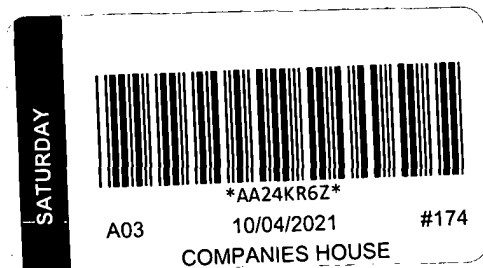


COMPANY REGISTRATION NUMBER: 03730662

**HIGHWAY
INSURANCE COMPANY LIMITED**

**REPORT AND
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2020



C O N T E N T S

	Page
Directors, officers and registered office	3
Strategic report	4
Directors' report	16
Independent auditors' report	20
Statement of Comprehensive Income	28
Statement of Changes in Equity	29
Statement of Financial Position	30
Statement of Cash Flows	31
Notes to the Financial Statements	32

HIGHWAY INSURANCE COMPANY LIMITED

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

J M Dye
R O Hudson
S Treloar
D A Torrance (appointed 01.01.20)
D J Larnder (appointed 01.01.20)
C W T Dinesen (appointed 01.01.20)
R M Murison (appointed 01.01.20)
F K Dyson (appointed 01.01.20)
N C Peiris (appointed 01.01.20) (resigned 31.12.20)

Company Secretary

T A Beicken (appointed 01.01.20) (resigned 01.09.20)
C M Twemlow (appointed 01.09.20)

Registered office

57 Ladymead
Guildford
Surrey
England
GU1 1DB

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
3 Forbury Place
23 Forbury Road
Reading
Berkshire
RG1 3JH

STRATEGIC REPORT

1: Principal activities

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

On December 28, 2017 the Company sold its Commercial broker lines renewal rights to Allianz Insurance plc as part of a wider deal which saw Allianz acquire 49% of Liverpool Victoria General Insurance Group Limited ('LVGIG'), an intermediary parent holding company. As a result the Company ceased writing Commercial broker new business during 2018. The Commercial broker business represents a separate major line of business for the Company and is therefore presented as a discontinued operation. The discontinued operations are therefore shown on one line only in the Statement of Comprehensive Income.

As part of the same 2017 transaction, the Company acquired from Allianz Insurance plc ('Allianz Insurance'), a fellow subsidiary of Allianz the renewal rights to the Allianz Insurance personal lines business for a cost of £1,000,000.

On December 31, 2019, Allianz acquired the remaining 51% of LVGIG to take full control.

As part of LVGIG's strategy to diversify and grow its business, on January 3, 2020, LVGIG purchased Legal and General Insurance Limited, ('LGIL') subsequently renamed as Fairmead Insurance Limited ('Fairmead'). Fairmead is a UK non-life insurance business which had been part of the Legal and General Group, focused on Home with a small but growing Pet business.

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

Towards the end of 2020, a small number of former broker customers of Fairmead migrated to the Company going live with a 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 move their custom to the Company or its intermediate parent company, Liverpool Victoria Insurance Company ('LVIC').

2. Results and dividends

The loss after tax for the year attributable to the owners of the parent is £1,564,000 (2019: loss of £6,603,000) as set out on page 28. The Directors have declared and paid £nil in the current year to the parent company as an interim dividend (2019: £nil). No final dividends were proposed or paid (2019: £nil). The Net Asset Value at December 31, 2020 was £ 250,403,000 up £5,553,000 from the position the previous year.

3. Business review and developments

(a) Results and performance

The 2020 results for the Company show a loss before taxation from continuing operations of £740,000 (2019: £10,753,000). The Company benefited from a significant investment gain as it restructured its investment portfolio. The underwriting result benefited from lower claims frequency due to COVID-19 although this was offset by prior year strengthening in Motor lines.

2020 ended with customers of the LVGIG group of companies ('LVGIG Group') holding 7.5m LVGIG policies (2019: 5.6m). The increase was due to 1.8m policies from the Fairmead Home acquisition ('Fairmead'). The Company having 1.1m of these policies (2019: 1.0m). It is expected that Fairmead policyholders will continue to move to the Company throughout 2021. Customer satisfaction measures remain strong within LVGIG with our underlying NPS score on LVGIG which represents the customers of the Company and its subsidiaries at 72% (2019: 72%). We achieved 12th place out of 271 companies in the UK Customer Satisfaction Index announced in January 2021, and were 1st within the insurance sector.

STRATEGIC REPORT

3. Business review and developments (continued)

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

1. Premium written: Market conditions have remained highly competitive, particularly in the Motor market. Overall, the Company saw an increase 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 [Insurance], diversifying its reliance upon Motor.

2. Underwriting result: 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 motor claims frequency due to reduced levels of driving in the national and regional lockdowns through the year, this was offset by increased severity and vehicle repair costs as well as prior year strengthening. The increasing volatility and large claims experience has contributed to the decision to increase the margin held within reserves moving from holding the 75th to now holding the 80th percentile.
3. Investment returns: Overall investment returns for 2020 were £19.7m, with an increase of £11.2m from the previous year. The increase was primarily due to the effect of the portfolio transition to a revised strategic asset allocation, focussing more on corporate and government bonds under the new fund managers PIMCO, a company within the Allianz SE Group. In April 2020, the Company closed out its investment in a Reverse Repurchase arrangement, which were held as other receivable positions, realising cash in anticipation of transitioning to our new fund manager PIMCO.
4. Expenditure: The Company has maintained strong cost disciplines through controlling acquisition costs and operating expenses. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy. During the year the Company invested in significant restructuring costs of £1.9m in relation to the acquisition of the Fairmead Home business, where it is expected the Personal Lines customers may continue with LVIC and the Company.
5. Claims: During 2020, the Company has experienced some impact from the winter storms in the Home portfolio and despite some initial drop in Motor claims frequency, due to the specialist nature of some Motor lines, this was not significant for the Company. Relative to this vehicle repair costs continue to increase due to the additional complexity of the technology within cars, which led to a higher claims position, with overall gross claims having increased by over 27.3% year on year from continuing operations, from £248m to £316m.
6. Reinsurance: In the latter part of 2015 the Company entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves for 2015 and prior reserves and from 1 January 2016 a 20% quota share arrangement on new business. The later arrangement was renewed each subsequent year with a change of reinsurer to the Allianz SE Group of companies, the ultimate parent company for the 2020 renewal onwards. For the 2021 renewal the amount being ceded has been increased to 40%.

(b) Business environment

In September 2020 the Financial Conduct Authority ('FCA') published its long awaited General Insurance Pricing Practices Market Study ('FCA Pricing Study') alongside a consultation document requesting comments on the proposals by 25 January 2021. The core proposal was that there should be no price differential between new business and renewal customers, thus ending the practice of subsidising new business prices. This will result in significant disruption to the personal lines Motor and Home insurance market and we are reviewing our strategy in light of this.

Whiplash reforms due to come into effect in April 2021 have now been confirmed by the Government as delayed until May.

STRATEGIC REPORT

3. Business review and developments (continued)

(c) Strategy

Our vision is to be Britain's best loved, achieving this through people centricity, maintaining our customer satisfaction and retention rates, and growth through outperforming particularly in the Motor market.

As a consequence of the changes in ownership (as referred to in section 1 Principal activities) the Company ceased to write any new commercial broker business during 2018. The Company's focus is now on Personal Lines and, with the acquisition by the LVGIG Group of Fairmead, this improves diversification from the current concentration on personal Motor.

(d) Principal risks and uncertainties

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.

Financial risks which the Company 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.

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 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.

Pricing: Motor market rates fell over 2020 as early rate increases were quickly eroded with the market benefitting from the COVID-19 frequency reductions. The market uncertainty around the implementation of the FCA Pricing Study may have played into the latter part of the year. Severity inflation continued but overall claims costs fell year on year from reduced frequency fuelling the price reductions seen.

Economic Environment: There was a global decline during 2020, in response to the global pandemic and the uncertainties placed on a number of industries and sectors, seeing bond yields falling over the year. For the UK, in particular UK Government Short dated bonds, rates sank into negative positions falling over 62bps to end at -0.04% reflecting the negative impacts of the pandemic and uncertainty as to whether the UK would achieve a meaningful Brexit deal. Whilst medium to long term bonds yields also fell but remained over all in positive territory. The Bank of England and UK Government took unprecedented steps in response to the pandemic and the need for businesses to lockdown, with base rates reduced to a historic low of 0.1% and financial support measures introduced in March extended throughout 2020 to support the economy.

STRATEGIC REPORT

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)

Brexit: During much of 2020 there was an added risk of an unfavourable Brexit trade deal or no deal, where enforced tariffs and potential exchange rate movements could have led to higher claims inflation. In accordance with our reserving policy, in the past we held a margin above the Actuarial Best Estimate to allow for future uncertainties such as Brexit. Following the conclusion of a deal at the end of the year, the Company made no explicit allowance for Brexit. The risk associated with this has been deemed to be adequately covered by the Claims Margin.

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

Business Change: The Company has continued on the journey it started in 2019, to embed key services such as IT, HR, Compliance and Internal Audit which transferred over to Allianz during 2020 giving the Company access to a wider pool of expertise. In July 2020 the LVGIG Group announced as part of the integration of the Fairmead Home insurance business, a number of roles would be lost, as the business restructured and prepared itself for the future.

As the operational risks from COVID-19 emerged, LVGIG addressed this by enabling all employees to have homeworking capability. At the beginning of the crisis work was prioritised to support claims payments and existing customers, particularly to renew their policies. Initially new business was a lower priority but was still able to be written. Business then focused on returning to usual, albeit from home, with minimal impacts from COVID-19 being felt across the business infrastructure as the year progressed. Our offices remain open for the few key workers who undertake activities which cannot be completed outside of the office, or for anyone experiencing difficulties working from home. Any member of staff attending our offices is doing so on a voluntary basis, and we have actively worked throughout the year to make our offices COVID-19 secure. Alongside this we prioritise a number of financial reporting and operational activities, as well as activities from other areas including IT which support these.

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

Insurance specific developments in technology, such as driverless cars, are other potential factors of material market transformation in the future. The Company is ensuring that it is prepared to respond quickly to changing circumstances.

Exceptional Weather Events: Exceptional weather events will always present a risk to an insurance company which underwrites property. The Company mitigates this risk as far as it considers appropriate through the purchase of reinsurance protection. During 2020, the Company experienced some impact from the storms at the start of the year and then from the persistent winter storms at the year end, but has broadly stayed in line with levels anticipated in the annual business plan.

Regulatory: The Company used the Standard Formula to calculate its capital requirements during 2020. Throughout the year a number of legal and regulatory developments affected the UK insurance market including:

STRATEGIC REPORT

3. Business review and developments (continued)

(d) Principal risks and uncertainties (continued)

1. FCA: As noted on page 5 section b, in September 2020 the FCA Pricing Study was published. The FCA having previously announced its intentions to intervene more actively in the workings of the market where it felt that the right outcomes are not being achieved for the consumer. The core proposal of the review is that there should be no price differential between new business and renewal customers, thus ending the practice of subsidising new business prices. This will result in requirements to change practice in product design, distribution and pricing. While the Company considers that customer value is at the heart of the way it does business, as evidenced by market leading customer satisfaction and recommendation scores, there is a risk that such interventions, designed to address general market concerns, cause material cost and disruption to the Company.

2. Cyber Risk: The risk that the LVGIG Group does not have a sufficiently robust strategy and control infrastructure in place to protect itself against, or to recover from, a cyber event. The high level of threat from the external environment continued during 2020. High profile data loss incidents demonstrate the serious impact such events can have. LVGIG Group operates a comprehensive cyber risk strategy which is designed to ensure that the group continues to identify, assess and respond to the ever changing threat of a cyber-attack. Further development of the group's cyber risk strategy, embedding of controls targeted at data privacy and enhanced mechanisms for monitoring and reporting mean, that although the external environment generates a heightened risk, we have controls in place to monitor and react to this.

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

(e) Future outlook

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

STRATEGIC REPORT

3. Business review and developments (continued)

(f) Key performance indicators ('KPIs')

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

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

KPI	2020	2019	Comments
Premiums written	£411.1m	£373.8m	Premiums written has increased year on year on a continuing basis, despite operating in a slower market with the Company keeping good underwriting and pricing discipline.
Underwriting loss ratio	76.1%	75.5%	The overall reported loss ratio has increased, this has been impacted by large personal injury claims and increased vehicle repair costs.
Expense ratio *	30.8%	31.7%	The year on year expense ratio is higher than expected, being impacted by the integration of the Fairmead company costs.
Combined ratio	106.9%	107.2%	An overall combined ratio of 107% has improved marginally, driven by the slight improvement in the expense ratio.
Investment return	£19.7m	£8.5m	The increase in total investment return for 2020 of £11.2m includes £10m realised gain as the investment portfolio was transitioned to a new strategic asset allocation under the new fund managers PIMCO, an Allianz SE Group company.
Net assets	£250.4m	£244.8m	Net assets at the end of 2020 remain at similar levels to that at the end of 2019.

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

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

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

STRATEGIC REPORT

SECTION 172 REPORT

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

As a result of the governance structure of the Group, of which the Company is a part, some strategic decisions and stakeholder interests (such as employees, community and the environment), are considered on an Group-wide basis by the Board of AZH or its committees ('Group Board') rather than at a subsidiary board level. In doing so, the Group Board has regard to the stakeholder interests relevant to the Group as a whole and the interests relevant to subsidiary companies. Such decisions and stakeholder considerations are understood by the Company's Directors as they are Directors of the Group Board.

As a wholly owned subsidiary of AZH and in line with the duty to promote the success of the Company for the benefit of its shareholder, the Company's Board has regard to the overall strategy and direction of the Group, including the impact on broader stakeholders of the Group, when making decisions. Stakeholders, their interests and the manner in which the Company engages with them, are integral to how the Company conducts business. The Board considers all decisions put to it from the perspective of the Company and has regard to the Company's stakeholders and their interests. This approach is embedded within the Group governance structure. The Company's Board meets quarterly, with additional ad hoc meetings held if required.

Stakeholders

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

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

Employees

The Company does not employ any staff. During the year, LVGIG, and Allianz Management Services Limited ('AMSL'), both subsidiaries of AZH, provided administration services and staff to the Company and to other Allianz Group companies. LVGIG and AMSL have a high level of resources and expertise which benefit the Company. The common approach across LVGIG to employee engagement is explained below.

Employee Engagement

Engaged people are key to the success of the business, not only do they create positive experiences for our customers and colleagues but they help our business thrive. Each year LVGIG invites our people to complete a confidential survey to provide feedback via our employee survey. We recognise that the process of transformation we are currently working through, which will continue in the future, is challenging for our people and it is a key priority to ensure that employees are fully engaged as the LVGIG Group continues to develop during 2021.

STRATEGIC REPORT

Employee Engagement (continued)

Communication with our people is a key focus with various activities undertaken throughout the year supported by our intranet which contains regular updates for our people. The LVGIG executive management team conduct monthly webinars with the leadership team to share the LVGIG strategy and to provide updates on particular topical items of interest. Throughout 2020 as the COVID-19 pandemic progressed, regular meetings were held with the Senior Leadership team who cascaded updates to all our people. Each year there are a number of leadership conference meetings to further share important messages and facilitate discussion and debate. These messages are then cascaded throughout the organisation.

Since the beginning of COVID-19 and the resulting changes to the way in which we work, a variety of engagement methods have been introduced to keep our people informed and seek feedback on matters which affect them. This included regular COVID-19 update calls with senior leadership to provide updates on developments, explain decisions and discuss the impact of home-working on the workforce. These calls include a question and answer forum whereby employees are encouraged to ask questions directly to key speakers. The Board received regular updates about the impact of COVID-19 on employees and their well-being during 2020.

During 2020 employees took part in the annual Allianz Engagement Survey ("AES") for the first time. The AES is a valuable employee feedback platform and an indicator of the Group's corporate culture.

The AES results include the Inclusive Meritocracy Index which covers aspects of leadership, performance, collaboration, trust and respect and the Work Well Index plus which is used to measure the quality of the work environment, practices and opportunities. Inclusive Meritocracy is Allianz's target culture and can be described by three principles: 1) people and performance matter in a culture of inclusive meritocracy; 2) the 'what' and the 'how' count and define individual performance at Allianz; and 3) people attributes set the aspiration for how each employee should act. The Inclusive Meritocracy Index is derived from the responses to a specific series of questions asked in the annual AES.

The AES results are collated to give a Group-wide result and also broken down by division (such as focusing on engagement within each division, by lines of business and by team). The survey results are shared with the Group Board and action plans are developed based on the feedback received within teams. The LVGIG management team also review the results for LVGIG and its subsidiaries. The results of the survey are directly linked to the performance objectives of the Allianz Group Management Board, which includes senior leadership of the LVGIG business and the Company's business. This approach ensures that people, matters of importance to them and the impact of decisions on the workforce are actively considered by the Board and the leadership team when making decisions.

Our People and Culture

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

Flexible working

We understand the importance of having flexible working options available to all of our employees, particularly over the last year when many demands were being made on working parents and carers. To make sure that we are evolving our approach and to keep encouraging talent to join the business, we have set up a working group to foster a flexible working culture. Our aim is to encourage more uptake in flexible working options, especially amongst men who currently only make up a small proportion of those benefiting from flexible working patterns.

STRATEGIC REPORT

Reward and recognition

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

Wellbeing

We understand the importance of our people's wellbeing particularly in the current circumstances where employees are being asked to adapt to new work-life balances. We already had many initiatives in place through our wellbeing support programme. Over the last year we have recruited more champions from across the business to support activities and to make sure that wellbeing days are held at each office for people to discuss and share experiences. We are aware of the importance of supporting our people's mental health. Our Mental Health First Aid is available to anyone in the business in need. Our mental Health First aiders are available on a confidential basis if and when a member of the business wants to make use of them. We have continued to train and increase the numbers of Mental Health First Aiders and now have more available across our sites. In addition, the LVGIG Wellbeing program has been running weekly webinars covering a variety of topics including Burnout, Stress, Breathing, Mediation and Sleep.

Customers

Customer centricity is fundamental to the LVGIG Group business strategy "putting our people first and our customers at the heart of what we do". During the pandemic, the LVGIG Group's focus was on maintaining high levels of service to and supporting our customers. LVGIG went to great lengths to support its customers, suppliers and communities through what was undoubtedly a difficult time for many.

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

In 2020 LV General Insurance Group, were ranked as the number 1 insurer in the Institute of Customer Service UK Customer Satisfaction Index for the fourth consecutive time and LVGIG Broker was awarded the prestigious ServiceMark Accreditation from the Institute of Customer Service. A key method of engaging with our customers across our business is the Top Down Net Promoter Score (TDNPS). The TDNPS is an important indicator that our customer centric culture is embedded within the organisation. We ask our customers and those of our competitors for honest and anonymous feedback and then benchmark the results. During 2020 customer satisfaction measures remained strong within the LVGIG Group with our underlying TDNPS score on LVGIG which represents the customers of the Company and its subsidiaries at 72%. These results are a KPI for the Company and the results are shared with the Board so this information can be considered when making decisions.

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

During 2020, following a Board effectiveness review, the Group Board established a new Customer and Conduct Committee which is responsible for overseeing customer conduct matters including customer relationships, engagement and culture for the Group, including the Company. The Customer and Conduct Committee receive reports on a variety of matters including reports from the LVIC business. The Customer

STRATEGIC REPORT

Customers (continued)

and Conduct Committee reports into the Group Board on all matters, ensuring that the Directors are aware of customer engagement metrics to factor into decision making.

Suppliers

Proposed significant supplier contracts, either strategic or by reason of size and significance, which are relevant to the Company, are considered by the Board following initial meetings and negotiations by procurement and commercial teams, and direct engagement with senior management. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures certain standards are met in relation to ethics, labour and the environment. In addition, the sourcing process itself is governed across the Group by adherence to requirements laid out in the Allianz Global Standard for Procurement via the Local Procurement Standard.

The Group Board assumes responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance assessment. As a consequence the Group Board gives due consideration to significant intended supplier arrangements, their suitability and ability to meet the Group's requirements and the ease with which a productive and mutually beneficial working relationship can be established and maintained with each supplier.

The Supplier Relationship Management team has been set up in procurement specifically to assist teams across the Group with the management of supplier relationships by creating a framework of best practise controls and governance, and by supporting the business in managing significant supplier relationships. The team works in conjunction with our safeguarding functions such as Protection and Resilience, Information Security and Data Privacy. This ensures continued protection and continuity of services for our customers. The collaboration ensures we are able to effectively manage supply chain risks such as Brexit and Covid-19.

In addition, relationships are built with suppliers at an operational level with senior management fostering partnerships and relationships with insurance aggregators, brokers, reinsurers and suppliers of the LVGIG Group. These relationships are managed on a day to day basis by various relationship teams, having daily contact with key suppliers and Brokers. Feedback is monitored through the Broker NPS, renewal rates, supplier feedback and the willingness of suppliers to do business with the LVGIG Group.

During the year, LVGIG went to great lengths to support its suppliers and communities through what was undoubtedly a difficult time for many. Extra financial support was given to key suppliers severely affected by the lockdowns, including bodyshops, breakdown drivers and home contractors.

Regulators

Regulations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the Board and taken into account when considering matters for approval. In addition the Group Board carefully considers and takes into account any letters received by the Group from the regulators in relation to the Company with such correspondence being tabled for discussion at relevant Group Board meetings. For example, the 'PSM' letter following the annual risk assessment by the PRA and the firm evaluation letter from the FCA. The Board's executive and non-executive directors have regular direct contact both through written correspondence and direct dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which will then be brought into discussions of the Group Board and the Company's Board, as relevant.

Other engagement methods with regulators include regular meetings and responding to regulatory market consultations and reviews. The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. Any reviews or changes required as a result of regulatory updates or recommendations are considered and the implementation of recommendations is owned and overseen by the Group Board or subsidiary Board, as appropriate. This ensures that regulatory matters are of key importance with a top-down

STRATEGIC REPORT

Regulators (continued)

approach led by the Group Board. More information on the Group Board decision-making in relation to the FCA pricing review is included below under principal decisions.

Shareholder

The Company has regard to the interests of its immediate shareholder, Highway Insurance Group Limited, its intermediary shareholder, LVGIG, and the wider Allianz Group when making decisions. The Company's strategy is aligned with the LVGIG strategy as well as the strategy of Allianz and Allianz SE. Allianz SE nominate a non-executive Director to the Board of the Company. This Director was N C Pieris to 31 December 2020. A new Allianz SE representative non-executive Director was nominated and will be formally appointed during 2021, following regulatory approval. This ensures that the Company is aligned with and takes into account the views of the ultimate shareholder, Allianz SE, when making decisions, while also remaining independent from the ultimate shareholder.

Community and the Environment

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

LVGIG undertakes its own initiatives in its communities, which complement the activities of the Group. For example, LVGIG's new partnership with the England and Wales Cricket Board (ECB) allows us to continue our involvement in cricket, which we know plays such an important role in boosting communities, positive wellbeing and inclusiveness. In 2020 we launched the #Funds4Runs Community Fund cementing our commitment to help local cricket clubs and communities recover from the financial implications of the COVID-19 pandemic. It will also support some of the ECB's priorities – promoting ethnic diversity, cricket for women and people with disabilities, as well as grassroots cricket.

STRATEGIC REPORT

BOARD DECISION-MAKING

This part of the section 172 statement describes how the Board has had regard to the Company's stakeholders and other matters to be considered under section 172(1) of the Act in some of the key decisions taken by the Board during the year.

The Board continues to review its processes to ensure that a formal analysis is carried out of how material decisions that it is required to approve will impact the Company's key stakeholders' groups. New reporting templates are being developed and rolled out to further improve the quality of Board reporting, ensure consistency and ensure that stakeholder considerations are properly incorporated into all Board reports.

This analysis is in support of the Board's duties pursuant to section 172 and ensuring that all potential impacts on stakeholders continue to be considered before Board approval is requested.

During the year the Directors took the following principal decisions:

PRICING STRATEGY AND PRACTICES REVIEW

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

Stakeholders: *customers, regulators*

During the year the Board considered its pricing strategy and practices to ensure fair pricing practices. The Board agreed that there should be an external review to obtain independent external advice on whether practices were fair, customers were treated fairly and whether a customer centric culture was embedded within the LVGIG Group. The Board discussed the completed external review, focusing on the interests of different types of customer. It was agreed that the Board would continue to have oversight of the implementation of recommendations from the review during 2021 to ensure a strong customer centric culture and fair pricing practices, which are of prime importance to the Company.

OTHER DECISIONS

Section 172 considerations: *likely consequences of any decision in the long-term; promoting the success of the company, interests of customers and other stakeholders*

Stakeholders: *shareholder, regulator, policyholders/customers*

During the year the Directors considered the solvency position of the Company including an assessment of the impact of COVID-19 on the Company and its solvency. The operational and business impacts were assessed and the interests of policyholders were considered. The Board was satisfied that the Company could continue to operate and satisfy solvency and capital requirements.

By order of the Board



S Treloar
Director

April 8, 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:

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

Stakeholder engagement

Details of how the Board has had regard to the need to foster the Company's business relationships with suppliers, customers and other stakeholders and the effect of that regard on the principal decisions taken by the Company's Board is contained in the section 172 statement on page 10 to page 15 of the Strategic Report.

Directors and their interests

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

N C Peiris resigned as a Director of the Company with effect from December 31, 2020.

Results and Dividends

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

No interim dividends were approved by the Directors during the year ended December 31, 2020 (2019: £nil).

The Directors do not recommend the payment of a final dividend in respect of the year ended December 31, 2020 (2019: £nil).

Financial Instruments

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

Going concern

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

Directors' confirmations

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

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

Auditor

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

DIRECTORS' REPORT

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

A handwritten signature in black ink, appearing to be 'C Twemlow', written in a cursive style.

C Twemlow
Secretary

April 8, 2021

DIRECTORS' REPORT

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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.

DIRECTORS' REPORT

Streamlined Energy and Carbon Reporting (SECR)

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

Liverpool Victoria General Insurance Group Limited Streamlined Energy and Carbon Reporting statement covers the reporting period 01/01/2020 - 31/12/2020 and has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard.

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

'Location Based' Method

The total energy consumption for 2020 was 6,502,491.91 kWh equating to 1,469.501 tCO₂e

Carbon intensity: Emissions of tCO₂e/full-time equivalent during 2020 was 0.34 tCO₂e

However, for the companies' purchased electricity, the strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin (REGO) certificates. Through this strategy, within the above 2020 total energy consumption, the company has sourced a total of 1,656,109.00 kWh of REGO backed (zero emission) electricity.

'Market Based' Method

The total energy consumption for 2020 was 6,502,491.91 kWh equating to 715.322 tCO₂e

Carbon intensity: Emissions of tCO₂e/ full-time equivalent during 2020 was 0.17 tCO₂e

Qualifying information on the above data:

- This statement has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standard.
 - This is the Company's first year of Streamlined Energy and Carbon Reporting and as such 2019 data has not been recorded.
 - tCO₂e is the tonnage of equivalent carbon emissions generated by the various greenhouse gasses (carbon dioxide, methane, nitrous oxide etc.) each of which has a 'Global Warming Potential' factor that is included in the above emission figure.
 - An operational control approach has been applied to consolidate the above data.
 - This report covers Liverpool Victoria General Insurance Group Limited (04332926), LV Insurance Limited (03232514), Highway Insurance Limited (03730662), Fairmead Insurance Limited (00423930) & LV Repair Services Limited (09366434).
 - Applied a 60% diesel & 40% petrol split for transport, where data didn't provide a break between fuel types.
 - Total full-time equivalent for use as the Metric are 4302.
 - Where required company car and staff business emissions has been calculated on an average car basis.
 - 3rd Party Purchased (landlord supplied) electricity & gas included using average sites (Sq ft) against where NUS hold the actual consumption. Landlord supplied electricity has been in most cases confirmed as renewable.
 - Scope 2 3rd Party Gas is relating to heat supplied by the landlord.
1. As per the GHG Protocol, a dual reporting method has been applied - 'Location Based' and 'Market Based'.
 2. Carbon intensity includes all Scope emissions in the calculation.

Energy Efficiency actions taken during the 2020 period:

LED lighting upgrades completed at LVGIG 2410 Aztec West, Bristol office

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 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 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.

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

Basis for opinion

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

Independence

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

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

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

Our audit approach

Overview

Audit scope

- We scope the audit, based on materiality, by financial statement line item. As there are no branches or other locations, no scoping by location is performed.

Key audit matters

- The valuation of gross general insurance claims liabilities (£564.4m (2019: £505.6m))
- The impact of COVID-19

Materiality

- Overall materiality: £3,720,000 (2019: £3,700,000) based on the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.
- Performance materiality: £2,790,000.

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

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

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

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

- 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.
- Reviewing correspondence between the Company and the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) in relation to compliance with laws and regulations.
- Reviewing relevant Board and meeting minutes including those of the Risk Committee and the Reserving Committee.
- Reviewing data regarding policyholder complaints, the Company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud.
- Testing significant accounting estimates and judgements such as insurance contract liabilities as included in the key audit matter section below.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by certain senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

HIGHWAY INSURANCE COMPANY LIMITED

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

Key audit matter	How our audit addressed the key audit matter
<i>The valuation of gross general insurance claims liabilities (£564.4m (2019: £505.6m))</i> <i>Refer to Note 2 (accounting policies) and Note 27 (Insurance contract liabilities).</i> The Company financial statements include liabilities for the estimated cost of settling general insurance claims. These are included within the insurance contract liabilities. We focused on this area due to the significance of these liabilities to the Company's Statement of Financial Position and because of the inherent subjectivity of their valuation. In particular, we focused on: • The completeness and accuracy of claims data used to estimate the claims liabilities, and the consistency in setting case estimates; • Whether any changes to the underlying risk profile of the policies written (for example, the concentration of younger drivers or the increase in keyless cars) are appropriately reflected in the estimation of claims liabilities; • The methodologies and assumptions used in estimating the costs of claims for general insurance products (mainly motor policies), in particular for those claims such as personal injury, which can take a long time to settle and where the amounts concerned can be large; and • Whether the estimate of future claims costs including the additional provision or margin held appropriately reflected any trends in the underlying claims experience, whether driven by internal or market level factors.	Our work to address the valuation of the general insurance claims liabilities was supported by our in-house non-life actuarial specialists, and included the following procedures; • We tested the completeness and accuracy of claims data used in the determination of the liabilities; and • We performed independent re-projection testing over 52% of claims liabilities, methodology and assumptions reviews over a further 23% and key indicator checks over the remaining 25%. We assessed whether the relevant data source selected by management was appropriate for use in the actuarial estimate of the contracted liabilities. Specific areas of testing: Completeness of claims and consistency of case estimates We tested the reconciliation of source claims data to that used in the actuarial modelling process. For a sample of case estimates, we obtained evidence they were appropriately reflecting supporting information held on case files and determined whether they were being assessed on a consistent basis to reserving philosophies observed both across the Company and in prior years. Methodologies and assumptions We carried out the majority of actuarial substantive testing over the claims liabilities at 30 September 2020. For all such classes of business, we then performed a roll forward of our assessments to the year-end. We performed independent estimate testing by independently selecting our own methodology and assumptions to estimate the reserves for some of the most significant components of the claims liabilities. We performed methodology, key assumption and client model testing by evaluating the key methodology and assumptions used by management and testing the implementation of these. We took into account all internal and external changes which could impact the claims liabilities, in particular as at year-end 2020: • Any changes to the types of risks underwritten by the business, • Any changes in claims processes which could impact claims development patterns, such as machine learning techniques • COVID-19 impact on claims reporting and settlement. For lower risk categories of reserves we performed Key Indicator testing by evaluating trends in various indicators such as paid to incurred ratios, incurred to ultimate ratios and other Key Performance Indicators ("KPIs").

	Where we felt it was appropriate, we performed independent calculations to quantify the impact of differences between management's actuarial analysis or assumptions and those which we would have conducted or selected ourselves based on our understanding of market trends and the particular circumstances of the group. Trends in the underlying claims experience We considered the run-off of prior year liabilities, the sensitivity of the liabilities to alternative methods and assumptions and, where relevant, industry benchmarking. We also examined trends in ratios driven by internal or market level factors, including those between the initial case estimates and the final costs of settlement. Where this led to additional judgements in respect of reserve margin held we considered the adequacy of the associated disclosure in the financial statements. <i>Based on the work performed, we consider the insurance claims liabilities to be appropriate and supported by the evidence we obtained. The associated disclosures were considered appropriate. Furthermore, no evidence was identified to suggest claims data was not complete and accurate.</i>
<i>The impact of COVID-19</i> The impacts of the global pandemic due to the Coronavirus COVID-19 continue to cause significant social and economic disruption up to the date of reporting. In our audit we have identified the following key impacts of COVID-19: Ability of the entity to continue as a going concern There are a number of potential matters in relation to COVID-19 which could impact on the going concern status of the Company. The Directors have considered the ability of the Company to remain solvent with sufficient liquidity to meet future obligations. The Directors have also considered its requirements in respect of regulatory capital under Solvency II and the potential operational impacts on the business arising from remote working. The Directors have concluded that the Company is a going concern. Impact on Estimation Uncertainty in the Financial Statements The pandemic has increased the level of estimation uncertainty in the financial statements. The Directors have therefore considered how COVID-19 has impacted the key estimates that determine the valuation of material balances, particularly the valuation of gross general insurance contract liabilities.	In assessing management's consideration of the impact of COVID-19 on the Company we have performed the following procedures: • Obtained management's updated going concern assessment and assessed the material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence. • 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 the impact of COVID-19. • Inquired and understood the actions taken by management to mitigate the impacts of COVID-19, including review of Board Risk Committee minutes and attendance of all Audit Committees. We agree with the Director's conclusions in respect of going concern. • Considered whether there has been any impacts from remote working on the design and operating effectiveness of key controls impacting the preparation of financial statement information. • Challenged the judgements applied by management to determine the general insurance contract liabilities, in light of the emerging COVID-19 experience. We have audited the balances impacted by estimation uncertainty and believe the values presented in the Financial Statements to be reasonable.

HIGHWAY INSURANCE COMPANY LIMITED

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

Qualitative Disclosures in the Annual Report and Financial Statements In addition, the Directors have considered the qualitative disclosures included in the Annual Report and Accounts in respect of COVID-19 and the impact that the pandemic has had, and continues to have, on the Company.	Reviewed the appropriateness of disclosures within the Annual report and accounts with respect to COVID-19 and, where relevant, considered the material consistency of this other information to the audited financial statements and the information obtained in the audit. <i>Based on the work performed we did not find any evidence to suggest that management's assessment of the impact of COVID-19 on the going concern basis of accounting or the disclosures of the potential impact in the financial statements were inappropriate.</i>
---	---

How we tailored the audit scope

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

Highway Insurance Company Limited is a standalone trading entity within the wider Liverpool Victoria General Insurance Group. Allianz Holdings PLC is the ultimate UK parent and produces consolidated financial statements that include the Company. Allianz SE is the ultimate parent. Liverpool Victoria General Insurance Group's head office is located in Bournemouth where the majority of functions are performed. Due to COVID-19 lockdown restrictions site visits did not take place during the audit, however virtual meetings were held with staff in multiple locations.

Our audit scope has been determined to provide coverage of all material financial statement line items and to provide the required coverage to the auditor's of Allianz Holdings PLC where instructed. In establishing the overall approach to the audit, we determine the type of work that we needed to perform to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion.

Materiality

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

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

Overall company materiality	£3,720,000 (2019: £3,700,000).
How we determined it	the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract
Rationale for benchmark applied	The materiality benchmark for the entity has been changed from 1% of gross written premiums in the prior year to the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract. The rationale for this change is that following the change in ownership this better reflects the key profit related benchmark used by the directors and those charged with governance in assessing, and communicating to the public, the performance of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £2,790,000 for the company financial statements.

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

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £186,000 (2019: £185,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- 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 when the financial statements are authorised for issue.

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 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.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

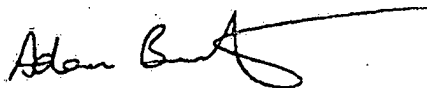
We have no exceptions to report arising from this responsibility.

HIGHWAY INSURANCE COMPANY LIMITED

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

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 29 May 2008 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 December 2009 to 31 December 2020.



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

HIGHWAY INSURANCE COMPANY LIMITED

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

CONTINUING OPERATIONS	Note	2020 £000	2019 £000
Insurance contract premium revenue	5	392,805	340,962
Insurance contract premium ceded to reinsurers	5	(94,626)	(81,277)
Net premium revenue		298,179	259,685
Investment income	6	8,270	9,531
Net gains/(losses) on investments	7	11,695	(1,057)
Other income	8	5,191	975
Total income		323,335	269,134
Insurance claims and loss adjustment expenses	9	(315,936)	(248,103)
Insurance claims and loss adjustment expenses recoverable from reinsurers	9	89,124	52,078
Net insurance claims		(226,812)	(196,025)
Finance costs	10	(354)	(359)
Other operating and administrative expenses	11	(96,909)	(83,503)
Total claims and expenses		(324,075)	(279,887)
Loss before tax		(740)	(10,753)
Income tax credit	15	121	2,129
Loss for the year from continuing operations		(619)	(8,624)
(Loss)/Profit for the year from discontinued operations	12	(945)	2,021
Loss for the year attributable to owners of the parent		(1,564)	(6,603)
Other Comprehensive income			
Items that may be reclassified to profit or loss			
Change in fair value of available for sale financial assets	34	21,757	9,551
Change in fair value of available for sale financial assets transferred to profit or loss	34	(12,829)	(173)
Income tax relating to these items	34	(1,811)	(1,594)
Other comprehensive income for the year, net of tax		7,117	7,784
Total comprehensive income for the year		5,553	1,181

Balances relate to both continuing and discontinued business, with discontinued operations being shown on

The notes on pages 32 to 73 are an integral part of the financial statements.

HIGHWAY INSURANCE COMPANY LIMITED

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

	Note	Attributable to equity holder of the Company				Total Equity
		Share capital	Available -for-sale reserve	Retained earnings	Capital reserve	
		£000	£000	£000	£000	£000
Balance at January 1, 2020		75,000	4,732	58,718	106,400	244,850
Loss for the year	33	-	-	(1,564)	-	(1,564)
Items that may be reclassified to profit or loss						
Fair value gains on AFS investments	34	-	21,757	-	-	21,757
Tax on these items	34	-	(4,134)	-	-	(4,134)
Items reclassified to profit or loss						
Losses on AFS investments	34	-	(12,829)	-	-	(12,829)
Tax on these items	34	-	2,323	-	-	2,323
Total comprehensive income for the year		-	7,117	(1,564)	-	5,553
Balance at December 31, 2020		75,000	11,849	57,154	106,400	250,403

	Note	Attributable to equity holder of the Company				Total Equity
		Share capital	Available- for-sale reserve	Retained earnings	Capital reserve	
		£000	£000	£000	£000	£000
Balance at January 1, 2019		75,000	(3,052)	65,321	106,400	243,669
Loss for the year	33	-	-	(6,603)	-	(6,603)
Fair value gains on AFS investments		-	9,551	-	-	9,551
Tax on these items		-	(1,594)	-	-	(1,594)
Losses on AFS investments		-	(173)	-	-	(173)
Total comprehensive income for the year		-	7,784	(6,603)	-	1,181
Balance at December 31, 2019		75,000	4,732	58,718	106,400	244,850

The notes on pages 32 to 73 are an integral part of the financial statements.

HIGHWAY INSURANCE COMPANY LIMITED

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2020

	Note	2020 £000	2019 £000
Assets			
Intangible assets	16	750	850
Deferred tax asset	17	62	-
Current tax asset	18	1,028	2,392
Prepayments and accrued income	19	8,511	8,423
Deferred acquisition costs	20	34,713	30,428
Financial assets			
- Available for sale financial assets	21	713,588	401,365
Derivative financial instruments	22	-	16
Other receivables	23	30,012	33,701
Reinsurance assets	24	212,402	185,495
Insurance receivables	25	50,436	52,991
Cash and cash equivalents (excluding bank overdrafts)	26	17,847	277,711
Total assets		1,069,349	993,372
Liabilities			
Insurance Contract Liabilities	27	771,141	694,022
Deferred tax liability	17	2,780	901
Other financial liabilities	28	10,741	10,168
Insurance payables	29	5,627	9,247
Trade and other payables	30	28,657	34,184
Total liabilities		818,946	748,522
Equity			
Share capital	31	75,000	75,000
Capital reserve	32	106,400	106,400
Available-for-sale reserve	34	11,849	4,732
Retained earnings	33	57,154	58,718
Total equity		250,403	244,850
Total liabilities and equity		1,069,349	993,372

The notes on pages 32 to 73 are an integral part of the financial statements.

These financial statements on pages 28 to 73 were approved by the Board of Directors on April 7, 2021.

Signed on behalf of the Board of Directors



S Treloar
Director
April 8, 2021

HIGHWAY INSURANCE COMPANY LIMITED

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

		2020	2019
	Note	£000	£000
Cash and cash equivalents at January 1	26	272,154	121,000
Cash flows arising from operating activities			
Cash generated from/(used in) operations	35	18,519	(39,317)
Net decrease in investments at fair value through profit or loss		-	291,014
Net increase of available for sale securities		(290,007)	(112,027)
Dividends received		238	1,519
Interest received		9,434	10,386
Finance cost paid	10	(354)	(359)
Income tax recovered/(paid)	18	1,721	(62)
Net cash (used in)/generated from operating activities		(260,449)	151,154
Net (decrease)/increase in cash and cash equivalents		(260,449)	151,154
Cash and cash equivalents at December 31	26	11,705	272,154

Cash flows from discontinued operations are disclosed in note 12.

The notes on pages 32 to 73 are an integral part of the financial statements.

HIGHWAY INSURANCE COMPANY LIMITED

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

1. General information

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

2. Accounting policies

BASIS OF PRESENTATION

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

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

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

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

The 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.

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

Going concern

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

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

2. Accounting policies (continued)

Net premium revenue

General insurance premiums written reflect business coming into force during the year. Written premiums include new business premiums plus an estimate for premiums due from intermediaries. Net earned premiums are arrived at following deductions for premiums payable to reinsurers and deferral of unearned premium. Unearned premium is that proportion of a premium written in a year that relates to periods of risk after the Statement of Financial Position ('SOF') date. Unearned premiums are calculated on a time apportionment basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Other income

Interest receivables from insurance contracts are recognised in a manner consistent with premium income.

An amount of reinsurance ceded to reinsurers is paid back to the Company as commission for undertaking the business. This commission is accounted for according to the reinsurance contract entered into by individual class of business. Commissions receivable are deferred in the same way as acquisition costs. All other fee and commission income is recognised as the services are provided.

Investment income

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

Realised gains and losses

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

Unrealised gains and losses

Unrealised gains and losses on investments at FVTPL represent the difference between the valuation of fair value assets at the Statement of Financial Position ('SOF') date and their valuation at the last SOFP date or, where purchased during the year, the purchase price. A reversal is made of previously recognised gains or losses in respect of disposals made during the year.

HIGHWAY INSURANCE COMPANY LIMITED

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

2. Accounting policies (continued)

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at rates of exchange ruling at the SOFP date. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses are dealt with in that part of the SOCI in which the underlying transaction is reported.

Income tax expense

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

Current income tax

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

Deferred tax

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

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

Financial assets

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

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

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

2. Accounting policies (continued)

Available for sale financial assets

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

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

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

Impairment of financial assets

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

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

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

Reinsurance assets

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

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

Amounts recoverable from or due to reinsurers

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

HIGHWAY INSURANCE COMPANY LIMITED

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

2. Accounting policies (continued)

Other intangibles

Where an acquisition takes place that gives access to existing customers or distribution channels, then the present value of these is recognised as an intangible asset. The carrying value of the asset is amortised over its expected economic life, and is assessed as and when impairment may be indicated.

The expected economic life of other intangibles is determined by reference to acquired business, considering factors such as the remaining terms of agreements, the normal lives of related products and the competitive position, and lies within the range of 10 to 20 years on a straight line basis.

Deferred acquisition costs

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 ('DAC') 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.

Deferred acquisition costs are all due within one year for both 2019 and 2020. Acquisition costs are costs of acquiring new business and include commissions, underwriting expenses and policy issue expenses.

Liability adequacy test

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

Collateral

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

Cash collateral

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

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. There are no designated hedging relationships that qualify for hedge accounting; all are classified as held for trading. Derivatives are settled on a gross basis. Changes in the fair value of derivative instruments are recognised immediately in gains or losses on investments in the SOCI for the period. Realised gains or losses are similarly taken to the SOCI on occurrence.

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

2. Accounting policies (continued)

Other receivables

Other receivables are initially measured at fair value and then subsequently measured at amortised cost using the effective interest rate method. Other receivables include repurchase agreements and represent the consideration paid to the borrower. Other receivables are recognised when due.

Insurance receivables and payables

Insurance receivables and payables are recognised when due and include amounts due from or to policyholders, agents, brokers and reinsurers. Amounts due from policyholders and brokers include outstanding premiums where the policyholders have elected to pay in instalments. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

Insurance receivables and payables are initially recognised at fair value and subsequently held at amortised cost. Where there is objective evidence that the carrying value of insurance receivables is impaired then the impairment loss will be recognised in the SOCI.

Cash and cash equivalents

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

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

Claims and insurance contract liabilities

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

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

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. An allowance for instances where these projections may not be applicable, such as COVID-19, are also considered within the estimates. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. In the case of Periodic Payment Orders ('PPOs'), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the SOCI in future years.

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

2. Accounting policies (continued)

Provisions

Provisions are recognised where there is 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 some or all of a provision is expected 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.

The expense relating to provisions is presented in the SOCI.

Subordinated liabilities

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

Trade and other payables

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

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

Share capital

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

Dividend distribution

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

Discontinued operations

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

2. Accounting policies (continued)

CHANGES IN ACCOUNTING POLICIES

a) Unadopted standards

Amendment to IFRS 4 'Insurance contracts' Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance Contracts'

The amendment provides two approaches that can be applied by eligible insurers to address concerns arising from the different effective dates of IFRS 9 and IFRS 17 the overlay approach and the temporary exemption from IFRS 9 until adoption of IFRS 17. The Company is an eligible insurer and has taken the temporary exemption from IFRS 9.

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

b) Amendments to standards

Compliance with the criteria for the temporary exemption from IFRS 9

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

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

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

The threshold for liabilities connected with insurance compared with total liabilities is:

- Greater than 90%, or
- Greater than 80% but less than or equal to 90% and the entity provides evidence that it does not have a significant activity that is unrelated to insurance.

The Company met the criteria to apply the temporary exemption from IFRS 9 upon initial performance of the predominance ratio test at December 31, 2015. The carrying value of liabilities within IFRS 4's scope at December 31, 2015 was significant at 96% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance. On December 29, 2017 the Company sold the renewal rights associated with its Commercial Lines business to Allianz; the Commercial Lines business was a significant component of the Company's operations and as a result the Commercial Lines results were presented as a discontinued operation in the December 31, 2017 financial statements. This transaction did not impact the predominance ratio test at December 31, 2017 as only the new business renewal rights were sold. The predominance ratio test has been reassessed at December 31, 2020. The carrying value of liabilities within IFRS 4's scope at December 31, 2020 continued to be significant at 96.2% of total liabilities which is also in excess of the 90% threshold for liabilities connected with insurance.

HIGHWAY INSURANCE COMPANY LIMITED

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

2. Accounting policies (continued)

b) Amendments to standards (continued)

Disclosures associated with deferral of IFRS 9

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

The fair value at December 31, 2020 and the amount of change in the fair value during the reporting period of the Company's financial assets are as follows:

Financial assets	Fair value at December 31, 2020 £000	Fair value movement in the year £000
1) Financial assets that meet the SPPI criteria and not classified as FVTPL		
Available for sale financial assets		
Debt securities	670,979	5,258
Cash and cash equivalents (short-term)*	17,847	-
Total	688,826	5,258

Financial assets	Fair value at December 31, 2020 £000	Movement in fair value recognised in SOCI £000
2) Financial assets that fail to meet the SPPI criterion		
Available for sale financial assets		
Shares, other variable yield securities and units in unit trust	36,738	(68)
Debt securities	5,871	3,738
Total	42,609	3,670

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

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

	December 31, 2020					
	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Available for sale financial assets						
Debt securities	261,885	159,252	93,279	128,713	27,850	670,979
Cash and cash equivalents (short-term)*	-	-	17,847	-	-	17,847
Total	261,885	159,252	111,126	128,713	27,850	688,826

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

The table above includes £28m of cash and cash equivalents that are not rated. The fair value of these financial assets at December 31, 2020 is equal to their carrying value.

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

2. Accounting policies (continued)

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

New standards and interpretations adopted by the EU which are not mandatorily effective have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early; instead it will apply the standards from the effective date as determined by the date of EU endorsement.

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

IFRS 17 Insurance Contracts

Issued in May 2017, IFRS 17 replaces IFRS 4 'Insurance Contracts'. The original effective date of IFRS 17 was January 1, 2021; however the IASB has announced a deferral to 2023. This standard provides an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.

The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

The standard will have a material impact on the Company and transitioning the Company accounting to the new standard will require significant effort. The impact of this new standard on the SOFP and the SOCI is currently being assessed.

In June 2020, the International Accounting Standards Board (Board) issued amendments to the IFRS 17 Insurance Contracts standard, the amendments which are aimed at helping companies implement the Standard are being worked through as a part of the ongoing implementation work.

IFRS 9 - Financial Instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaces IAS 39. The effective date was January 1, 2018, however as noted above, IFRS 9 has been deferred by the Company in order to align adoption with that of IFRS 17. In line with the proposed deferral of the IFRS 17 effective date noted above, the IASB has confirmed the previously proposed temporary exemption from IFRS 9, for qualifying insurers has been extended until January 1, 2023. The impact of this new standard on the SOFP and the SOCI is currently being assessed.

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.

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

3. Significant accounting judgements, estimates and assumptions

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

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

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

Significant accounting estimates - Valuation of general insurance contract liabilities

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

Standard actuarial claims projection techniques are used to estimate outstanding claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Additional techniques are deployed in order to overcome instances where this may not be the case, which includes the treatment for the COVID-19 impact on claims development. In the case of PPO's, the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the SOCI in future years.

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

Significant accounting estimates and judgements - Insurance contract liabilities

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

Significant accounting estimate - Insurance contract liabilities

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

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

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

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

During 2017 the Lord Chancellor announced a change in the Ogden discount rate from 2.5% p.a. to -0.75% p.a. This change impacted the valuation of the cost of care element of large injury claims, and required insurance companies to hold more money in reserves in order to match the inflation risk in the long term.

On December 20, 2018 the Civil Liability Act was enacted, with a revised Ogden Discount Rate announced at -0.25% in the summer of 2019. The Act should ensure a more proportional rate is applied to lump sum settlements for personal injury claims as well as providing a framework for future reviews of the rate.

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

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

Significant judgement applied to estimate

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

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

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

Significant accounting judgement - Classification of the Company contracts with reinsurers as reinsurance contracts

A contract is required to transfer significant insurance risk in order to be classified as a reinsurance contract. Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement.

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

4. Capital management and risk management and control

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

The Company retains capital to meet four key objectives:

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

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

2016 marked the beginning of the Solvency II regime, an EU imposed legislation. There are two separate capital requirements; the Minimum Capital Requirement ('MCR') and the Solvency Capital Requirement ('SCR'). The SCR can be calculated using a Standard Formula, as specified in the regulatory text, or an Internal Model, which is unique to each firm and must be approved by the firm's local regulator. The Company used the Standard Formula to calculate its capital requirements throughout 2020.

As at December 31, 2020, for the Annual QRT reporting to the regulator, the Company disclosed surplus regulatory capital of £48,194,230 (2019: Annual & Q4 £67,298,316). The 2019 Annual result was published in the HICO Single Company SFCR in April 2020.

The Company complied with all externally imposed capital requirements that it was subject to throughout the reporting year.

Risk management and control

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

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

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

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

Insurance risk

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

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

Motor business is exposed to the risk of large bodily injury claims, where the claim amounts can be significant due to the cost of care required for the claimant. The Company has entered into excess of loss reinsurance contracts which reduce its exposure to large claims. The Company's retention is £5.0m per claim (2019: £5.0m per claim).

In addition to the reinsurance contracts described above, the Company has also entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves for the 2015 and prior accident years. The Company has also historically entered into a 20% Quota Share arrangement for the 2016-2019 accident years (each year treated separately). Similarly, an additional 20% Quota Share arrangement was entered into for the 2020 accident year. Whilst the primary driver of these transactions was efficient capital management, the contract also has the effect of reducing the LVGIG Group exposure to general insurance concentration risk.

HIGHWAY INSURANCE COMPANY LIMITED

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

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

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

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Home	20,037	(4,082)	15,955	9,309	(1,846)	7,463
Motor	452,637	(181,200)	271,437	377,898	(148,717)	229,181
Commercial	91,686	(26,964)	64,722	118,368	(34,882)	83,486
	564,360	(212,246)	352,114	505,575	(185,445)	320,130

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

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

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

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

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

HIGHWAY INSURANCE COMPANY LIMITED

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

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

The most significant area of uncertainty in the claims estimation at the 2020 year-end relates to the estimated ultimate cost for the 2020 accident year. This is due to the impact of the Coronavirus pandemic which has resulted in significant disruption to the notification and settlement of claims, meaning that traditional approaches of using past claims development to predict the future are less reliable.

The table below provides a sensitivity analysis of the impact of a 1% increase/reduction in the estimated ultimate cost for the 2020 accident year claims. The selection of these sensitivities should not be interpreted as a prediction.

	2020 £m	2020 £m
Current accident year loss ratio		
Impact of a 1% reduction in the loss ratio for the current accident year	2.0	2.0
Impact of a 1% increase in the loss ratio for the current accident year	(2.0)	(2.0)

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

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

Analysis of claims development – gross of reinsurance

Accident year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Initial estimate of gross provision	286.4	282.4	241.0	221.3	247.6	266.7	289.8	316.9	295.5	276.4	
One year later	279.6	272.9	222.1	204.9	251.5	253.4	266.0	305.2	307.5		
Two years later	274.6	266.6	222.7	198.7	236.5	240.5	258.6	321.7			
Three years later	272.1	261.2	225.7	195.8	222.1	222.7	263.3				
Four years later	271.2	261.0	227.1	189.5	223.7	225.6					
Five years later	267.0	271.2	221.2	189.2	222.1						
Six years later	267.1	264.3	222.1	188.8							
Seven years later	266.8	263.6	217.9								
Eight years later	266.7	263.7									
Nine years later	266.8										
Current estimate of cumulative claims	266.8	263.7	217.9	188.8	222.1	225.6	263.3	321.7	307.5	276.4	2,553.8
Cumulative payments to date	(266.1)	(246.4)	(200.4)	(184.9)	(210.6)	(212.6)	(213.2)	(214.4)	(203.0)	(116.8)	(2,068.4)
Liability recognised in the balance sheet for 2011 to 2020 accident years	0.7	17.3	17.5	3.9	11.5	13.0	50.1	107.3	104.5	159.6	485.4
Liability recognised in the balance sheet in respect of prior accident years											74.6
Claims handling provision											4.4
Provision as at 31 December 2020											564.4

HIGHWAY INSURANCE COMPANY LIMITED

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

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

Analysis of claims development – net of reinsurance

Accident year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	Total £m
Initial estimate of net provision	283.4	268.1	232.6	219.0	208.9	228.7	210.9	242.8	226.9	208.2	
One year later	277.4	259.7	211.1	188.7	223.4	198.3	201.9	234.8	234.4		
Two years later	272.7	255.2	202.0	190.1	204.4	190.4	198.8	240.8			
Three years later	270.8	244.7	207.1	185.9	193.0	178.1	202.9				
Four years later	269.4	242.1	204.3	177.2	194.4	180.5					
Five years later	265.9	244.2	199.4	178.2	193.1						
Six years later	265.6	243.8	200.4	177.9							
Seven years later	265.0	243.2	198.9								
Eight years later	265.0	242.7									
Nine years later	265.0										
Current estimate of cumulative claims	265.0	242.7	198.9	177.9	193.1	180.5	202.9	240.8	234.4	208.2	2,144.4
Cumulative payments to date	(264.4)	(237.6)	(191.9)	(174.8)	(184.5)	(170.0)	(166.8)	(169.9)	(159.6)	(93.5)	(1,813.0)
Liability recognised in the balance sheet for 2011 to 2020 accident years	0.6	5.1	7.0	3.1	8.6	10.5	36.1	70.9	74.8	114.7	331.4
Liability recognised in the balance sheet in respect of prior accident years											16.3
Claims handling provision											4.4
Provision as at December 31, 2020											352.1

Market risk

Market risk is the risk of adverse or favourable impacts due to fluctuations in bond yields, equity prices, interest rates, or exchange rates. The Company has defined policies and procedures in place to control the major components of market risk. Exposures to individual companies in aggregate are monitored by the Finance and Investment Committee (FICO) in order to ensure compliance with the relevant regulatory limits for solvency purposes and with guidelines set for each internal fund. Securities held are primarily listed and traded on recognised stock exchanges, predominantly in the UK.

Strategic asset allocation is discussed at the FICO meetings, covering investment return and concentration and to agree any changes required.

Interest rate risk

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

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

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

Credit spread risk

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

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

Currency risk

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

HIGHWAY INSURANCE COMPANY LIMITED

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

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

Sensitivity analysis to market risks

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

	Impact on equity 2020 £000	Impact on equity 2019 £000
Interest rate risk		
+ 100 basis points shift in yield curve	(28,087)	(20,309)
- 50 basis points shift in yield curve	15,179	12,108
Credit spread risk		
100 basis points widening in all credit spreads	(29,279)	(8,072)
50 basis points tightening in all credit spreads	15,660	4,152

Given that our bonds are entirely held as Available for Sale (AFS) now, there is no sensitivity to the IFRS SOCI to movements in interest rates and credit spreads. Movements would be reflected on the balance sheet within the AFS reserve and within Other Comprehensive Income. There is still sensitivity to interest and credit spread movements on the Solvency II balance sheet, which is why there remains close monitoring of these risks.

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

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

	USD £000	Euro £000	Total £000
As at 31 December 2019			
Financial assets at fair value through profit or loss			
Derivative financial instruments	(1,594)	-	(1,594)
Reinsurers' share of insurance contract liabilities	-	8,359	8,359
Cash and cash equivalents	1,524	12,920	14,444
Financial liabilities			
Insurance contracts	-	(10,871)	(10,871)
Other financial liabilities	-	(10,168)	(10,168)
Total exposure	(70)	240	170

The sensitivity of net assets to a 10% increase/decrease in US Dollar and Euro exchange rates net of derivatives is £nil (2019: £ 7,000) and £-1,354,900 (2019: £ 24,000) respectively. In determining the percentage rates to use in this sensitivity analysis the movements in the actual market rates of US Dollars and Euro during 2020 were taken into account. The above table incorporates all material currency risk to Profit before tax. Therefore, a 10% increase/decrease across all currencies could impact profit before tax by up to £-1,354,900 (2019: £ 31,000).

HIGHWAY INSURANCE COMPANY LIMITED

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

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

Credit Counterparty risk

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

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

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

Exposure to insurance intermediaries risk is managed via a stringent credit policy. The Company's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at December 31, 2020 was £41,076,000 (2019: £40,528,000), all of which was not rated.

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

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

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

	AAA	AA	A	BBB	Below BBB	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
Credit risk exposure 2020							
Debt and other fixed income securities							
- Available for sale financial assets	261,885	159,253	93,278	131,755	30,679	-	676,850
Cash and cash equivalents	-	-	17,847	-	-	-	17,847
Insurance receivables	-	9,360	-	-	-	41,076	50,436
Loans and other receivables	-	29,322	-	-	-	(136)	29,186
Reinsurance assets	-	166,567	45,156	-	-	679	212,402
Total exposure	261,885	364,502	156,281	131,755	30,679	41,619	986,721
	AAA	AA	A	BBB	Below BBB	Not rated	Total
	£000	£000	£000	£000	£000	£000	£000
Credit risk exposure 2019							
Debt and other fixed income securities							
- Available for sale financial assets	46,182	96,899	133,304	124,980	-	-	401,365
Cash and cash equivalents	121,547	51,738	89,757	-	-	14,669	277,711
Insurance receivables	-	12,463	-	-	-	40,528	52,991
Loans and other receivables	-	-	33,333	-	-	368	33,701
Reinsurance assets	-	145,467	39,435	-	-	593	185,495
Total exposure	167,729	306,567	295,829	124,980	-	56,158	951,263

HIGHWAY INSURANCE COMPANY LIMITED

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

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

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset in the SOFP when the Company intends to apply a current legally enforceable right to offset. Master netting arrangements and cash collateral are utilised by the Company to minimise credit risk exposure.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

An analysis is included of netting arrangements which meet the offsetting criteria within IFRS7 and are set off in the SOFP.

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

As at December 31, 2019	Amounts off set			
	Gross assets offset £000	Gross liabilities £000	Net amounts presented £000	Net amount £000
Financial liabilities				
Bank overdrafts	4,297	(9,854)	(5,557)	(5,557)
Total	4,297	(9,854)	(5,557)	(5,557)

Collateral posted to the Company by the counterparty to a derivative contract which is valued as being 'in-the-money' can be drawn upon following certain events of default as defined in the relevant International Swaps and Derivatives Association (ISDA) agreement. This includes failure by the counterparty to comply with or perform any agreement or obligation defined in the ISDA or Credit Support Annex if such failure is not remedied within 30 days after notice of such failure is given. Bankruptcy of the counterparty to a trade could also result in collateral posted being drawn upon to mitigate any financial exposure to the Company.

The Company reviews the carrying value of its financial assets at each SOFP date. If the carrying value of a financial asset is impaired, the carrying value is reduced through a charge to the SOCI. As at December 31, 2020 £274,000 (2019: £544,000) was impaired which primarily relates to receivables where there is no realistic prospect of recovery. The table below provides information regarding the maximum credit risk exposure to financial assets, together with the extent to which they are due, overdue and impaired. The table also shows the age analysis of the Company's past due and/or impaired assets.

HIGHWAY INSURANCE COMPANY LIMITED

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

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

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

	<31 days	31 to 60 days	61 to 90 days	>90 days	Total past due but not impaired	Past due and impaired	Neither past due nor impaired	Total
Age analysis of assets past due/impaired 2019	£000	£000	£000	£000	£000	£000	£000	£000
Insurance receivables	1,201	254	133	86	1,674	544	50,773	52,991
Loans and other receivables	-	-	-	-	-	-	33,701	33,701

Liquidity risk

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

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

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

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

Maturity profile of financial assets	2020			2019		
	Within 1 year	Over 1 year	Total	Within 1 year	Over 1 year	Total
	£000	£000	£000	£000	£000	£000
Financial Assets						
- Derivative financial instruments	-	-	-	16	-	16
Available for sale financial assets						
- Shares, other variable yield securities and units in unit trust	-	36,738	36,738	-	-	-
- Debt securities	23,415	653,435	676,850	72,110	329,255	401,365
Loans and other receivables	29,186	-	29,186	33,701	-	33,701
Reinsurers' share of claims outstanding	47,298	164,948	212,246	27,110	158,335	185,445
Insurance receivables	50,436	-	50,436	52,991	-	52,991
Accrued interest and income	7,803	-	7,803	7,537	-	7,537
Cash and cash equivalents	17,847	-	17,847	277,711	-	277,711
	175,985	855,121	1,031,106	471,176	487,590	958,766

HIGHWAY INSURANCE COMPANY LIMITED

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

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

The table below summarises the maturity profile of the estimated financial liabilities of the Company based on remaining undiscounted obligations, however this includes PPO's which have been discounted:

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

	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
Maturity profile of financial liabilities 2019	£000	£000	£000	£000	£000
Insurance contract liabilities	141,240	144,063	89,683	130,588	505,574
Financial liabilities					
- Other financial liabilities	-	-	-	10,168	10,168
Insurance payables	9,247	-	-	-	9,247
Trade and other payables - excluding tax and social security costs	23,508	-	-	-	23,508
	173,995	144,063	89,683	140,756	548,497

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

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

Fair value estimation

The following fair value estimation tables present the Company's assets and liabilities measured at fair value by level of the fair value measurement hierarchy at December 31, 2020.

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

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

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

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

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

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

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

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

The valuation of all of the Group's investment holdings is performed by independent and qualified valuers.

Any changes to fair value are recognised within net gains/losses on investments within the Statement of Comprehensive Income with the exception of investment contract liabilities where the movement is recognised within the gross change in contract liabilities.

HIGHWAY INSURANCE COMPANY LIMITED

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

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

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

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Fair value through profit or loss								
Derivative financial instruments	-	-	-	-	-	16	-	16
	-	-	-	-	-	16	-	16

	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Available-for-sale financial assets								
Shares, other variable yield securities and units in unit trusts	-	36,738	-	36,738	-	-	-	-
Debt and other fixed income securities	13,012	663,838	-	676,850	24,748	376,617	-	401,365
	13,012	700,576	-	713,588	24,748	376,617	-	401,365

Operational risk

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

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

Strategic risk

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

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

Group risk

Group risk is the risk of contagion incurred from its membership of a group of firms. The LVGIG Executive Risk Committee oversees the management of such risks.

The Company has not identified any significant group risks.

HIGHWAY INSURANCE COMPANY LIMITED

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

5. Net premium revenue

	2020	2019
	£000	£000
Insurance contracts		
Premiums written	411,139	373,763
Change in unearned premium reserve	(18,334)	(32,801)
Premium revenue arising from insurance contracts issued	392,805	340,962
Reinsurance contracts		
Premiums payable	(94,732)	(81,553)
Change in unearned premium reserve	106	276
Premium revenue ceded to reinsurers on insurance contracts issued	(94,626)	(81,277)
Net premium revenue	298,179	259,685
Motor	350,600	319,299
Commercial	-	1
Property	42,205	21,662
Premium Revenue by Line of Business	392,805	340,962

6. Investment income

	2020	2019
	£000	£000
Available for sale financial assets		
- Interest on loans and receivables	542	-
- Interest income	7,526	7,116
- Dividend income	202	1,238
Fair value through profit or loss assets		
- Interest income	-	546
- Dividend income	-	631
	8,270	9,531

7. Net gains/(losses) on investments

	2020	2019
	£000	£000
Gains/(Losses) on available for sale financial assets		
- Debt securities	11,692	(141)
Gains/(Losses) on financial assets at fair value through profit or loss		
- Debt securities	-	(303)
- Equity securities	15	2,877
- Derivative financial instruments	(12)	(3,490)
	11,695	(1,057)

On a continuing basis, the Company had net fair value gains on financial assets at FVTPL which include net realised gains of £2,524 (2019: Loss £11,028,000) and net unrealised gains/losses of £nil (2019: Gain £1,336,000). There have been £11,692,288 of net realised gains on AFS financial assets in 2020. Changes in the fair value of AFS financial assets are reported in the AFS reserve within equity.

HIGHWAY INSURANCE COMPANY LIMITED

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

8. Other income

	2020	2019
	£000	£000
Interest receivable from insurance contracts	3	10
Other Income	5,188	965
	5,191	975

Other income is primarily comprised of profit commission income.

9. Insurance claims and loss adjustment expenses

	2020	2019
	£000	£000
Gross insurance claims		
Claims paid during the year	219,607	209,876
Claims handling costs	10,829	10,482
Movement in claims liabilities	85,500	27,745
	315,936	248,103
Reinsurers' share of gross insurance claims		
Current year claims and loss adjustment expenses	(53,692)	(46,045)
Movement in reinsurers' share on claims liabilities	(35,432)	(6,033)
	(89,124)	(52,078)
Net insurance claims	226,812	196,025

10. Finance costs

	2020	2019
	£000	£000
Interest payable	354	359
	354	359

11. Other operating and administrative expenses

	2020	2019
	£000	£000
Investment management expenses and charges	758	768
Acquisition expenses	68,102	59,940
Movement in deferred acquisition costs	(4,286)	(6,205)
Exchange loss/(gain) on subordinated note	572	(604)
Auditors' remuneration	415	385
Impairment of insurance receivables	(140)	(99)
Administrative expenses	31,488	29,318
	96,909	83,503

Staff costs were incurred by the LVGIG and recharged to the Company. Included within Administrative expenses and Claims handling costs (which are disclosed within Gross Insurance Claims) are staff costs of £29,579,774, of which £1,940,323 is in relation to Restructuring costs (2019: £27,553,018).

HIGHWAY INSURANCE COMPANY LIMITED

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

12. Discontinued operations

a) Description

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

b) Financial performance and cash flow information

Financial information relating to the discontinued operation for the years to December 31, 2020 and 2019 are presented below.

	2020 £000	2019 £000
Net earned premiums	46	27,869
Net fair value on financial assets at fair value through income	1,578	(223)
Investment income	1,116	1,971
Other income	2	12
Net insurance claims	(4,014)	(20,746)
Expenses and finance costs	97	(6,434)
(Loss)/Profit before tax	(1,175)	2,449
Income tax credit/(expense)	230	(428)
(Loss)/Profit after tax of discontinued operation	(945)	2,021
(Loss)/Profit from discontinued operation	(945)	2,021

	2020 £000	2019 £000
Net Cash (outflow)/inflow from operating activities	(1,175)	2,449
Net (decrease)/increase in cash generated by Commercial broker	(1,175)	2,449

HIGHWAY INSURANCE COMPANY LIMITED

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

13. Auditors' remuneration

	2020	2019
	£000	£000
Audit of the Company	356	330
Audit related assurance services	59	55
	415	385

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

14. Directors' emoluments

	2020	2019
	£000	£000
Emoluments (1)	3,899	4,077

Amounts in respect of the highest paid director are:

Aggregate Emoluments (2)(3)	1,372	1,911
-----------------------------	-------	-------

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

(2) The emoluments also include £231,167 (2019: £126,000) of payments received during 2020 by the highest paid Director relating to the vesting of LVGIG Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £335,667 receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

(3) The highest paid Director was a member of the My LVGIG Savings Plan (a Group Self Invested Personal pension scheme) and during the year employer contributions of £13,938 were made into that scheme in relation to that Director.

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

There are no Directors accruing retirement benefits under a defined benefit scheme nor who are members of the Allianz Retirement Savings Plan (a Group Personal Pension Plan defined contribution scheme).

One Director waived their rights to receive emoluments.

HIGHWAY INSURANCE COMPANY LIMITED

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

15. Income tax (credit)/ expense

(a) Income tax recognised in profit or loss

	2020 £000	2019 £000
Current year tax expense		
In respect of the current year	(377)	(1,718)
In respect of prior years	20	-
Total current tax	(357)	(1,718)
Deferred tax		
In respect of the current year	14	18
Adjustments to deferred tax attributable to changes in tax rates and laws	(8)	(1)
Total deferred tax charge	6	17
Total income tax credit	(351)	(1,701)

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

Loss from continuing operations	(740)	(10,753)
(Loss)/Profit from discontinued operations	1,175	(2,449)
	435	(13,202)

Income tax (Credit)/expense attributable to:

Profit from continuing operations	(121)	(2,129)
Profit/(Loss) from discontinued operations	(230)	428
	(351)	(1,701)

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

	2020 £000	2019 £000
Loss before tax from continuing operations	(740)	(10,753)
(Loss)/Profit before tax from discontinued operations	(1,175)	2,449
Loss before tax	(1,915)	(8,304)
Income tax credit calculated at 19.00% (2019: 19.00%)	(364)	(1,577)
Effect of income not subject to tax	1	(124)
Adjustments to deferred tax attributable to changes in tax rates and laws	(8)	-
Effect of prior year adjustment	20	-
Total income tax credit for the year	(351)	(1,701)

(b) Income tax recognised in other comprehensive income

Deferred tax	1,811	1,594
Total income tax recognised in other comprehensive income	1,811	1,594

HIGHWAY INSURANCE COMPANY LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020****16. Intangible assets**

	2020	2019
	£000	£000
Cost		
At January 1	1,000	1,000
Additions	-	-
At December 31	1,000	1,000
Accumulated amortisation		
At January 1	150	50
Amortisation charge for the year	100	100
At December 31	250	150
Net book value as at December 31	750	850

HIGHWAY INSURANCE COMPANY LIMITED

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

17. Deferred tax asset/(liability)

	2020 £000	2019 £000
Capital allowances	62	68
Total deferred tax liabilities	62	68

Movements	2020 £000	2019 £000
At January 1	68	85
(Charged)/credited		
- to profit or loss	(6)	(17)
At December 31	62	68

	2020 £000	2019 £000
Deferred tax liabilities		
Available for sale financial assets	(2,780)	(969)
Total deferred tax liabilities	(2,780)	(969)

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19% had not been substantively enacted at 31 December 2019, its effects were not included in the 2019 financial statements. From April 01 2023 the rate will increase to 25%.

Movements	2020 £000	2,019 £000
At January 1	(969)	625
(Charged)/credited		
- to other comprehensive income	(1,811)	(1,594)
At December 31	(2,780)	(969)

	2020 £000	2019 £000
Deferred tax asset	62	68
Deferred tax liability	(2,780)	(969)
	(2,718)	(901)

Current deferred tax asset	11	12
	11	12

Non current deferred tax asset	51	56
Non current deferred tax liability	(2,780)	(969)
	(2,729)	(913)

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 December 31, 2019.

HIGHWAY INSURANCE COMPANY LIMITED

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

18. Current tax asset

	2020	2019
	£000	£000
Tax paid for cash flow purposes		
Current tax receivable at January 1	2,392	612
Amounts credited to the income statement	351	1,701
Movements in deferred tax asset in the statement of comprehensive income	6	17
Tax paid/(recovered) during the year	(1,721)	62
Current tax receivable at December 31	1,028	2,392

19. Prepayments and accrued income

	2020	2019
	£000	£000
Accrued interest	5,742	6,024
Prepayments	708	888
Accrued Income	2,061	1,511
	8,511	8,423

20. Deferred acquisition costs

	2020	2019
	£000	£000
At January 1	30,428	29,315
Acquisition expenses deferred	68,094	59,830
Amortisation	(63,809)	(58,717)
At December 31	34,713	30,428

21. Financial assets

	2020	2019
	£000	£000
Summary		
Available for sale financial assets	713,588	401,365
Total financial assets	713,588	401,365

Available for sale financial assets

Shares, other variable yield securities and units in unit trusts	36,738	-
Debt and other fixed income securities	676,850	401,365
Total available for sale financial assets at fair value	713,588	401,365

HIGHWAY INSURANCE COMPANY LIMITED

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

22. Derivative financial instruments

The Company utilises the following derivative instruments for hedging the effects of exchange rate changes. During 2020 all equity exposure was removed with the equity derivative closed out. Fair values are estimated using current market index data and are included in assets/liabilities as set out in the following table:

	2020			2019		
	Contract/ notional amount £000	Fair value - asset £000	Fair value - liability £000	Contract/ notional amount £000	Fair value - asset £000	Fair value - liability £000
Forward exchange contracts	-	-	-	1,861	16	-
	-	-	-	1,861	16	-

The carrying amounts disclosed above reasonably approximate fair value at the SOFP date.

23. Other receivables

	2020 £000	2019 £000
Repurchase agreements	-	33,333
Other receivables	29,186	368
Due to Group undertakings	826	-
	30,012	33,701

HIGHWAY INSURANCE COMPANY LIMITED

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

24. Reinsurance assets

	2020 £000	2019 £000
Reinsurers' share of provision for unearned premiums	156	50
Reinsurers' share of claims outstanding	212,246	185,445
	212,402	185,495

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

25. Insurance receivables

	2020 £000	2019 £000
Receivables arising from insurance and reinsurance contracts		
- Due from agents, brokers and intermediaries	41,076	40,528
- Due from reinsurers	9,360	12,463
	50,436	52,991

The amounts above are stated net of an immaterial provision (2019: immaterial)

26. Cash and cash equivalents

	2020 £000	2019 £000
Bank balances	17,847	11,943
Short term bank deposits	-	265,768
Cash and cash equivalents per Statement of Financial Position	17,847	277,711
Bank overdrafts	(6,142)	(5,557)
Cash and cash equivalents per statement of cash flows	11,705	272,154

HIGHWAY INSURANCE COMPANY LIMITED

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

27. Insurance contract liabilities

a) Analysis of insurance contract liabilities

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
General insurance claims liabilities	564,360	(212,246)	352,114	505,575	(185,445)	320,130
General insurance unearned premiums	206,781	(156)	206,625	188,447	(50)	188,397
	771,141	(212,402)	558,739	694,022	(185,495)	508,527

b) Movement in general insurance claims liabilities

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
OCR	497,500	(164,786)	332,714	540,835	(185,750)	355,085
IBNR	8,075	(20,669)	(12,594)	(19,672)	(4,722)	(24,394)
CHP	-	10	10	-	-	-
Balance at January 1	505,575	(185,445)	320,130	521,163	(190,472)	330,691
Movement in claims incurred in prior accident years	29,639	(13,595)	16,044	(36,387)	14,139	(22,248)
Claims incurred in the current accident year	276,446	(68,226)	208,220	295,501	(68,600)	226,901
Claims paid during the year	(247,300)	55,020	(192,280)	(274,702)	59,488	(215,214)
	58,785	(26,801)	31,984	(15,588)	5,027	(10,561)
Balance at December 31	564,360	(212,246)	352,114	505,575	(185,445)	320,130
OCR	505,164	(165,146)	340,018	497,500	(164,786)	332,714
IBNR	54,753	(47,100)	7,653	8,075	(20,669)	(12,594)
CHP	4,443	-	4,443	-	10	10
Balance at December 31	564,360	(212,246)	352,114	505,575	(185,445)	320,130

c) Movement in general insurance unearned premiums

	2020			2019		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at January 1	188,447	(50)	188,397	193,520	(163)	193,357
Premiums written in the year	411,028	(94,576)	316,452	373,033	(90,440)	282,593
Premiums earned during the year	(392,694)	94,470	(298,224)	(378,106)	90,553	(287,553)
Balance at December 31	206,781	(156)	206,625	188,447	(50)	188,397

HIGHWAY INSURANCE COMPANY LIMITED

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

27. Insurance contract liabilities (continued)

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

Outstanding Claims Reserve ('OCR')

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

Incurred But Not Reported Reserve ('IBNR')

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

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

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

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

The claim types modelled for household products are:

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

Unearned Premium Reserve ('UPR')

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

Claims Margin

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

During 2020, two existing settlements dropped off due to claimants passing away, making the total number of outstanding PPOs 14. Total PPO reserves are £63.7m (2019 £67.8m) gross and £16.7m (2019 £18.2m) net of reinsurance. The corresponding undiscounted amounts are £144.6m (2019 £152.4m) and £34.4m (2019 £36.8m) net of reinsurance.

HIGHWAY INSURANCE COMPANY LIMITED

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

28. Other financial liabilities

	2020	2019
	£000	£000
Subordinated note	10,741	10,168
	10,741	10,168

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

29. Insurance payables

	2020	2019
	£000	£000
Due to policyholders	152	145
Due to reinsurers	5,475	9,102
	5,627	9,247

30. Trade and other payables

	2020	2019
	£000	£000
Bank overdrafts	6,142	5,557
Amounts owed to group undertakings	-	1,120
Accruals and deferred income	11,220	9,669
Other taxes and social security costs	11,138	10,678
Trade payables	85	17
Other payables	72	7,143
	28,657	34,184

31. Share capital

	2020	2019
	£000	£000
Ordinary shares, allotted and fully paid		
75,000,000 (2019:75,000,000) ordinary shares of £1 each	75,000	75,000

All authorised shares have been issued.

HIGHWAY INSURANCE COMPANY LIMITED

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

32. Capital reserve

	2020 £000	2019 £000
Balance at January 1	106,400	75,400
Capital Contribution	-	31,000
Balance at December 31	106,400	106,400

No dividends were declared or paid in 2020 or 2019.

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

The capital reserve is distributable in future periods, subject to the provisions of the Companies Act 2006.

33. Retained earnings

	2020 £000	2019 £000
Balance at January 1	58,718	65,321
Loss for the year	(1,564)	(6,603)
Balance at December 31	57,154	58,718

34. Available-for-sale reserve

	2020 £000	2019 £000
Balance at January 1	4,732	(3,052)
Change in value of available for sale financial assets	21,757	9,551
Change in value of available for sale financial assets transferred to profit or loss	(12,829)	(173)
Income tax on these items	(1,811)	(1,594)
Balance at December 31	11,849	4,732

HIGHWAY INSURANCE COMPANY LIMITED

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

35. Cash generated from / (used in) operations

	2020	2019
	£000	£000
Loss before tax from continuing operations	(740)	(10,753)
(Loss)/Profit before tax from discontinued operations	(1,175)	2,449
Loss before tax	(1,915)	(8,304)
Investment income	(9,386)	(11,502)
Interest income received	(3)	(10)
Finance costs	354	359
(Gains)/Losses on financial assets recorded in the statement of comprehensive income	(13,273)	1,280
Exchange losses/(gains) on financial assets recorded in the statement of comprehensive income	573	(602)
Non-cash items		
Movement in expenses deferred during the year	(4,285)	(1,113)
Amortisation of Intangible assets	100	100
Changes in working capital		
Decrease in other receivables	4,515	8,949
(Increase)/Decrease in reinsurance assets	(26,907)	5,140
Decrease/(Increase) in insurance receivables	2,555	(7,769)
Increase in prepayments and accrued income	(369)	(342)
Increase/(Decrease) in insurance contract liabilities	77,119	(20,661)
(Decrease)/Increase in insurance payables	(3,620)	1,213
Decrease in trade and other payables	(6,939)	(6,055)
Cash generated from/(used in) operating activities	18,519	(39,317)

HIGHWAY INSURANCE COMPANY LIMITED

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

36. Related party transactions

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

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:

	2020 £000	2019 £000
Short-term employee benefits	1,576	2,845
Other long-term benefits	332	1,220
	1,908	4,065

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

	2020 £000	2019 £000
Cost of repairs from LV Repair Services Limited	15,904	11,963
	15,904	11,963

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

	2020 £000	2019 £000
Management charge to the Company	38,791	36,950
	38,791	36,950

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

	2020 £000	2019 £000
Management charge to the Company	8,733	14,383
	8,733	14,383

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

Balances outstanding between the Company and other LVGIG Group companies:

	2020 £000	2019 £000
Payable (to)/from the Company (to)/from group undertakings	826	(1,120)
Payable (from)/to the Company from the Allianz Group	(4,089)	12,911
	(3,263)	11,791

During the year we entered into a new QS contract with Allianz RE Dublin to cede 40% of the underwriting result.

HIGHWAY INSURANCE COMPANY LIMITED

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

37. Ultimate parent company

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

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

The ultimate and immediate parent companies are registered at the below addresses.

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

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 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 are available to the public and may be obtained by post from:

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

or

Allianz
Königinstrasse 28
D-80802 Munich
Germany