COMPANY REGISTRATION NUMBER: 02998217

HIGHWAY INSURANCE GROUP LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

HIGHWAY INSURANCE GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS YEAR ENDED 2021

C O N T E N T S

DIRECTORS, OFFICERS AND REGISTERED OFFICE

Directors

J Dye	(resigned 30.11.21)
S Treloar	
K Wenzel	(appointed 01.12.21)

Company secretary

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

Registered office

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

Independent Auditors

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

STRATEGIC REPORT

1. Principal activities

Highway Insurance Group Limited ('Company') is a wholly owned subsidiary within the Allianz Holdings plc ('AZH') group of companies ('Allianz', 'the Group') which is one of the largest general insurers in the United Kingdom measured by gross written premium. The Company is also a subsidiary of Liverpool Victoria General Insurance Group Limited and acts as a holding company for Highway Insurance Company Limited ('HICO') with net assets at year-end of £194,226k (2020: £194,226k).

In July 2021, the Allianz business in the UK restructured its operations to form two new trading divisions, Allianz Personal and Allianz Commercial, supported by the integrated central functions of Operations, Finance, Risk and Human Resources. This structure aligns with the distinct needs of our individual customer groups and gives us more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling us to focus on specific segments. The products sold by the Company's subsidiary HICO, fall within the scope of the Allianz Personal wider division, which also includes speciality products such as Animal Health and musical instruments. The CEO of Allianz Personal is S Treloar, who was previously CEO of the LVGIG group of companies and is a Director of the Company.

2. Results and dividends

The result for the financial year was £nil (2020: loss of £100,347k) as set out on page 12. The Directors have declared and paid £nil in the current year to the parent company as interim dividends (2020: £nil). No final dividends were proposed or paid (2020: £nil).

During 2020 the Company reviewed the value of its investment in the subsidiary company, Highway Insurance Company Limited ('HICO'), which made a loss for the year of £1,564k. The value of HICO had been held at initial cost since purchase, with a carrying value of £294,510k. The review of the Net Asset Value over that initial cost indicated the need to complete an impairment assessment. The Company relied upon the value in use method and impaired the value of the underlying subsidiary, HICO by £100,347k. As at year end 2021, the value in use for HICO has remained higher than the written down purchase price, therefore no such impairment was required at December 31, 2021. See note 7 for further details.

3. Business review and future developments

(a) Strategy

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

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

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

(b) Principal risks and uncertainties and risk management

The primary uncertainty relevant to the Company would be whether the carrying value of its investment in subsidiary undertaking HICO is supportable and, following the impairment in 2020 as referred to in Section 2 above, the Directors currently have no concern in this regard. For further details, refer to the Investments in Group undertakings see note 7.

In light of the ongoing global pandemic, which remained a source of uncertainty during 2021, the Company's investment in its underlying subsidiary HICO continues to be closely monitored. Financial risks which HICO has responded to during the last 2 years 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. This started to improve towards the end of 2021.

Over the last 2 years we have 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.

3. Business review and future developments (continued)

(b) Principal risks and uncertainties and risk management (continued)
A new and emerging risk for the Company centres on macro-economic and geo-political factors, such as inflation and the on-going conflict in the Ukraine.

Inflation risk is the risk that changes in inflation expectation will adversely affect the Company's net asset value, which is largely dependent on its subsidiary, HICO, where insurance contract liabilities are subject to changes in inflation, in particular Periodic Payment Order ('PPO') liabilities. The risk is managed by broadly matching the asset inflation sensitivity to the inflation sensitivity of the liabilities. More generally, impacts from COVID-19 and Brexit such as supply chain disruption are driving a heightened level of inflation risk. This has led to inflationary pressure on property and motor damage claims for materials, parts and labour, and also injury and liability claims through delays in treatment for example. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims. As an indication, a 1% increase in claims inflation across all claims corresponds to a £3m increase in the ultimate cost of claims for HICO.

Following the Russian military invasion of Ukraine on February 24, 2022, the on-going conflict is a new source of uncertainty for HICO in 2022. Management have reviewed the risks and considering in particular, underwriting and direct investment exposures along with the wider macro-economic impacts of sanctions, information security threats and potential disruption to the supply chain.

Whilst the Company's subsidiary HICO, has no direct underwriting exposure to Russia or Ukraine, we are monitoring closely any impacts of the event in Ukraine on claims' supply chains and inflation for our core Motor and Home products. As of today, we believe these are within our normal trading parameters, however long-term effects are uncertain and dependent on the duration of the disruption.

The solvency position of the Company's subsidiary HICO is being monitored on a regular basis. Whilst the impact has in some cases been positive, such as the reduced claims frequency, in others it has caused 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.

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.

(c) Key performance indicators
The financial key performance indicator monitored by the Company is net asset value. The Net Asset Value at December 31, 2021 was £194,226k (2020: £194,226k).

(d) Significant post statement of financial position events
There have been no events of significance affecting the Company since the statement of financial position date.

On February 22, 2022, the immediate parent, Liverpool Victoria Insurance Company Limited ("LVIC") made a permanent capital contribution of £25,000,000 to the Company, which was subsequently paid onto its subsidiary undertaking, HICO.

In February three named storms impacted the UK in the space of a week, Dudley, Eunice and Franklin. Storm Eunice brought major weather impacts, with a red warning for wind covering south-east England for the first time. The claims caused by these events are not as severe as initially feared and we expect the impact for HICO to be approximately £4m gross of reinsurance (£2m net) in excess of the planned Q1 2022 weather allowance.

Following the escalation of events in Ukraine, the widespread uncertainty has led to an increase in credit spreads on fixed income securities. As a consequence, HICO has recorded unrealised losses to its investment portfolio as at March 31, 2022 of around £30m. HICO does not anticipate that there is any significant risk that coupon and capital repayments will not be received as they fall due.

STRATEGIC REPORT

s.172 Statement

The Company is managed by the AZH Board. Information on how the AZH Board discharges its duties under s.172(1) (a) to (f) of the Companies Act 2006 can be found within the Strategic Report on page 2 of the 2021 Annual Report and Accounts for AZH.

On behalf of the Board

S. Treloar

S Treloar
Director

July 29, 2022

DIRECTORS' REPORT

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

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

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

A qualifying third party indemnity was in force during the financial year and also at the date of approval of the financial statements.

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

3. Directors confirmations
In the case of each Director in office at the date the Directors' report 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

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 UK-adopted international accounting standards.

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 UK-adopted international accounting standards 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 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 also 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.

On behalf of the Board

S Treloar
Director

July 29, 2022

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Statement of Comprehensive Income, the Statement of Cash Flows and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the 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 2021 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' responsibilites in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK companies Act (2006) requirements, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to reduce expenditure of the company and management bias in accounting estimates and judgemental areas of the financial statements, such as the possible impairment of the company's investment in Highway Insurance Company Limited. Audit procedures performed by the engagement team included:

- Discussions with the Board of Directors, management, internal audit, senior management involved in the risk and compliance function and the Company's legal function, including consideration of known or suspected fraud;
- Reviewing relevant meeting minutes, including those of the Board of Directors;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by 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.

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.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 July 2022

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

	Note	2021 £000	2020 £000
Total income		**-**	-
Impairment of investment in subsidiary undertaking	7	**-**	(100,347)
Loss before tax		**-**	(100,347)
Loss for the financial year		**-**	(100,347)
Total comprehensive Loss for the year		**-**	(100,347)

The notes on pages 16 to 21 are an integral part of the financial statements.

HIGHWAY INSURANCE GROUP LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

		Share capital	**Share premium**	**Capital reserve**	**Accumulated losses**	**Total equity**
		£000	**£000**	**£000**	**£000**	**£000**
Balance at January 1, 2021		**41,756**	**20,470**	**132,192**	**(192)**	**194,226**
Result for the financial year	14	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2021		**41,756**	**20,470**	**132,192**	**(192)**	**194,226**

		Share capital	Share premium	Capital reserve	Retained earnings / (Accumulated losses)	Total equity
	Note	£000	£000	£000	£000	£000
Balance at January 1, 2020		41,756	20,470	132,192	100,155	294,573
Loss for the financial year	14	-	-	-	(100,347)	(100,347)
Balance at December 31, 2020		41,756	20,470	132,192	(192)	194,226

The notes on pages 16 to 21 are an integral part of the financial statements.

HIGHWAY INSURANCE GROUP LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2021

	Note	2021 £000	2020 £000
Assets			
Investments in Group undertakings	7	**194,163**	194,163
Deferred tax asset	8	**2**	2
Cash and cash equivalents	9	**68**	61
Total assets		**194,233**	194,226
Current tax liability	10	**7**	**-**
Total liabilities		**7**	-
Equity			
Share capital	11	**41,756**	41,756
Share premium	12	**20,470**	20,470
Capital reserve	13	**132,192**	132,192
Accumulated losses	14	**(192)**	(192)
Total equity		**194,226**	194,226
Total liabilities and equity		**194,233**	194,226

The notes on pages 16 to 21 are an integral part of the financial statements.

These financial statements on pages 12 to 21 were approved by the Board of Directors on July 28, 2022 and signed on its behalf by:

S. Treloar

S Treloar
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Note	2021 £000	2020 £000
Cash flows arising from Operating activities			
Loss before tax		-	(100,347)
Non-cash item: Impairment of subsidiary	7	-	100,347
Group relief received	10	**7**	-
Net cash flows generated from operating activities		**7**	-
Net increase in cash and cash equivalents		**7**	-
Cash and cash equivalents at the beginning of the year	9	**61**	61
Cash and cash equivalents at the end of the year	9	**68**	61

The notes on pages 16 to 21 are an integral part of the financial statements.

1. General information

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

2. Accounting policies

BASIS OF PRESENTATION

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Highway Insurance Group Limited transitioned to UK-adopted International Accounting Standards in its financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Highway Insurance Group Limited have been prepared in accordance with UK adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The financial statements have been prepared under the historical cost convention. Items included in the financial statements are measured using the currency of the primary economic environment (the 'functional currency') which is sterling. Unless otherwise noted, the financial statements are presented in sterling (the 'presentation currency').

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

Where the net asset value of the subsidiary falls below the cost of investment in the subsidiary, the valuation is based on the subsidiary's value in use. The value in use is based on the future cash flows forecast into perpetuity and calculated as at the end of the period covered by the formal Annual plan 2022-2026 and discounted to its present value.

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

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

Going concern

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

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

Impairment of financial assets

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

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.

2. Accounting policies (continued)

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

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

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

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

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

Consolidation
The Company is exempt from the obligation to prepare and deliver group financial statements by virtue of the Companies Act 2006 (Section 401 1a) as it is a subsidiary undertaking of an EU parent (see note 15). The financial statements have been prepared on the historical cost basis. The functional and presentational currency is British Pounds.

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.

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

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

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

2. Accounting policies (continued)

New standards and interpretations not yet adopted

No new standards have been adopted by the Company for accounting periods beginning on or after January 1, 2021.

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

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

In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the requirements of all stakeholders. The sources of capital used by the Company are equity shareholders' funds. At December 31, 2021 the Company had £194,226k (2020: £194,226k) of total capital employed. The Company solely invests in a subsidiary based in the United Kingdom. The operations of its subsidiary are primarily based in the United Kingdom hence any risk exposure is almost entirely confined within the UK.

4. Capital Management

In managing capital, the Company seeks to maintain sufficient, but not excessive, financial strength to support the requirements of all stakeholders. The sources of capital used by the Company are equity shareholders' funds. At December 31, 2021 the Company had £194,226k (2020: £194,226k) of total capital employed. The Company solely invests in a subsidiary based in the United Kingdom. The operations of its subsidiary are primarily based in the United Kingdom hence any risk exposure is almost entirely confined within the UK.

5. Audit remuneration

LVGIG is responsible for the management and administration of the Company. The audit remuneration in respect of audit services for the Company is £8k (2020: £9k) and is borne by LVGIG.

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

6. Directors' emoluments

The remuneration of J Dye and K Wenzel is paid by Allianz Management Services Limited ("AMS") and the remuneration of S Treloar is paid by LVGIG. LVGIG and AMS are Group Service companies and make no recharge to the Company for such costs. The aforementioned individuals provide services to the Company and other companies within the Allianz UK Group and it is not possible to make an accurate apportionment of an individual's remuneration in respect of their role as a Director of the Company. Accordingly, no remuneration is being disclosed for such individuals.

7. Investments in Group undertakings

	2021	2020
	£000	£000
At January 1	**194,163**	294,510
Impairment of Highway Insurance Company Limited	-	(100,347)
At December 31	**194,163**	194,163

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

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

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

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

These plans are comprehensively revisited on an annual basis in Q4 of each year, with reforecasts taking place at earlier intervals where these are felt necessary. All key functions in the business are involved in their development, before review and challenge by the Board. The plans assume growth in Gross Written Premium of 10% over the next year where the primary driver of growth is renewal business acquired from Fairmead. Average annual growth in the final 3 years of this 5 year plan is 4%, with a terminal growth rate of 0.5% applied to all cash flows thereafter. The terminal growth rate aligns with Allianz Group methodology and is designed to reflect the current level of economic uncertainty. In undertaking the impairment assessment, management has taken account of the competitive market environment, and the fact the plan assumes the market is not disrupted by competitor behaviour. The plan reflects the new quota share agreement and assumes the Underwriting loss ratio decreases to 66.7% where a key driver is the growth in the Home book acquired from Fairmead, which typically has a lower loss ratio than Motor. The Expense ratio decreases to 28.9%, in part through cost reductions associated with integration with Allianz.

The plan assumes good underwriting results but a modest investment income of c.£5m interest received each year with less reliance placed on investment returns in the current economic climate that has emerged in the wake of the Covid-19 pandemic. These were determined in consultation with our inhouse Investment Management team. The forecast cash flows have been discounted at a pre-tax rate of 10.49%, an increase of 0.61% versus the rate used in 2020. This rate was determined by Allianz, in line with the Cost of Capital requirement for UK operating entities using the Capital Asset Pricing Model. Both the terminal growth rate and the discount rate are consistent with the ranges observed in the market place. Based on the above assumptions, the recoverable amount exceeded the carrying amount by £6.4m.

Further sensitivity analysis show that the base case discounted cash flows are most sensitive to a change in the expense or loss ratios. Currently, an increase in the expense or loss ratio of 1% would result in a decrease in a deficit of £19.5m. However, a further increase to the discount rate of 1% would result in a deficit of £15.5m. The cash flows used in the financial plans are also sensitive to changes in the assumed growth over the next 5 years. An increase in the annual growth rate over the next 5 years by 1% increases the surplus to £15.7m.

8. Deferred tax asset

	2021 £000	2020 £000
At January 1	**2**	2
At December 31	**2**	2

Analysis of deferred taxation temporary differences

	2021 £000	2020 £000
Advanced capital allowances	**2**	2
	2	2

Analysis of the deferred tax balance

	2021 £000	2020 £000
Deferred tax asset expected to be recovered after more than 12 months	**2**	2
Net deferred tax asset	**2**	2

The valuation and recoverability of deferred tax assets relating to capital allowances in excess of depreciation is dependent on the availability of future taxable profits within the company and group. Management forecasts currently support the future recoverability of the deferred tax asset recognised in the balance sheet as at December 31, 2021.

The tax rate used for the 2021 and 2020 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax is currently 19%, changing to 25% with effect from 1 April 2023.

9. Cash and cash equivalents

Cash and cash equivalents are fully represented by cash at bank and in hand of £68,000 (2020: £61,000).

10. Current tax liability

	2021 £000	2020 £000
Group relief	**7**	-
	7	-

11. Share capital

	2021 £000	2020 £000
Ordinary shares, allotted and fully paid:		
208,780,674 (2020: 208,780,674) ordinary shares of £0.20 each	**41,756**	41,756

All authorised shares have been issued.

12. Share premium

	2021 £000	2020 £000
Balance at January 1	**20,470**	20,470
Balance at December 31	**20,470**	20,470

13. Capital reserve

	2021	2020
	£000	£000
Balance at January 1	**132,192**	132,192
Balance at December 31	**132,192**	132,192

14. Accumulated losses

	2021	2020
	£000	£000
Balance at January 1	**(192)**	100,155
Loss for the year	**-**	(100,347)
Balance at December 31	**(192)**	(192)

15. Ultimate parent company

The immediate parent company is Liverpool Victoria Insurance Company Limited (‘LVIC’), a limited liability company, incorporated in the UK.

The ultimate parent undertaking, Allianz SE, is incorporated in Germany and is the parent of the largest and smallest group of undertakings for which Allianz SE Group financial statements are drawn up and of which the Company is a member.

Copies of the Allianz SE Group financial statements are available on request from the ultimate parent’s registered address, Allianz SE, Königinstrasse 28, 80802 München, Germany.