who has a direct reporting line to the Chair of the Audit Committee, and also to the Allianz Holdings CEO to ensure independence from first-line and second-line functions. The Internal Audit department also reports functionally to Allianz Group Audit and is subject to oversight from Group Audit. This independence and objectivity are supported by the written Internal Audit Policy and oversight of the Audit Committee. The Head of Internal Audit, and the Internal Audit function also have unrestricted access to Allianz Holdings plc (and all its subsidiaries) records, including Board level information, personnel and premises to the degree necessary and relevant to discharge the Head of Internal Audit's duties.

The Head of Internal Audit assesses whether the Internal Audit Policy is appropriate and in alignment with the Allianz SE Group Audit Policy and the function's objectives on an annual basis. The Head of Internal Audit communicates the results of this assessment to the Audit Committees and seeks approval of the policy each year.

The Head of Internal Audit is responsible for determining the Internal Audit function's strategy, and a related Annual Plan so that management and the Board receive an appropriate level of independence assurance coverage across Allianz Holdings plc, and its subsidiaries. The Annual Plan is produced in consultation with Allianz SE Group Audit, the Management Board, the second-line functions and the Audit Committee. Delivery of this plan, findings from audits and remediation of those findings are overseen by the Audit Committee. The scope of the planned assurance is determined by the business strategy as well as an independent ongoing assessment of the key risks facing the business, together with how well these risks are being managed.

The overall effectiveness of the internal control system within Allianz is monitored by the Internal Audit function. The function carries out reviews of major business activities focusing on the areas of greatest risk to the business together with in-depth reviews of corporate functions and provide specialist expertise such as IT audit capability. In addition to Audit Planning, Internal Audit activity can be categorised as follows:

- Operational Audits - Such audits review business systems and activities in order to assess the effectiveness of control processes and to identify opportunities for improving control, increasing efficiency and effectiveness and thereby enhancing profitability.
- IT Audit - Encompassing both existing systems and those under development, together with the security of IT environments.
- Other Activities - This may include consultancy services, e.g. providing controls advice to projects, due diligence reviews and fraud investigations.

The Internal Audit function comprises a full-time team of audit professionals, adhering to the Code of Ethics, Standards and Guidelines of the Chartered Institute of Internal Auditors 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. The Head of Internal Audit is the individual registered as a Senior Manager (SMF5) under the Senior Managers and Certification Regime. Internal Audit also liaise with External Audit on a regular basis to enable the external auditors to optimise their reliance on the work of Internal Audit and to discuss issues emerging from their respective work.

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 Chief Executive Officer. The General Insurance Chief Actuary is the SIMF20 role holder for Liverpool Victoria Insurance Company.

The Actuarial Function provides oversight and challenge to the calculation of the technical provisions of the Liverpool Victoria Insurance Company and reports to the 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 relevant governance committees as to the reliability and adequacy of the calculation of the technical provisions. The Actuarial Function also reports to the HICO Senior Management team on the appropriateness of the General Insurance underwriting, pricing and reinsurance policies and arrangements applied.

The Actuarial Function 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 led by the Chief Finance Officer, who reports directly to the Chief Executive 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; and
- The 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 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 for approval.

The financial results for HICO are consolidated into the LV General Insurance Group results which are reviewed by the Actuarial Function, the Allianz Holdings plc Audit Committee, before being approved by the Allianz Holdings plc 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 31st December 2020, the Company was still transitioning to the Allianz Global and Local Outsourcing Policy. The following section outlines the approach up to 31st December 2020.

To establish a consistent approach and control the risks inherent in outsourcing, LVGIG maintains a 'Sourcing and Outsourcing Policy'. The Policy includes mandatory requirements for when the business choose 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 sets out how LVGIG impact assesses, selects, appoints and contracts any outsourcing arrangements.

The Policy defines what is considered to be critical or important functions and services and confirms the underlying risks which need to be considered, managed and mitigated when determining if outsourcing is suitable. The Policy also confirms the mandatory terms and conditions 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 ongoing reporting, monitoring and management 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, we must consider whether each outsourcing arrangement is 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 is also required to consider how the outsourced arrangement will fit in with the wider organisation, reporting structure, business strategy and regulatory obligations. The outcome of this must be submitted to the LVGIG Exec as part of the approval process.

In 2020, the approach to oversight included the following controls:

- All outsourcing arrangements must have a signed contract incorporating LVGIG standard terms and conditions or necessary risk assessed and negotiated terms
- Financial health monitoring using an industry leading automated alerting system
- Ongoing monitoring of third-party directors against the HMRC Sanctions list
- Where information is shared with third parties and the GDPR applies, a series of questionnaires (relating to information security and data protection) are sent to each supplier prior to the commencement of their service and subsequently the risks assessed against LVGIG appetite. These are refreshed annually.
- Privacy impact assessment
- The Supplier Management Oversight Report (SMOR) is an evidence-based annual review that includes third parties' internal controls as well as LVGIG's relationship management and oversight. This includes, but is not limited to, details relating to Policy Compliance, Exit Planning, BCP, Supplier Capability, Performance Reviews, and Conduct Risk etc. Summaries of this information are maintained by our dedicated supplier relationship management team with the support of Procurement. These are then independently assessed, with many suppliers audited.
- Creation of supplier service specific business continuity and exit plans – agreed and signed off by business owners.

At the end of 2020 LVGIG had the following Critical or Important arrangements in place:

Description of Function or Activities	Service Providers	2020 Accountable Owner	Rationale for outsourcing
Hosted Pricing – Direct Motor	SSP Limited	GI Chief Executive Officer	No in-house capability
Hosted Pricing – Flow Product	Sapiens	GI Chief Executive Officer	No in-house capability
Policy Document Composition & Distribution	Communisis	GI Chief Executive Officer	Outsourced due to the lack of sufficient internal IT infrastructure to maintain this "in-house"
Data centres	Specialist Computer Centres PLC	GI Chief Executive Officer	Mitigates significant risks and addresses cost effective issues in building and managing our own data centre
Investment of Group Assets	PIMCO	GI Chief Executive Officer	No in-house capability
Insurer Hosted Pricing – Broker	CDL	GI Chief Executive Officer	No in-house capability
Claimant Legal Services	Lyons Davidson Solicitors	GI Chief Executive Officer	Outsourced as part of an industry standard service
Claimant Legal Services Managing Agent	ARC Legal Assistance	GI Chief Executive Officer	Outsourced as part of an industry standard service
Claimant Legal Services Managing Agent	Allianz Legal Protection	GI Chief Executive Officer	Outsourced as part of an industry standard service
Customer Payment Data Capture	Barclaycard	GI Chief Executive Officer	Software solution that exceeds LVGIG's own system capability.
Windscreen claims handling	Belron - Autoglass	GI Chief Executive Officer	Industry wide outsourced solution utilises to increase efficiency and improve customer experience
Windscreen claims handling	National Windscreens	GI Chief Executive Officer	Industry wide outsourced solution utilises to increase efficiency and improve customer experience
Home emergency cover	CET Structure Limited	GI Chief Executive Officer	Industry wide outsourced solution utilised to ensure a 24/7 service is in place for the customer
Home emergency cover	Allianz Partners	GI Chief Executive Officer	Industry wide outsourced solution utilised to ensure a 24/7 service is in place for the customer
Pet insurance sales, service and claims	The Insurance Factory	GI Chief Executive Officer	Outsourced to align with LVGIG's strategic approach to the market
Travel insurance underwriting and claims management	CEGA Group Services Ltd	GI Chief Executive Officer	Outsourced to align with LVGIG's strategic approach to the market

Document archiving and retrieval	Swiss Post Solutions	GI Chief Executive Officer	No in-house capability
Motor vehicle valuation and repairer communication software	Audatex	GI Chief Executive Officer	Industry wide outsourced solution utilises to increase efficiency and improve customer experience
Third party personal injury claims valuation and management software	Verisk Analytics	GI Chief Executive Officer	Industry wide outsourced solution utilised to increase efficiency and improve customer experience

During 2020 LVGIG and Allianz Holdings plc, its parent company, have reviewed respective policies and standards related to Outsourcing, including critical or important arrangements and the ongoing management of these services. From 1st January 2021, LVGIG will comply with the Allianz Global and Local Outsourcing Policy.

B.8 Additional information

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 regular 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 across all functions, with this now well established. 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 2020 Year End split of the Standard Formula Solvency Capital Requirement (SF SCR) by risk type. The largest exposure, 72% of the SCR, relates to Premium & Reserve Risk followed by Operational Risk with 12% and Spread Risk with 11%.

Post diversification risk capital	**2020 YE**	2019 YE	**Change**
Premium and Reserve risk	72%	79%	-7%
Operational risk	12%	11%	1%
Spread risk	11%	4%	7%
Counterparty Default risk	3%	4%	-1%
Catastrophe risk	1%	2%	-1%
Other	1%	0%	0%
Total	**100%**	100%	

The exposure to Premium and Reserve risk has reduced significantly since the 2019 Year End, the primary drivers being less growth assumed in the latest business plan and an increase in Quota Share reinsurance from 20% to 40%. There has also been an increase in the Spread Risk exposure following changes to the Strategic Asset Allocation during the year where the duration of fixed income assets exposed to Spread Risk has increased overall.

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.

HICO 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.

- HICO 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

HICO 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 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. 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

HICO'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	**2020 YE**	2019 YE	**Change**
Premium and Reserve risk	98%	97%	1%
Catastrophe risk	2%	3%	-1%
Lapse Risk	0%	0%	0%
Total	**100%**	100%	

As HICO is still predominantly a motor writer, Premium and Reserve risk will continue to comprise most of the underwriting risk.

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 and this year has been increased from a 20% to a 40% share. 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 95% of the SCR post-diversification.

Market risk	**2020 YE**	2019 YE	**Change**
Spread risk	95%	90%	5%
Interest Rate risk	5%	9%	-4%
Concentration risk	0%	2%	-2%
Equity risk	0%	0%	0%
Currency Risk	0%	0%	0%
Total	**100%**	100%	

Spread risk has increased over 2020 as a result of changes to our investment strategy.

C.3.2 Material changes over the reporting period

There has been a material increase in Spread Risk over the year due to changes in our investment strategy where we now have a greater exposure to corporate bonds.

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 amount will reduce overtime as Swiss Re are no longer the reinsurer for the Quota Share arrangement (since 2019). The new reinsurer for the Quota Share is Allianz Re, where their growing exposure is considered acceptable as they form part of the same Allianz SE Group as HICO.

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 2020.

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 all different areas of operational risk across the business.

C.7 Other material risks

Strategic risk

Strategic risk is defined as negative effects on capital and earnings due to business policy decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the economic environment. Strategic risks are mitigated by the review of strategies and plans by the Board and Allianz SE. They are evaluated and analysed as an input to the strategy and planning process and as part of the review of corporate plans by the CEO, CFO and CRO.

Reputational risk

Reputational risk is the risk of an unexpected negative change in the company's value as a result of a decline in the reputation of the Company in the eyes of its customers, regulators or staff. Reputational risks are mitigated by the implementation of policies on external and internal communication, and by active management of the relationships between the Company and its regulators. They are evaluated and analysed in discussions between the Risk function and the corporate communications team.

Conduct risk

Conduct risk is defined as the risk that inappropriate decisions, actions, and/or processes impact the ability to achieve fair customer outcomes. Conduct risk considerations arise for all business activities and risk categories. The Company endeavours to execute its business activities appropriately, seeking to ensure that there is no risk of significant detriment to customers, the Company itself or corporate partners as a result of inappropriate execution. The Company aims to have a culture of appropriate behaviour throughout the business. Conduct risk is mitigated by internal processes and is reinforced by thorough training and communication programmes. It is evaluated and analysed by the Risk function and the Compliance function in conjunction with the first-line.

Climate change

Climate change risk refers to climate change resulting in volatile weather patterns. These volatile weather patterns could have a material impact on LVGIG's claims experience as extreme weather events such as flooding, droughts, storms and heat waves become more frequent and more severe. This has the potential to drive up the cost of Home Insurance making it unaffordable for many consumers. Both the physical and investment risks arising from climate change continue to be areas of focus for LVGIG and these are managed through our risk management framework.

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		175	
Premium Risk	10% increase to next year premium	0	0%
Premium Risk	10% decrease to next year premium	0	0%
Reserve Risk	10% increase to overall claim provision	8	5%
Reserve Risk	10% decrease to overall claim provision	-8	-4%
Catastrophe Risk	25% increase to the 1-in-200 gross loss	3	1%
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 Standard Formula methodology considers the maximum of last year's and next year's premium. As a result of the increase in Quota Share reinsurance for 2021, last year's premium is higher than the future premium in the year end 2020 calculation. This means the effect of changes in future premium is currently minimal.

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 broadly symmetrical, as anticipated.

The catastrophe reinsurance program is primarily designed to absorb the Standard Formula gross 1 in 200 loss stresses. In addition to this a further layer of cover is purchased which covers a loss event up to a 1 in 500 stress.

C.9 Additional information

The COVID-19 pandemic had 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 was impacted by the increased cost to settle claims, but this was partially offset by the lower than expected claim frequency on other lines of business such as motor and home.
- Market risk was impacted by the increase in volatility in corporate bond spreads. HICO's solvency position is being monitored regularly 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
- Although there has been little evidence during 2020, credit risk could yet 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.
- In 2021 liquidity risk could also be impacted by the inability of customers to keep up premium payments, or reductions in the liquidity of our chosen investment classes, as the wider impacts of the economic impact is felt. 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 due to the increase in home working, has already been actively mitigated through revised policies and processes associated with home working. The Company also assessed its distribution channels to identify operational risks which may manifest in broker processes, such as renewal processing

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		**2020**				2019
		IFRS	**Presentational adjustment**	**Solvency II valuation adjustment**	**Solvency II**	Solvency II
	Note	**£m**	**£m**	**£m**	**£m**	£m
Deferred acquisition costs	**1**	**35**	**-**	**(35)**	**-**	-
Intangible Assets	**#**	**1**	**-**	**(1)**	**-**	-
Deferred tax assets	**2**	**-**	**-**	**7**	**7**	5
Investments (other than assets held for index-linked and unit-linked funds)	**#**					
- Equities	**3**	**-**	**-**	**-**	**-**	-
- Bonds	**3**	**677**	**5**	**-**	**682**	568
- Collective Investment undertakings	**3**	**37**		**-**	**37**	114
- Deposits other than cash equivalents	**3**	**-**	**-**	**-**	**-**	25
Loans and mortgages	**#**	**29**	**-**	**-**	**29**	-
Reinsurance recoverables	**4**	**212**	**-**	**70**	**282**	234
Insurance and intermediaries receivables	**5**	**41**	**-**	**(41)**	**-**	-
Reinsurance receivables	**6**	**9**	**-**	**(9)**	**-**	-
Receivables (trade, not insurance)	**#**	**-**	**-**	**-**	**-**	-
Cash and cash equivalents	**#**	**18**		**-**	**18**	12
Any other assets, not elsewhere shown	**7**	**9**	**(5)**	**(1)**	**3**	4
Total Assets		**1,068**	**-**	**(10)**	**1,058**	962

Supporting Notes

1. 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.

2. 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	7
Deferred tax assets - Solvency II valuation	**7**

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 asset and liability positions. 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 2020 there were total Solvency II taxable losses of £35m, with a consequent £7m 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 £35m has been justified based on the Board approved business plans over the period 2021 to 2023. The DTA established over this period is based on the announced Corporation Tax rates, as follows.

Year	Loss Utilised (£m)	CT Rate	DTA (£m)
2021	11	19%	2
2022	20	19%	4
2023	4	19%	1
Total	**35**		**7**

3. 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.

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 2020.

	QMP	QMPS	Total
	£m	£m	£m
Bonds	203	479	**682**
Collective Investments Undertakings	37	-	**37**
Investments	**240**	**479**	**719**

4. 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	212
Total Reinsurance recoverables - IFRS	**212**
Best estimate liability adjustments	70
Total Reinsurance recoverables – Solvency II valuation	**282**

5. 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	**-**

6. 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	9
Total Reinsurance receivables - IFRS	**9**
Reinsurance payables included in BEL calculations	(9)
Total Reinsurance payables - Solvency II valuation	**-**

7. 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	3
Prepayments and accrued income - IFRS	**9**
Reclassify accrued interest on bonds to Investments	(5)
Solvency II valuation adjustment	(1)
Total Any other assets, not elsewhere shown - Solvency II valuation	**3**

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 2020:

HICO Entity (£m)	Total	Motor Liability	Motor Other	Property Damage	General Liability	Legal Expenses	Assistance	Medical Expenses	Settled PPOs
Gross Claims Provision	**646**	493	0	19	1	0	0	0	133
Gross Premium Provision	**140**	90	35	15	0	0	0	0	0
Gross Best Estimate Liability	**786**	**583**	**35**	**34**	**1**	**0**	**0**	**0**	**133**
Risk Margin	**30**	24	0	1	0	0	0	0	5
Gross Technical Provisions	**816**	**607**	**35**	**35**	**1**	**0**	**0**	**0**	**138**

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.

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 considering 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 explained above 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) that 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; 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 calendar years to 31st December 2020. A further quota share has also been entered into with an effective date of 1st January 2021.

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

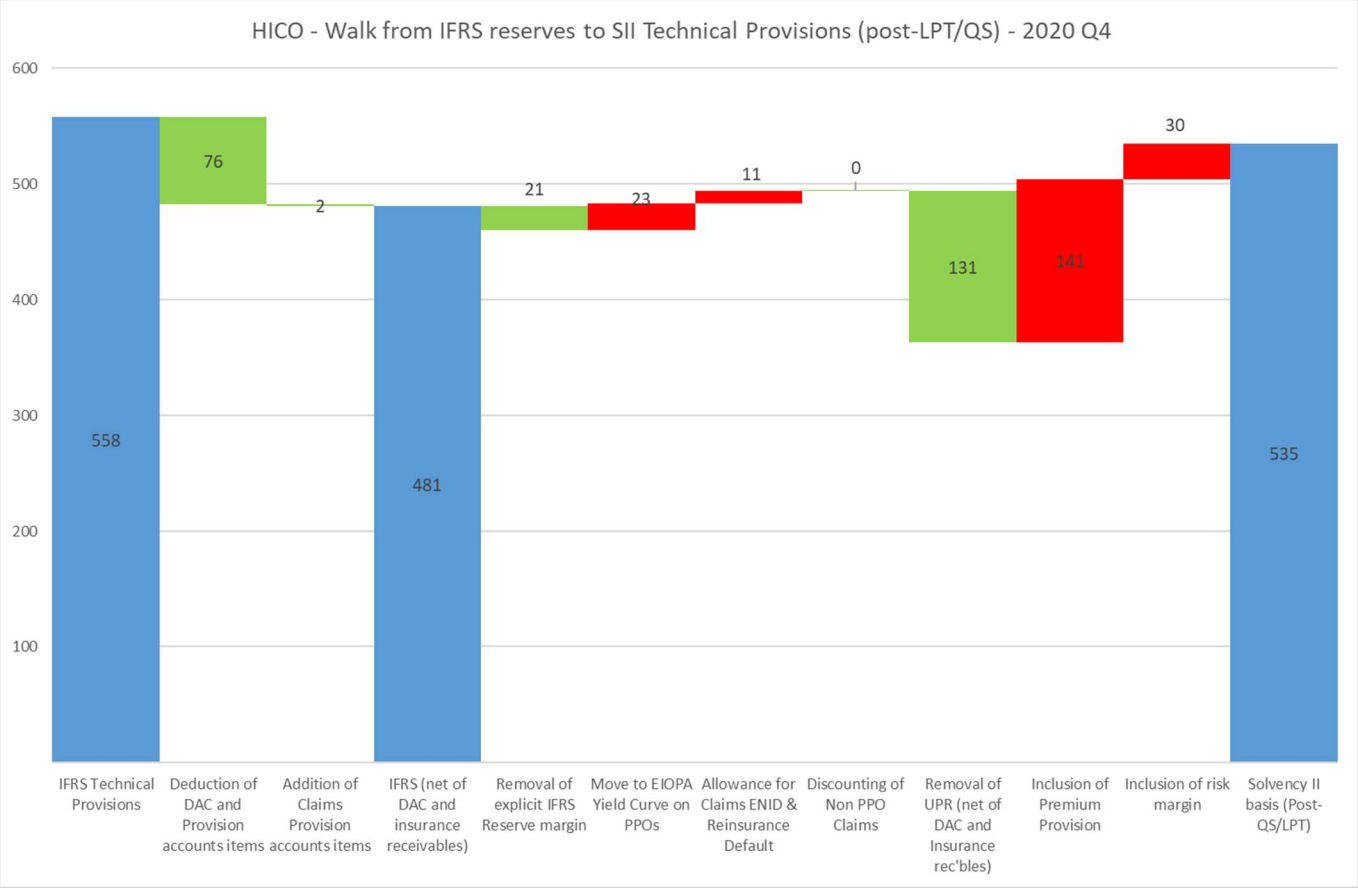
The Solvency II BEL relies upon the calculation of the IFRS ABE for many of its assumptions. In addition to those assumptions underlying the IFRS ABE, the following assumptions are updated throughout the year:

- Premium Provision Loss Ratios are updated whilst taking into account the insights from the IFRS reserve reviews and the developing picture for the forward-looking view;
- Premium Provision expense assumptions and contract boundary rates are updated in line with the reforecasting of the business plan and the latest available MI;
- Cashflow patterns;
- Allowance for reinsurer counterparty default.

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

IFRS to Solvency II Technical Provisions

The following graph provides a walk between the IFRS Technical Provisions to the equivalent under Solvency II. The figures provided are net of all reinsurance.



The IFRS Technical Provisions net of DAC and receivables is £481m.

The net Technical Provisions restated on a Solvency II basis are £535m. This is an increase of £54m and consists of;

- Removal of the IFRS Reserve margin, decrease of £21m;
- Move to SII Yield Curve on PPOs only, increase of £23m;
- Allowance for Claims Provision ENIDs and reinsurance default, increase of £11m;
- Discounting of Non-PPO claims, decrease of £0m;
- Removal of UPR (net of DAC and Insurance Receivables), decrease of £131m;
- Inclusion of Premium Provision, increase of £141m; and
- Inclusion of the Risk Margin, increase of £30m.

D.3 Other liabilities

Reconciliation between IFRS and Solvency II valuation		2020			
		IFRS	Presentational adjustment	Solvency II valuation adjustment	Solvency II
	Note	£m	£m	£m	£m
Deferred tax liabilities	#	**3**	-	(3)	**-**
Reinsurance payables	1	**5**	(5)	-	**-**
Payables (trade, not insurance)	2	**28**	(10)	-	**18**
Subordinated liabilities	3	**11**	-	3	**14**
Total Other Liabilities		**47**	**(15)**	**(-)**	**32**

#- 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	5
Total Reinsurance payables - IFRS	**5**
Reinsurance payables included in BEL calculations	(5)
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	**5**	**-**	**-**	**-**	**-**	**5**

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	-
Other taxes and social security costs	11
Other payables	-
Accruals and deferred income	11
Total Payables (trade, not insurance) - IFRS	**28**
Reclassification of payables included in BEL calculations	(10)
Total Payables (trade, not insurance) - Solvency II valuation	**18**

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 the Company's own credit standing[5] (and so measurement may deviate from fair value determined in accordance with IFRS). 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)	11
Subordinated liabilities - IFRS	**11**
Revaluation of subordinated debt	3
Subordinated liabilities - solvency II valuation	**14**

[5] See EIOPA-BOS-15/113 EN, Guideline 5

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 £7m; 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 £282m; 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) and Any other assets, not elsewhere shown totalling £3m 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 £816m; 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) £18m; 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 ongoing uncertainty, around COVID-19 has been reflected in the global financial markets over 2020, in particular the temporary increase in spreads on the corporate bond portfolio. Investment valuation reports are obtained daily to reassess our exposure and we consider the strategic asset allocation is appropriate.

The continued financial impact of fewer claims on motor and home products as a consequence of the government instruction for people to stay at home is predicted to impact 2021. 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.

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

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

The Company's capital requirements are forecast at least annually and compared with the projected capital to ensure that the Company will remain adequately capitalised on a forward-looking basis.

In the event that sufficient capital is not available, defined by set triggers, management will refer to the Recovery and Resolution Plan to set out actions that might be taken to improve the position. This might include a capital injection from the Company's parent company or by reducing 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	128	-	-	128
Subordinated liabilities	-	14	-	14
An amount equal to the value of net deferred tax assets specified above	-	-	7	7
Total Basic Own Funds	**203**	**14**	**7**	**224**
Total Basic Own Funds after deductions	**203**	**14**	**7**	**224**

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

Total available Own Funds to meet the SCR	203	14	7	224
Total eligible Own Funds to meet the SCR	**203**	**14**	**7**	**224**

Total available Own Funds to meet the MCR	203	14		217
Total eligible Own Funds to meet the MCR	**203**	**14**		**217**

Tier 1 consists of both Ordinary Shares of £75m and the reconciliation reserve, including a capital reserve of £106m (2019: £106m), which carries no requirement for HICO to repay.

Tier 2 consists of subordinated debt issued by HICO for EUR 14m.

Tier 3 relates to deferred tax assets of £7m.

Analysis of significant changes in own funds during the reporting period

	HICO		
	1 January 2020 £m	Movement £m	**31 December 2020 £m**
Eligible own funds			
Tier 1 capital	211	(8)	**203**
Tier 2 capital	12	2	**14**
Tier 3 capital	5	2	**7**
Total capital	228	(4)	**224**
Made up by:			
Equity shares	75	-	**75**
Subordinated liabilities	12	2	**14**
Deferred tax	5	2	**7**
Reconciliation reserve / surplus	136	(8)	**128**
Total capital	228	(4)	**224**
Total eligible own funds to meet SCR	228	(4)	**224**

- Tier 1 capital includes movements in excess of assets over liabilities, adjusted for the movement in deferred tax. This has reduced by £8m over the reporting period.
- Tier 2 capital represents the subordinated debt as the subordinated debt is a loan in Euros.
- Tier 3 capital represents the deferred tax asset.

Ancillary own funds

At 31 December 2020 there were no ancillary own funds.

Deductions from own funds

At 31 December 2020 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	22
Total	**128**

HICO has not applied any loss absorbency mechanisms as at the end of 2020.

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	12
Retained Earnings	57
Total Equity - IFRS	**250**
Solvency II Adjustments (excluding reclassifications)	
Assets	
- Reduction in valuation of DAC (Section D.1)	(35)
- Increase in valuation of reinsurance recoverable (Section D.1)	70
- Reduction in valuation of insurance and intermediaries recoverable (Section D.1)	(41)
- Reduction in valuation of reinsurance receivable (Section D.1)	(9)
- Deferred Tax Assets	7
- Other	(2)
	(10)
Technical provisions	
- Increase in valuation of technical provisions	**(45)**
Other liabilities	
- Reduction in reinsurance payables (Section D.3)	5
- Reduction in payables (trade, not insurance) (Section D.3)	10
	15
Total Change due to Solvency II adjustments	**(40)**
Total Equity - Solvency II basis	**210**
Add in subordinated liabilities (Tier 2)	14
Total own funds Solvency II basis	**224**

Excess of Assets over Liabilities Solvency II basis	
Total Assets	1058
Total Technical Provisions	(816)
Total Other Liabilities	(32)
Excess of Assets over Liabilities Solvency II basis	**210**

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 HICO 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 HICO
- 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 HICO subordinated debt is included in the Tier 2 category of Basic Own Funds for 10 years from 1 January 2016.

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.

	2020 YE	2019 YE
HICO SCR (£m)	**175**	161
HICO MCR (£m)	**69**	61

The HICO SCR increased by £14m over the reporting period, mostly driven by increased reserves over the reporting period and an increase in Market risk driven by changes in the investment profile over the year.

The Minimum Capital Requirement (MCR) as at 31 December 2020 was £69m. 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 increase is a combination of the increase in written premium within 2020 and an increase 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 2020 - all figures in £m	
Market risk	41
Counterparty default risk	10
Life underwriting risk	2
Non-life underwriting risk	134
Diversification	-32
Basic solvency capital requirement	**155**
Operational risk	20
Loss-absorbing capacity of deferred taxes	0
Solvency capital requirement	**175**

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 was insufficient carryback profit in the last year to justify an 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

There is no other additional information.

In view of the Solvency II capital ratio of 128% as at 31 December 2020, 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 on-going COVID-19 pandemic. 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 maintains a catalogue of recovery options in its Recover and Resolution Plan.

Report of the external independent auditors to the Directors of Highway Insurance Company Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

We have audited the following documents prepared by the Company as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2020, ('**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;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

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 2020 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.

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

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

- Obtained management's updated going concern assessment and challenged the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Company's business performance and review of regulatory correspondence;
- Considered management's assessment of the regulatory Solvency coverage and liquidity position in management's future forecast;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and
- Understood the actions taken by management to mitigate the impacts of COVID-19, including review of Board Risk Committee minutes and attendance at all Audit Committees.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

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

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

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:

Approval to use the PRA Rulebook Group Supervision 17.2(3) Version

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.

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.

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

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as the PRA Rulebook applicable to Solvency II firms and the Solvency II regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to inappropriate adjustments to derive the Solvency II Balance Sheet, such as increasing the value of Own Funds of the Company, management bias in estimates and judgemental areas of the Solvency II Balance Sheet and Solvency Capital Requirement such as the Solvency II valuation of Non-Life Technical Provisions. Audit procedures performed included:

- Discussions with the Board, management, Internal audit, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud relevant to the SFCR;
- Reading key correspondence with and reports to the Prudential Regulation Authority and/ or the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee, the Risk Committee and the Reserving Committee;
- Procedures relating to the valuation of Non-Life Technical Provisions. In addition, we consider whether there are indications of management bias in the Solvency II valuation; and
- Identifying material adjustments to derive the Solvency II financial information from the statutory financial statements and assessing for indicators of material non-compliance with Solvency II regulations.

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

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.

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook 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 Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. 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

8 April 2021

Balance sheet

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020SOL2
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.02.01

Balance Sheet

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	6,624
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
contracts)	**R0070**	**719,089**
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*	*682,350*
Government Bonds	R0140	207,618
Corporate Bonds	R0150	462,313
Structured notes	R0160	0
Collateralised securities	R0170	12,419
Collective Investments Undertakings	R0180	36,738
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	**R0230**	**29,322**
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	29,322
Reinsurance recoverables from:	**R0270**	**281,688**
Non-life and health similar to non-life	R0280	174,583
Non-life excluding health	R0290	174,583
Health similar to non-life	R0300	0
unit-linked	R0310	107,105
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	107,105
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	-136
Own shares (held directly)	R0390	0
paid in	R0400	0
Cash and cash equivalents	R0410	17,847
Any other assets, not elsewhere shown	R0420	3,340
Total assets	**R0500**	**1,057,773**

Liabilities		
Technical provisions - non-life	**R0510**	**678,597**
Technical provisions - non-life (excluding health)	**R0520**	**678,597**
Technical provisions calculated as a whole	R0530	0
Best estimate	R0540	653,226
Risk margin	R0550	25,370
Technical provisions - health (similar to non-life)	**R0560**	
Technical provisions calculated as a whole	R0570	0
Best estimate	R0580	0
Risk margin	R0590	0
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	**137,784**
Technical provisions - health (similar to life)	**R0610**	
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	0
Risk margin	R0640	0
linked)	**R0650**	**137,784**
Technical provisions calculated as a whole	R0660	0
Best estimate	R0670	132,770
Risk margin	R0680	5,013
TP - index-linked and unit-linked	**R0690**	
Technical provisions calculated as a whole	R0700	0
Best estimate	R0710	0
Risk margin	R0720	0
Other technical provisions	R0730	
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	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	153
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	17,846
Subordinated liabilities	**R0850**	**13,565**
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities not in Basic Own Funds	R0870	13,565
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	**R0900**	**847,943**

Excess of assets over liabilities	**R1000**	**209,830**

Premiums, claims and expenses by line of business

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020 Solvency II
Period: Annual
Category: Solvency II: Statutory Account
Currency: GBP - Great British Pounds
EIOPA QRT: S.05.01

Premiums, claims and expenses by line of business

		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				274,525	86,392		49,629	489		6	3						411,028
Gross - Proportional reinsurance accepted	R0120																	0
Gross - Non-proportional reinsurance accepted	R0130																	0
Reinsurers' share	R0140				63,110	19,839		11,511	113		6	2						94,575
Net	**R0200**				**211,416**	**66,543**		**38,118**	**376**		**0**	**1**						**316,454**
Premiums earned																		
Gross - Direct Business	R0210				266,384	84,104		41,791	412		6	3						392,694
Gross - Proportional reinsurance accepted	R0220																	0
Gross - Non-proportional reinsurance accepted	R0230																	0
Reinsurers' share	R0240				63,110	19,839		11,408	112		6	0						94,469
Net	**R0300**				**203,275**	**64,265**		**30,383**	**300**		**0**	**2**						**298,225**
Claims incurred																		
Gross - Direct Business	R0310				208,051	67,899		29,922	295		6	1						306,084
Gross - Proportional reinsurance accepted	R0320																	0
Gross - Non-proportional reinsurance accepted	R0330																	0
Reinsurers' share	R0340				56,793	18,845		6,121	60		1	0						81,821
Net	**R0400**				**151,258**	**48,963**		**23,801**	**235**		**5**	**1**						**224,263**
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**				**60,427**	**19,180**		**12,969**	**129**		**1**	**0**						**92,706**
Other expenses	R1200																	**10,669**
Total expenses	**R1300**																	**103,375**

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									0
Reinsurers' share	R1420									0
Net	**R1500**									**0**
Premiums earned										
Gross	R1510									0
Reinsurers' share	R1520									0
Net	**R1600**									**0**
Claims incurred										
Gross	R1610									0
Reinsurers' share	R1620									0
Net	**R1700**									**0**
Changes in other technical provisions										
Gross	R1710									0
Reinsurers' share	R1720									0
Net	**R1800**									**0**
Expenses incurred	**R1900**									**0**
Other expenses	**R2500**									
Total expenses	**R2600**									

Life and Health SLT Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020 Solvency II
Period: Annual
Category: TO CONSOLIDATE
Currency: GBP - Great British Pounds
EIOPA ORT: S.12.01

Life and Health SLT Technical Provisions

		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**								132,770		132,770						0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								107,105		107,105						0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090								25,665		25,665						0
Risk Margin	**R0100**								5,013		5,013						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**								137,784		137,784						0

Non - life Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020 Solvency II
Period: Annual
Category: TO CONSOLIDATE
Currency: GBP - Great British Pounds
EIOPA QRT: S.17.01

Non - life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance:				Total Non-Life obligations
		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	
		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 calculated as a whole	**R0050**																	**0**
Technical Provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060				**89,544**	**34,726**		**15,093**	**147**									**139,511**
Total recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0140				546	-246		-2,058	-2		0	0						**-1,759**
Net Best Estimate of Premium Provisions	R0150				**88,998**	**34,972**		**17,151**	**149**									**141,270**
Claims provisions																		
Gross	R0160				**493,698**	**116**		**18,598**	**1,303**		**0**	**1**						**513,715**
Total recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0240				172,237	23		3,821	261		0	0						**176,342**
Net Best Estimate of Claims Provisions	R0250				**321,460**	**93**		**14,777**	**1,042**		**0**	**1**						**337,373**
Total Best estimate - gross	**R0260**				**583,242**	**34,842**		**33,691**	**1,450**		**0**	**1**						**653,226**
Total Best estimate - net	**R0270**				**410,458**	**35,065**		**31,928**	**1,191**		**0**	**1**						**478,643**
Risk margin	**R0280**				24,129	397		809	36		0	0						**25,379**
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290																	**0**
Best estimate	R0300																	**0**
Risk margin	R0310																	**0**
Technical provisions - total																		
Technical provisions - total	**R0320**				**607,370**	**35,240**		**34,499**	**1,486**		**0**	**1**						**678,597**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**				**172,783**	**-222**		**1,763**	**259**		**0**	**0**						**174,583**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**				**434,587**	**35,462**		**32,736**	**1,227**		**0**	**1**						**504,014**

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Solvency II Prepackage Solution

Non-life Insurance Claims Information

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
Category: TO CONSOLIDATE
Accident year/Underwriting year:
EIOPA QRT: S.19.01

Z0020	1 - Accident year

Non-life Insurance Claims Information

Gross Claims Paid (non-cumulative)

		Development year											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											138	138	138
2011	R0160	106,291	77,257	31,030	24,626	18,924	3,133	1,837	859	150	26		26	264,135
2012	R0170	88,293	67,996	26,257	22,258	15,373	11,217	7,911	1,311	1,420			1,420	242,038
2013	R0180	82,762	54,555	17,439	12,427	8,883	5,986	3,538	7,630				7,630	193,218
2014	R0190	86,394	49,775	16,346	11,074	8,399	6,800	835					835	179,423
2015	R0200	91,681	52,191	21,029	23,412	16,160	6,244						6,244	209,717
2016	R0210	103,938	56,275	20,380	14,844	12,144							12,144	207,581
2017	R0220	104,496	58,645	21,654	23,817								23,817	208,613
2018	R0230	130,334	66,708	19,902									19,902	216,943
2019	R0240	142,205	50,299										50,299	192,504
2020	R0250	116,776											116,776	116,776
	Total R0260												239,230	3,088,437

Gross undiscounted Best Estimate Claims Provisions

		Development year											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											23,693	23,693
2011	R0160	0	0	0	0	0	2,198	1,171	892	678	696		697
2012	R0170	0	0	0	0	43,674	45,789	29,464	27,486	26,963			22,531
2013	R0180	0	0	0	49,233	42,665	31,026	27,712	11,757				11,558
2014	R0190	0	0	43,289	26,720	12,053	5,128	3,676					3,674
2015	R0200	0	113,649	67,911	26,555	17,963	11,993						11,748
2016	R0210	176,547	91,252	57,314	21,960	12,862							12,871
2017	R0220	191,436	105,881	80,289	55,868								53,533
2018	R0230	192,620	112,696	111,412									110,082
2019	R0240	158,666	110,627										108,937
2020	R0250	162,943											162,078
	Total R0260												513,714

Own funds

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020 Solvency II
Period: Annual
Category: Default Original Amount
Currency: GBP - Great British Pounds
EIOPA QRT: S.23.01

Own funds

		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 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	128,206	128,206			
Subordinated liabilities	R0140	13,565			13,565	
An amount equal to the value of net deferred tax assets	R0160	6,624				6,624
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**	**223,394**	**203,206**		**13,565**	**6,624**
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**	**223,394**	**203,206**		**13,565**	**6,624**
Total available own funds to meet the MCR	**R0510**	**216,770**	**203,206**		**13,565**	
Total eligible own funds to meet the SCR	**R0540**	**223,394**	**203,206**		**13,565**	**6,624**
Total eligible own funds to meet the MCR	**R0550**	**216,770**	**203,206**		**13,565**	
SCR	**R0580**	**175,200**				
MCR	**R0600**	**68,954**				
Ratio of Eligible own funds to SCR	**R0620**	**127.51%**				
Ratio of Eligible own funds to MCR	**R0640**	**314.37%**				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	209,830
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	81,624
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**128,206**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	810
Total Expected profits included in future premiums (EPIFP)	**R0790**	**810**

Solvency Capital Requirement - for undertakings on Standard Formula

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020 Solvency II
Period: Annual
Category: Solvency II: Solo Purpose
Currency: GBP - Great British Pounds
EIOPA QRT: S.25.01

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	40,641		- None
Counterparty default risk	R0020	9,815		
Life underwriting risk	R0030	2,203		- None
Health underwriting risk	R0040			- None
Non-life underwriting risk	R0050	134,083		- None
Diversification	R0060	-31,736		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**155,006**		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	20,194
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	175,200
Capital add-on already set	**R0210**	
Solvency capital requirement	R0220	175,200
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	R0590	2 - No

Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	0
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	-33,288

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

Entity: HICO - Highway Insurance Company Limited
Scenario: 2020 Solvency II
Period: Annual
Category: Solvency II: Solo Purpose
Currency: GBP - Great British Pounds
EIOPA QRT: S.28.01

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

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	410,458	211,416
Other motor insurance and proportional reinsurance	R0060	35,065	66,543
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	31,928	38,118
General liability insurance and proportional reinsurance	R0090	1,191	376
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110	0	0
Assistance and proportional reinsurance	R0120	1	1
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	25,665	
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	68,415	
MCRL Result	R0200		539

Overall MCR calculation

		C0070
Linear MCR	R0300	68,954
SCR	R0310	175,200
MCR cap	R0320	78,840
MCR floor	R0330	43,800
Combined MCR	R0340	68,954
Absolute floor of the MCR	R0350	3,338

		C0070
Minimum Capital Requirement	**R0400**	**68,954**