

COMPANY REGISTRATION NUMBER 02998217

HIGHWAY INSURANCE GROUP LIMITED

**REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2011

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HIGHWAY INSURANCE GROUP LIMITED

**REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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HIGHWAY INSURANCE GROUP LIMITED

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

P M Bunker

S V Castle

R C Dix

(Resigned 31 January 2011)

S R Haynes

(Appointed 25 October 2011)

M S Newton

(Resigned 31 January 2011)

P W Moore

J B O'Roarke

M J Rogers

R A Warner

(Appointed 28 February 2011)

J M Webber

(Appointed 28 February 2011) (Resigned 12 August 2011)

Company Secretary

P B Cassidy

Registered office

County Gates

Bournemouth

BH1 2NF

Tel 01202 292333

Fax 01202 751825

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

31 Great George Street

Bristol

BS1 5QD

DIRECTORS' REPORT

The Directors submit their annual report and the audited financial statements for Highway Insurance Group Limited (the 'Company', 'HIG') for the year to 31 December 2011

1 Results and dividends

The profit for the year was £4,000 (2010 £58,596,000) The Directors proposed and paid no dividends in the current year (2010 £nil)

2 Principal activities

The Company acts as a holding company for the Highway Group of companies

3 Business review and developments

(a) Results and performance

During 2011 the Company has made good progress towards achieving its long term strategic objectives

(b) Strategy

The strategy of the Company is that of a holding company for the Highway Group of companies within the Liverpool Victoria General Insurance Group

(c) Principal risks and uncertainties

Given the nature of the operations the Directors do not consider there are any significant risks and uncertainties facing the Company

(d) Key performance indicators

As the Company does not trade and does not have any performance indicators the Board do not consider it appropriate to report key performance indicators

4 Directors

The present members of the Board and the members who served during the year are listed on page 2

5 Basis of preparation

The financial statements of the Company are presented using International Financial Reporting Standards as adopted in the European Union, drawn up on a going concern basis. The Directors are satisfied that the Company has adequate resources to continue business for the foreseeable future and accordingly the going concern basis is appropriate

6 Parent company

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

7. Employees

The Company did not directly employ any staff, instead it utilised the staff and premises of LVFS in carrying out its activities in 2011

8 Charitable and political donations

No charitable or political donations have been made during 2011 (2010 £nil)

9. Disclosure of information to the auditor

Each Director at the date of this report confirms that

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

DIRECTORS' REPORT

10 Directors' indemnity statement

The Directors have the benefit of an indemnity which constitutes a "qualifying third party indemnity provision" as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. LVFS, the ultimate parent company, also purchased and maintained throughout the financial year on behalf of its subsidiaries Directors' and Officers' liability insurance in respect of HIG and its Directors. It is available for inspection at the registered office of HIG details of which are provided on page 2.

11 Directors' responsibilities statement

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED BY ORDER OF THE BOARD



P B Cassidy
Company Secretary

24 February 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HIGHWAY INSURANCE GROUP LIMITED

We have audited the financial statements of Highway Insurance Group Limited for the year ended 31 December 2011 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

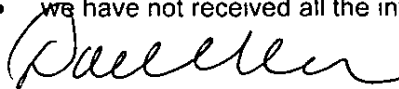
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HIGHWAY INSURANCE GROUP LIMITED**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



David Roper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
31 Great George Street
Bristol
BS1 5QD

24 February 2012

HIGHWAY INSURANCE GROUP LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Investment income	4	-	13,142
Other operating income	5	1	100
Total income		1	13,242
Profit from sale of investments in subsidiaries		6	-
Write back of carrying value of investments in subsidiaries	6	-	17,624
Finance costs	7	-	(315)
Other operating and administrative expenses	8	-	27,844
Profit before tax		7	58,395
Income tax (expense)/credit	11	(3)	201
Profit for the year		4	58,596
Total comprehensive income for the year		4	58,596

The notes on pages 11 to 25 are an integral part of the financial statements

HIGHWAY INSURANCE GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

Attributable to equity holders of the Company						
		Share capital	Share premium	Capital reserve	Retained earnings	Total equity
	Note	£000	£000	£000	£000	£000
Balance at 1 January 2011		41,756	20,471	144,000	25,550	231,777
Profit for the year	21	-	-	-	4	4
Balance at 31 December 2011		41,756	20,471	144,000	25,554	231,781

Attributable to equity holders of the Company						
		Share capital	Share premium	Capital reserve	Retained earnings	Total equity
	Note	£000	£000	£000	£000	£000
Balance at 1 January 2010		41,756	20,471	104,000	(33,046)	133,181
Capital contribution	20	-	-	40,000	-	40,000
Profit for the year	21	-	-	-	58,596	58,596
Balance at 31 December 2010		41,756	20,471	144,000	25,550	231,777

The notes on pages 11 to 25 are an integral part of the financial statements

HIGHWAY INSURANCE GROUP LIMITED

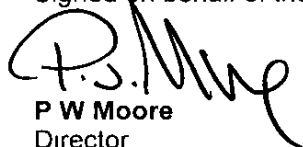
**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011**

	Note	2011 £000	2010 £000
Assets			
Investments in subsidiaries	12	263,510	264,010
Deferred tax asset	13	9	12
Cash and cash equivalents	15	11	860
Total assets		263,530	264,882
Liabilities			
Provisions	16	230	230
Trade and other payables	17	31,519	32,875
Total liabilities		31,749	33,105
Equity			
Share capital	18	41,756	41,756
Share premium	19	20,471	20,471
Capital reserve	20	144,000	144,000
Retained earnings	21	25,554	25,550
Total equity		231,781	231,777
Total liabilities and equity		263,530	264,882

The notes on pages 11 to 25 are an integral part of the financial statements

These financial statements were approved by the Board of Directors on 24 February 2012

Signed on behalf of the Board of Directors


P W Moore
Director

HIGHWAY INSURANCE GROUP LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 £000	2010 £000
Cash and cash equivalents at 1 January	15	860	32
Cash flows arising from			
Operating activities			
Cash flows used in operating activities	22	(1,349)	(67,254)
Interest paid	7	-	(315)
Group relief received	14	-	65
Tax refund received	14	-	567
Net cash flows used in operating activities		(1,349)	(66,937)
Investing activities			
Repayment of share capital by subsidiaries/proceeds from sale of investment in subsidiary	12	500	67,765
Capital contribution to subsidiaries	12	-	(40,000)
Net cash flows from investing activities		500	27,765
Financing activities			
Capital contributions from group undertakings	20	-	40,000
Net cash flows from investing activities		-	40,000
Net (decrease)/increase in cash and cash equivalents		(849)	828
Cash and cash equivalents at 31 December	15	11	860

The notes on pages 11 to 25 are an integral part of the financial statements

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1 General information

Highway Insurance Group Limited is a holding company for the Highway Group of companies. The Company is limited by shares, domiciled and incorporated in United Kingdom.

2. Accounting policies

BASIS OF PRESENTATION

The Company's financial statements conform with International Financial Reporting Standards ("IFRS"), as endorsed by the European Union ('EU') and the International Financial Reporting Interpretations Committee ('IFRIC') and also with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available for sale investments, financial assets and liabilities (including derivatives) at fair value through income. The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The Company has not used any significant estimates or judgements in preparing the financial statements in conformity with IFRS. The principal accounting policies adopted are listed below. These policies have been consistently applied to all years presented, unless otherwise stated.

Consolidation

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

Investment income

Investment income includes dividends, interest on deposits and interest on loan advances to customers. Dividends are included on an ex-dividend basis. Interest on deposits and expenses are included on an accruals basis. Interest income for financial assets that are not classified as "fair value through income" is recognised using the effective interest method. The effective interest rate is calculated at outset by discounting the asset's estimated cash flows back to their net carrying amount.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Income taxes

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

- Current income tax

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

- Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Investments in group undertakings

The subsidiaries are held in the Company's statement of financial position at cost less any provision for permanent diminution in value. An assessment of the realisable value is made at the year end and, if the Directors assess that there has been a permanent fall in that value below the carrying value, a provision is made to bring the carrying value down to the assessed realisable value.

Trade and other receivables

Trade and other receivables are recognised when due and comprise amounts due to the Company from group undertakings and other receivables. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the statement of comprehensive income. Trade and other receivables are initially recognised at fair value and then subsequently held at amortised cost.

Trade and other payables

Trade and other payables are recognised when due and include amounts due to group undertakings and accruals. They are initially recognised at fair value and subsequently held at amortised cost.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Company expects some or all of a provision to be reimbursed it is recognised as a separate asset when the reimbursement is certain.

Provisions are measured at the present value of the expenditure required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Cash and cash equivalents

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

For the purpose of the cash flow statement, cash and cash equivalents are as defined above but are shown net of outstanding bank overdrafts

CHANGES IN ACCOUNTING POLICIES

(i) Standards, amendments to published standards and interpretations effective on or after 1 January 2011

The following amendments to published standards are mandatory for the Company's accounting periods beginning on or after 1 January 2011

In May 2010 the IASB issued its annual amendments to IFRSs. The IASB uses the annual improvements process to make necessary, but non-urgent, amendments to IFRSs that will not be included as part of major projects.

This set of amendments includes changes to six standards and one IFRIC and is based on the exposure draft issued in August 2009 with an additional change to IFRS 1, 'First-time adoption of International Accounting Standards', which was exposed as part of the 'Rate regulated activities' proposals issued in July 2009.

These amendments have had only a minor impact on some of the disclosures given in the financial statements.

(ii) Standards, amendments to published standards and interpretations early adopted by the Company

In 2011, the Company did not early adopt any new, revised or amended standards.

(iii) Standards and interpretations effective in 2011 but not relevant to the Company's operations

IAS 24 (revised) 'Related party disclosures'

'Classification of rights issues' (amendment to IAS 32)

Amendment to IFRS 1 'First time adoption on financial instrument disclosures'

Amendment to IFRIC 14 'Prepayments of a minimum funding requirement'

IFRIC 19 'Extinguishing financial liabilities with equity instruments'

IFRIC 16 'Hedges of a net investment in a foreign operation'

(iv) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2012 or later periods, and the Company has not early adopted them.

Amendment to IFRS 7, Financial Instruments. Disclosures on derecognition, issued in October 2010. The amendment applies to annual periods beginning on or after 1 July 2011. Earlier application is permitted. These amendments are as part of the IASB's comprehensive review of the off statement of financial position activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The change is not expected to have a material impact on the Company's financial statements.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

IAS 19 (revised 2011) 'Employee benefits', issued in June 2011. This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures. The amendment applies to annual periods beginning on or after 1 January 2013. The change is not expected to have an impact on the Company's financial statements.

Amendment to IAS 1 'Financial statement presentation, on other comprehensive income (OCI)', issued in June 2011. This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements. The Company is yet to assess the full impact of amendments and intends to adopt the amended IAS 1 no later than the accounting period beginning on or after 1 January 2013.

Amendment to IFRS 1 'First time adoption' on hyperinflation and fixed dates, issued in December 2010. These amendments are based on two exposure drafts. The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The amendments apply to annual periods beginning on or after 1 July 2011 and are not expected to have any impact on the Company's financial statements.

Amendment to IAS 12 'Income taxes' on deferred tax, issued in December 2010. Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. The amendments apply to annual periods beginning on or after 1 January 2012 and are not expected to have any impact on the Company's financial statements.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

IFRS 9 'Financial Instruments' on 'classification and measurement' of financial assets, issued in November 2009. This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 9 'Financial Instruments' on 'classification and measurement' of financial liabilities, issued in October 2010. These are further additions to IFRS 9 dealing with financial liabilities. The additions, which are part of the IASB's plan to replace IAS 39, retain most of the IAS 39 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change in the additions is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions.

The Company is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2013.

IFRS 10 'Consolidated financial statements', issued in May 2011. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The Company is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

IFRS 11 'Joint arrangements', issued in May 2011. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Company is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

IFRS 12 'Disclosure of interests in other entities'. This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off statement of financial position vehicles. The Company is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

IFRS 13 'Fair value measurement', issued in May 2011. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on or after 1 January 2013.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

IAS 27 (revised) 'Separate financial statements', issued in May 2011. This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The Company is yet to assess the full impact of the amendments and intends to adopt the amended IAS 27 no later than the accounting period beginning on or after 1 January 2013.

IAS 28 (revised) 'Investments in associates and joint ventures', issued in May 2011. This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Company is yet to assess the full impact of the amendments and intends to adopt the amended IAS 28 no later than the accounting period beginning on or after 1 January 2013.

3 Capital management

The Company maintains an efficient capital structure from a combination of equity and borrowings, consistent with the Company's risk profile.

The Company retains capital to meet three key objectives:

- (i) To ensure financial stability,
- (ii) To enable the Company's strategy to be developed, and
- (iii) To give confidence to consumers and other stakeholders who have relationships with the Company.

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

As the Company is not regulated, there are no external capital requirements.

The Company had capital available of £231,781,000 (2010: £231,777,000), being net assets available to the Company.

4. Investment income

	2011 £000	2010 £000
Dividends received from group undertakings	-	13,142
	-	13,142

5 Other operating income

	2011 £000	2010 £000
Interest receivable	1	4
Unwinding of discount on interest free loan	-	96
	1	100

An interest free loan to Lyons Davidson was issued on 1 July 2004 for the term of 6 years and repaid on 31 July 2010. The cash flows have been discounted over 6 years using an interest rate of 5%.

HIGHWAY INSURANCE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****6 Write back of carrying value of investments in subsidiaries**

Write back/(down) of carrying value of investments in subsidiaries are made of

	2011 £000	2010 £000
Highway Insurance Guernsey Limited	-	(2,581)
Highway Corporate Capital Limited	-	(1)
Highway Group Services Limited	-	(18,120)
SLA Holdings Limited	-	194
New London Capital Holdings Limited	-	38,135
	-	17,627
Ockham Corporate Limited (release of provision)	-	(3)
	-	17,624

7. Finance costs

	2011 £000	2010 £000
Bank interest	-	315
	-	315

8. Other operating and administrative expenses

Operating and administrative expenses include

	2011 £000	2010 £000
Waivers of intercompany balances	-	5,879
Release of provision against intercompany loss	-	(33,730)
Other expenses	-	7
	-	(27,844)

9 Auditors' remuneration

	2011 £000	2010 £000
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	10	10
	10	10

In 2011 LVFS has borne the audit costs of the Company and all its subsidiaries

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

10 Directors' emoluments

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

The aggregate amount of Directors' emoluments was as follows

	2011 £000	2010 £000
a) Aggregate emoluments	5,537	4,016

b) There were no contributions to the money purchase pension scheme in 2011 (2010: £nil)

c) Emoluments of the Directors were as follows

	Salary Bonus		Other Benefits	Long Term Incentive Plan	Compe nsation for loss of office £000	Total 2011 £000	Total 2010 £000
	£000	£000	£000	£000	£000	£000	£000
Highest paid Director	491	518	123	1,046	-	2,178	1,247
All Directors	2,145	1,393	197	1,682	120	5,537	4,016

The Directors of the Company are remunerated by LVFS and Liverpool Victoria Insurance Management Limited (LVIM) in respect of their executive roles within the Group.

Other benefits include contributions to funded unapproved retirement benefit schemes, car allowances, medical, relocation and other benefits in kind or their equivalent monetary value.

LVFS has made no contributions to personal pension arrangements during 2011 or 2010.

d) Pension arrangements

P M Bunker, S V Castle, S R Haynes and J B O'Roarke are members of the LV= Employee Pension Scheme, which is a defined benefit scheme.

LVFS makes contributions to the LV= Employee Pension Scheme of an average of 17.1% of pensionable salaries (2010: 19% of pensionable salaries) in respect of all permanent staff, including executive Directors. These included amounts on behalf of executive Directors of £148,528 (2010: £222,845).

M J Rogers is a member of the staff pension scheme for life assurance only.

The 2011 payments to the new defined contribution scheme in relation to the Directors is £69,867 (2010: £11,000).

	2011 £000	2010 £000
Accrued pension at end of year		
Highest paid Director	-	-
All Directors	149	90

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

11. Income tax expense

a) Current year tax (expense)/credit

	2011 £000	2010 £000
Group relief	-	65
Prior year adjustments	-	139
	-	204

Deferred tax.

Deferred tax charge	(3)	(3)
Total current tax (note (b))	(3)	201

b) Reconciliation of tax charge for year

The tax assessed for the year is higher (2010 lower) than the standard rate of corporation tax in the UK (26.5%). The differences are explained below

	2011 £000	2010 £000
Profit before tax	7	58,395
Profit multiplied by standard rate of corporation tax in the UK of 26.5% (2010 28%)	(2)	(16,351)
Effects of		
Expenses not deductible for tax purposes	-	(7,484)
Impact of change in UK tax rate on deferred tax	(1)	-
Non-taxable income relating to intergroup balances	-	20,217
Adjustments in respect of investment income	-	3,680
Adjustments to tax (expense)/credit in respect of prior years	-	139
Total tax (expense)/credit for the year (note (a))	(3)	201

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the profits for this accounting period are taxed at an effective rate of 26.5%.

In addition to the changes in rates of Corporation Tax disclosed above, a number of further changes to the UK Corporation Tax system were announced in the March 2011 UK Budget Statement. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the reporting date and, therefore, are not included in these financial statements.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

12 Investments in subsidiaries

	2011 £000	2010 £000
Shares in subsidiaries		
Balance at 1 January	264,010	274,148
Additions	-	40,000
Repayments of share of capital	(500)	(67,765)
Write back	-	17,627
Balance at 31 December	263,510	264,010

2010 additions of £40,000,000 relate to capital contribution to Highway Insurance Company Limited

The repayments of share capital are made of

	2011 £000	2010 £000
Highway Insurance Guernsey Limited	500	-
New London Capital Limited	-	53,735
SLA Holdings Limited	-	5,778
Highway Group Services Limited	-	8,252
	500	67,765

The write backs are made of

	2011 £000	2010 £000
SLA Holdings Limited	-	(194)
New London Capital Limited	-	(38,135)
Highway Insurance Guernsey Limited	-	2,581
Highway Corporate Capital Limited	-	1
Highway Group Services Limited	-	18,120
	-	(17,627)

The following were subsidiary companies throughout the year and at year end

Name	Country of incorporation	% held	Class of shares held	Nature of business
SLA Holdings Limited	England	100% directly held	Ordinary shares	Holding company
Highway Group Services Limited (formally known as Highway Group Services Plc)	England	100% directly held	Ordinary A shares, Ordinary B shares	Holding company
Highway Insurance Company Limited	England	100% directly held	Ordinary shares	Insurance underwriting

HIGHWAY INSURANCE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****12 Investments in subsidiaries (continued)**

The following were subsidiary companies throughout 2010 but have been dissolved during 2011

Name	Country of incorporation	Percentage held	Class of shares held	Nature of business
Highway Insurance Guernsey Limited	Guernsey	100% directly held	Ordinary shares	Insurance underwriting
360 Degrees Claims Limited	England	100% directly held	Ordinary shares	Accounts for accident claims management fees
New London Capital Limited	England	100% directly held	Ordinary shares	Investment company
New London Capital Holdings Limited	England	100% directly held	Ordinary shares	Holding company

13 Deferred tax asset

Deferred tax is provided at 26.5% (2010: 28%) analysed over the following timing differences

	2011 £000	2010 £000
Balance at 1 January	12	15
Current year charge	(3)	(3)
Balance at 31 December	9	12
Analysis of deferred taxation temporary differences	2011 £000	2010 £000
Advanced capital allowances	9	12
	9	12
	2011 £000	2010 £000
Deferred tax asset expected to be recovered after more than 12 months	7	9
Deferred tax asset expected to be recovered within 12 months	2	3
Net deferred tax asset	9	12

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation is dependent on the availability of future taxable profits within the Company. Management forecasts currently support the future recoverability of the deferred tax asset recognised in the statement of financial position as at 31 December 2011.

Deferred tax balances have been measured taking into account the change in the rate of UK corporation tax from 26% to 25%. This change was substantively enacted on 5 July 2011 and will be effective from 1 April 2012.

In addition to the changes in rates of Corporation Tax disclosed above, a number of further changes to the UK Corporation Tax system were announced in the March 2011 UK Budget Statement. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the reporting date and, therefore, are not included in these financial statements.

HIGHWAY INSURANCE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011****14 Current tax asset**

	2011 £000	2010 £000
Balance at 1 January	-	428
Current year charge	-	204
Group relief	-	(65)
Tax refund received	-	(567)
Balance at 31 December	-	-

15 Cash and cash equivalents

Cash and cash equivalents are fully represented by cash at bank and in hand

16 Provisions

	2011 £000	2010 £000
At 1 January	230	-
Additions	-	230
At 31 December	230	230

17 Trade and other payables

	2011 £000	2010 £000
Amounts due to group undertakings	31,513	32,870
Other payables	6	5
	31,519	32,875

All trade and other payables are payable within one year

18. Share capital

	2011 £000	2010 £000
Issued and fully paid		
208,780,674 (2010: 208,780,674) ordinary shares of £0.20 each	41,756	41,756

During 2010 the Company adopted new Articles of Association in line with the Companies Act 2006 and no longer has an authorised share capital

19 Share premium

	2011 £000	2010 £000
Balance at 1 January and 31 December	20,471	20,471

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

20. Capital reserve

	2011 £000	2010 £000
Balance at 1 January	144,000	104,000
Contributions	-	40,000
Balance at 31 December	144,000	144,000

The Company received the following capital contributions from Liverpool Victoria Insurance Company Limited during 2010

16 July 2010	£15,000,000
22 October 2010	£10,000,000
16 December 2010	£10,000,000
20 December 2010	£5,000,000
Total 2010	£40,000,000

21 Accumulated losses/retained earnings

	2011 £000	2010 £000
Balance at 1 January	25,550	(33,046)
Profit for the year	4	58,596
Balance at 31 December	25,554	25,550

22 Cash generated from operating activities

	2011 £000	2010 £000
Profit before tax	7	58,395
Unwinding of discount on interest free loan	-	(96)
Write (back)/down of carrying value of investments in subsidiaries	-	(17,627)
Interest paid	-	315
Changes in working capital		
Decrease in trade and other receivables	-	4,762
Increase in provisions	-	230
Increase/(decrease) in trade and other payables	1	(410)
Decrease in balances due to group undertakings	(1,357)	(112,823)
Cash generated used in operating activities	(1,349)	(67,254)

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

23 Related party transactions

The Company did not enter into any transactions with its key management personnel. All transactions are carried out on an arm's length basis. Details of significant transactions carried out during the year with related parties are as follows:

The following transactions have taken place between the Company and the Group:

	2011 £000	2010 £000
Interest paid to group undertakings	-	(315)
Group relief	-	65
Dividends received from group undertakings	-	13,142
	-	12,892

Balances outstanding between the Company and LVFS:

	2011 £000	2010 £000
Payable by the Company to ultimate parent	(31,513)	(32,870)
	(31,513)	(32,870)

Key management personnel of the Group include all Directors, executive and non-executive, and senior management (the Board and the Executive Committee).

The summary of the compensation of key management personnel for the year is as follows:

	2011 £000	2010 £000
Salaries and bonuses	3,735	3,724
Other long-term benefits	1,682	-
Compensation for loss of office	120	292
Post employment benefits	218	90
	5,755	4,106

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

24 Ultimate parent company

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

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

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

The largest and smallest company whose financial statements this company is consolidated into is Liverpool Victoria Friendly Society Limited. The consolidated financial statements of Liverpool Victoria Friendly Society Limited are available to the public and may be obtained from

The Company Secretary
County Gates
Bournemouth
BH1 2NF

or at www.lv.com/aboutus/report