

COMPANY REGISTRATION NUMBER: 02998217

HIGHWAY INSURANCE GROUP LIMITED

**REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2020



HIGHWAY INSURANCE GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS YEAR ENDED 2020

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HIGHWAY INSURANCE GROUP LIMITED

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

J Dye
S Treloar

Company secretary

C M Twemlow (appointed 01.02.21)
R C Jack-Kee (appointed 01.01.20) (resigned 01.02.21)

Registered office

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

Independent Auditors

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

STRATEGIC REPORT

1. Principal activities

Highway Insurance Group Limited ('Company') is a wholly owned subsidiary within the Allianz Holdings plc ('AZH') group of companies ('Allianz', 'the Group') which is one of the largest general insurers in the United Kingdom measured by gross written premium. The Company is also a subsidiary of Liverpool Victoria General Insurance Group Limited and acts as a holding company for Highway Insurance Company Limited ('HICO') with net assets at year end of £194,226k (2019: £294,573k).

2. Results and dividends

The loss for the financial year was £100,347k (2019: £nil) as set out on page 11 and this relates entirely to an impairment of the subsidiary company. The Company reviewed the value of its investment in the subsidiary company, Highway Insurance Company Limited ('HICO'), which made a loss for the year of £1,564k. The value of HICO has been held at initial cost since purchase, and including a subsequent capital injection, had a carrying value of £294,510k. The review of the Net Asset Value over that initial cost indicated the need to complete an impairment assessment. The Company has relied upon the value in use method and impaired the value of the underlying subsidiary, HICO by £100,347k (see note 6).

The Directors have declared and paid £nil in the current year to the parent company as dividends (2019: £nil). No final dividends were proposed or paid (2019: £nil).

3. Business review and developments

(a) Strategy

The long term objective of Liverpool Victoria General Insurance Group Limited ('LVGIG Group') and its subsidiaries is as follows:

"Our vision remains to be Britain's best loved, achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperformance particularly in the Motor market. The strategy now includes the successful integration of the business acquired through the purchase of Fairmead Insurance Limited and realising benefits from the Allianz ownership of LVGIG".

The Company will continue in its capacity as a holding Company in the LVGIG Group.

(b) Principal risks and uncertainties and risk management

The primary uncertainty relevant to the Company would be whether the carrying value of its investment in subsidiary undertaking HICO is supportable and, following the impairment as referred to in Section 2 above, the Directors currently have no concern in this regard. For further details, refer to the Investments in Group undertakings note 6.

COVID-19: The global pandemic was a new and significant source of uncertainty for the business in 2020. From the emergence of the risk at the start of the year, the LVGIG Group closely monitored the situation with senior leaders meeting on a regular basis to manage operational risk and responses. There was close alignment and interaction with Allianz to ensure the Company benefited from the wider Allianz response. Our values guided our decision making as the Company continued to work through this challenging time, with a focus on putting our people first and our customers at the heart of what we do. The key risks presented being both operational and financial which we are still continuing to actively monitor and manage on a regular basis as we did throughout the year. Consistent communications have and are continuing to take place across the organisation to keep all colleagues informed throughout this period of uncertainty. The risks largely came to the fore from late February 2020 onwards as new information emerged and the government response developed. Although HICO made a loss during the year, this was not as a result of impacts from COVID-19 but as a result of strengthening prior year claims reserves, and increased severity of motor claims, as well as the integration costs of the Fairmead Home business.

The Company's investment in its underlying subsidiary HICO continues to be closely monitored. Financial risks which HICO responded to include adverse movements in investments held, in particular the increase in credit spreads (the gap between yields and the risk free rate) on the corporate bond portfolio. Costs to settle claims may be expected to rise due to increased times to settle and cost pressures in the supply chain. Against this we saw new claims on Motor and Home falling which will lead to claims cost savings. The government instruction for people to stay at home is leading to fewer journeys being made and hence as long as this persists we expect to see reductions in Motor accidents and hence claims.

STRATEGIC REPORT

3. Business review and developments (continued)

(b) Principal risks and uncertainties and risk management (continued)

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

The solvency position of the Company's subsidiary, HICO, is being frequently monitored in light of these emerging financial risks. The impact as noted above is in some cases positive and in others causes a strain. We continue to assess the level of solvency against the Company's risk appetite and maintain a number of contingency actions should the solvency position become under stress and need addressing.

(c) Key performance indicators

As the Company does not trade, the Directors do not consider it appropriate to report key performance indicators.

(d) Significant post statement of financial position events

There have been no events of significance affecting the Company since the statement of financial position date.

s.172 Statement

The Company is managed by the AZH Board. Information on how the AZH Board discharges its duties under s.172(1) (a) to (f) of the Companies Act 2006 can be found within the Strategic Report on page 7 of the 2020 Annual Report and Accounts for LVGIG.

On behalf of the Board of Directors



S Treloar
Director

September 28, 2021

DIRECTORS' REPORT

As permitted by section 414C(11) of the Companies Act 2006, certain information is not included in the Directors' Report because it has instead been shown in the Strategic Report. This information is:

- Results and dividends;
- Principal activities of the Company;
- Business review and future prospects;
- Principal risks and uncertainties and risk management.

1. Directors and their interests

The members of the Board and those who were in office during the year and up to the date of signing the financial statements are listed on page 3.

2. Parent company

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

3. Directors confirmations

In the case of each Director in office at the date the Directors' report's approved:

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

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



C Twemlow
Secretary

September 28, 2021

DIRECTORS' REPORT

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are 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.

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2020; the Statement of comprehensive income, the statement of cash flows and the statement of changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the

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

other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches in UK Companies Act (2006) requirements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as valuation of investments in group undertakings. Audit procedures performed by the engagement team included:

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

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Testing significant accounting estimates and judgements such as the valuation of investments in group undertakings;
- Reviewing relevant meeting minutes including those of the Board of Directors and attending all Audit Committee meetings; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by certain senior management.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Adam Beasant (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
28 September 2021

HIGHWAY INSURANCE GROUP LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020**

		2020	2019
	Note	£000	£000
Total income		-	-
Impairment of investment in subsidiary undertaking	6	(100,347)	-
(Loss) before tax		(100,347)	-
(Loss) for the financial year		(100,347)	-
Total comprehensive (loss) for the year		(100,347)	-

The notes on pages 15 to 21 are an integral part of the financial statements.

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**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020**

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 January 1, 2020		41,756	20,470	132,192	100,155	294,573
Loss for the financial year	12	-	-	-	(100,347)	(100,347)
Balance at December 31, 2020		41,756	20,470	132,192	(192)	194,226

Attributable to equity holders of the Company						
		Share capital	Share premium	Capital reserve	Retained earnings	Total equity
		£000	£000	£000	£000	£000
Balance at January 1, 2019		41,756	20,470	132,192	100,155	294,573
Balance at December 31, 2019		41,756	20,470	132,192	100,155	294,573

The notes on pages 15 to 21 are an integral part of the financial statements.

STRATEGIC REPORT

	Note	2020 £000	2019 £000
Assets			
Investments in Group undertakings	6	194,163	294,510
Deferred tax asset	7	2	2
Cash and cash equivalents	8	61	61
Total assets		194,226	294,573
Total liabilities			
		-	-
Equity			
Share capital	9	41,756	41,756
Share premium	10	20,470	20,470
Capital reserve	11	132,192	132,192
Retained earnings	12	(192)	100,155
Total equity		194,226	294,573
Total liabilities and equity		194,226	294,573

The notes on pages 15 to 21 are an integral part of the financial statements.

Signed on behalf of the Board of Directors



S Treloar
Director

September 28, 2021

HIGHWAY INSURANCE GROUP LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020**

	Note	2020 £000	2019 £000
Cash and cash equivalents at January 1	8	61	61
Cash flows arising from:			
Operating activities			
Loss before tax		(100,347)	-
Non-cash item: Impairment of subsidiary		100,347	-
Cash (used in) / generated from operating activities		-	-
Net cash flows generated from operating activities		-	-
Cash and cash equivalents at December 31	8	61	61

The notes on pages 15 to 21 are an integral part of the financial statements.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

1. General information

The Company is a holding company for HICO. The Company is a private limited company, limited by shares, domiciled and incorporated in England, United Kingdom.

2. Accounting policies

BASIS OF PRESENTATION

These financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

The preparation of the financial statements in conformity with IFRS requires the use of estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The valuation of the subsidiary company HICO involves a significant judgement and any impairment of this subsidiary is assessed annually.

Where the net asset value of the subsidiary falls below the cost of investment in the subsidiary, the valuation is based on the subsidiary's value in use. The value in use is based on the future cash flows forecast into perpetuity and calculated as at the end of the period covered by the formal Annual Plan 2021 – 23, with a further two-year period of projection and discounted to its present value.

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

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

Going concern

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

The Company manages capital so as to safeguard its ability to continue as a going concern. The Company has no short term or long term debt and considers its capital to comprise its ordinary share capital and accumulated losses.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

2. Accounting policies (continued)

Impairment of financial assets

The Company reviews the carrying value of its financial assets not carried at fair value through profit and loss at each Statement of Financial Position ('SOFP') date. If the carrying value of a financial asset is impaired, the impairment is recognised through establishment of a loss allowance which is charged to the Statement of Comprehensive Income ('SOCl').

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

Income tax expense

The income tax expense reflects the movement in current and deferred income tax in respect of income, gains, losses and expenses and is recorded in the SOCI and represents the current year corporation tax charge. Corporation tax is charged on trading profits arising in the year.

Current income tax

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

Deferred tax

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

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

Investments in Group undertakings

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

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 an EEA parent, and is included in the consolidated financial statements of the ultimate parent.

Cash and cash equivalents

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

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

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

2. Accounting policies (continued)

Trade and other payables

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

Share capital

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

Share premium

Share premium account includes any premium received on the initial issuing of the share capital. Any transaction costs associated with the issuing of shares are deducted from share premium account, net of any related income tax benefits.

Dividend distribution

Dividend distribution to the Company's equity shareholder is recognised in equity in the period in which the dividend is paid.

a) New and amendments to standards

No new standards have been adopted by the European Union ('EU') for accounting periods beginning on or after January 1, 2020.

(b) New standards and interpretations not yet adopted

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

3. Significant accounting judgements, estimates and assumptions

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

Significant accounting judgement - Valuation of subsidiaries

The valuation of the subsidiary company HICO involves a significant judgement and any impairment of this subsidiary is assessed annually.

Where the net asset value of the subsidiary falls below the cost of investment in the subsidiary, the valuation is based on the subsidiary's value in use. The value in use is based on the future cash flows forecast into perpetuity and calculated as at the end of the period, based on financial plans approved by the Directors covering a three year period, with a further two year period of projection and discounted to its present value. See further information in the Investments in group undertakings note 6.

4. Audit remuneration

LVGIG is responsible for the management and administration of the Company. The audit remuneration in respect of services to the Company is £9k and is borne by LVGIG.

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

5. Directors' emoluments

The emoluments of the directors are paid by the intermediate parent company, LVGIG which makes no recharge to the Company. The directors are also directors of LVGIG (and a number of fellow subsidiaries) and it is not possible to make an accurate apportionment of their emoluments in respect of each of the subsidiaries. Accordingly, the above details include no emoluments. Total emoluments for the relevant directors are included in the aggregate of Directors' emoluments disclosed in the financial statements of LVGIG.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

6. Investments in Group undertakings

	2020 £000	2019 £000
At January 1	294,510	294,510
Impairment of Highway Insurance Company Limited	(100,347)	-
At December 31	194,163	294,510

The following was a subsidiary company throughout the year and at year end:

Name	Country of incorporation	% held	Class of shares held	Nature of business
Highway Insurance Company Limited	England	100% directly held	Ordinary shares	Insurance underwriting

The registered address for the subsidiary referred to above is: 57 Ladymead, Guildford, Surrey, England, GU1 1DB.

Key assumptions used in the impairment testing of investments in group undertakings

The recoverable amount (based on value-in-use calculations) of the investments in group undertakings has been determined using cash flow predictions based on financial plans approved by the Company covering a five-year period.

These plans are comprehensively revisited on an annual basis in Q4 of each year, with reforecasts taking place at earlier intervals where these are felt necessary. All key functions in the business are involved in their development, before review and challenge by the Board. The plans assume growth in Gross Written Premium of 19% over the next two years where the primary driver of growth is renewal business acquired from Fairmead. Average annual growth in the final 3 years of this 5 year plan is 4%, with a terminal growth rate of 0.5% applied to all cash flows thereafter. The terminal growth rate aligns with Allianz Group methodology and is designed to reflect the current level of economic uncertainty. In undertaking the impairment assessment, management has taken account of the competitive market environment, and the fact the plan assumes the market is not disrupted by competitor behaviour. The plan reflects the new quota share agreement and assumes the Underwriting loss ratio decreases to 67.9% where a key driver is the growth in the Home book acquired from Fairmead, which typically has a lower loss ratio than Motor. The Expense ratio decreases to 26.6%, in part through cost reductions associated with integration with Allianz.

The plan assumes good underwriting results but a modest investment income of £5,000k-6,000k interest received each year with less reliance placed on investment returns in the current economic climate that has emerged in the wake of the Covid-19 pandemic. These were determined in consultation with our inhouse Investment Management team. The forecast cash flows have been discounted at a pre-tax rate of 9.88%, an increase of 1.88% versus the rate used in 2019. This rate was determined by Allianz, in line with the Cost of Capital requirement for UK operating entities using the Capital Asset Pricing Model. Both the terminal growth rate and the discount rate are consistent with the ranges observed in the market place.

Based on the above assumptions, the value in use amount gave rise to a £100,347k deficit over the carrying amount and the value of Highway Insurance Company Limited was impaired down to £194,163k. This has been recognised as a charge to the income statement in line "Impairment of investment in subsidiary undertaking". The primary drivers of this impairment are the combination of the lower forecast investment returns and increased discount rate, which is reflective of the greater risks in the current, more uncertain environment in which the Company and its group undertakings operate in.

Further sensitivity analysis show that the base case discounted cash flows are most sensitive to a change in the expense or loss ratios. Currently, an increase in the expense or loss ratio of 1% would result in an increase to the deficit from £100,347k to £133,918k. However, a further increase to the discount rate of 1% would result in an increase to the deficit from £100,347k to £118,584k. The cash flows used in the financial plans are also sensitive to changes in the assumed growth over the next 5 years. An increase in the annual growth rate over the next 5 years by 1% reduces the deficit to £92,550k.

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

7. Deferred tax asset

	2020 £000	2019 £000
At 1 January	2	2
At 31 December	2	2

Analysis of deferred taxation temporary differences

	2020 £000	2019 £000
Advanced capital allowances	2	2
	2	2

Analysis of the deferred tax balance

	2020 £000	2019 £000
Deferred tax asset expected to be recovered after more than 12 months	2	2
Net deferred tax asset	2	2

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 and group. Management forecasts currently support the future recoverability of the deferred tax asset recognised in the Statement of Financial Position as at December 31, 2020.

In the Spring Budget 2020, the Government announced that from April 01, 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at 31 December 2019, its effects were not included in the 2019 financial statements. From April 01, 2023 the rate will increase to 25%.

8. Cash and cash equivalents

Cash and cash equivalents are fully represented by cash at bank and in hand of £61,000 (2019: £61,000).

9. Share capital

	2020 £000	2019 £000
Ordinary shares, allotted and fully paid:		
208,780,674 (2019: 208,780,674) ordinary shares of £0.20 each	41,756	41,756

All authorised shares have been issued.

HIGHWAY INSURANCE GROUP LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020****10. Share premium**

	2020	2019
	£000	£000
Balance at January 1	20,470	20,470
Balance at December 31	20,470	20,470

11. Capital reserve

	2020	2019
	£000	£000
Balance at January 1	132,192	132,192
Balance at December 31	132,192	132,192

12. Retained earnings

	2020	2019
	£000	£000
Balance at January 1	100,155	100,155
Loss for the financial year	(100,347)	-
Balance at December 31	(192)	100,155

13. Related party transactions

During the year, the Company did not enter into significant transactions with related parties.

14. Ultimate parent company

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

The immediate parent company is Liverpool Victoria Insurance Company Limited ('LVIC'), a limited liability company, incorporated in England and Wales.

The immediate parent company is registered at the below address.

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

HIGHWAY INSURANCE GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2020

The largest company whose financial statements this company is consolidated into is Allianz SE. The smallest company whose financial statements this company is consolidated into is Allianz Holdings plc. With effect from December 31, 2019 LVGIG (the immediate parent of LVIC) is a 100% owned subsidiary of Allianz Holdings UK (2019: 100%), when it purchased the remaining 51% from the previous parent LV Capital plc.

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

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

or

Allianz
Königinstrasse 28
D-80802 Munich
Germany