Registered number: 03730662

Annual Report and Financial Statements 2022

Highway Insurance Company Limited

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Company Information

Directors	C W T Dinesen
	F K Dyson
	P J Evans
	C Holmes (appointed 22 February 2022)
	D J Larnder
	S C McGinn (appointed 22 February 2022)
	R M Murison (ceased 25 September 2022)
	T Robson-Capps (appointed 13 April 2022)
	D A Torrance
	C G Townsend
	S Treloar
	J R Vazquez (appointed 1 June 2022)
Company secretary	C M Twemlow
Registered office	57 Ladymead Guildford Surrey GU1 1DB
Registered number	03730662
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT

Strategic Report for the Year Ended 31 December 2022

The Directors present their strategic report for the year ended 31 December 2022.

Principal activities

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

As part of the acquisition of its intermediate parent, Liverpool Victoria General Insurance Group Limited ("LVGIG"), which concluded on 31 December 2019, by AZH, the Company ceased writing Commercial broker new business. The Commercial broker business represented 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 Profit and Loss and Other Comprehensive Income.

On 3 January 2020, LVGIG purchased Legal and General Insurance Limited, ("LGIL") subsequently renamed as Fairmead Insurance Limited ("Fairmead"). Fairmead is a UK non-life insurance business focused on Home insurance. The Fairmead migration completed in 2022, going live with a new Home offering including Home Legal and Home Emergency. The Company is now well placed to take on and write more broker Home business.

The Company distributes products under a number of brands, supported by other Group subsidiaries and the shared services. An analysis of the 2022 results and the prospects for 2023 are set out below.

The Company is a member of the Association of British Insurers ("ABI") and is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Its activities are covered by the Financial Ombudsman Service.

Business Review

Throughout 2022, the Company continued to be recognised externally for its achievements in Insurance. The LV brand ("LV=") was named a Which? Recommended Provider for car insurance for the 8th year in a row and was recognised as a top three home insurer.

During 2021, the Group was restructured to create two trading divisions, Allianz Personal and Allianz Commercial, supported by the integrated shared services of Finance, Risk and HR. This structure aligns with the distinct needs of our individual customer groups and gives more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling a focus on specific segments. The products sold by the Company fall within the scope of the Allianz Personal wider division. This division includes Speciality products such as Animal Health and musical instruments.

LV= continues to leverage its position as a subsidiary of Allianz Holdings Plc in the UK as well as part of the Allianz SE Group globally. Allianz Holdings Plc, which was recognised for its achievements as an inclusive employer ranking 14th in the Inclusive Top 50 UK Employers and achieving Silver in the Stonewall Workplace Equality Index. Allianz SE Group was the number 1 globally operating insurance brand in the Brand Finance Global 500 and for the fourth year running, Allianz was the world's number one insurer in Interbrand's Best Global Brands Ranking.

In December 2022, as part of continued alignment, all third party withheld contracts, which included the 2015 Loss Portfolio Transfer ("LPT") arrangement and Quota Share ("QS") 2016-2018 accident years were commuted. In addition on 30 December 2022, the Allianz Re 2019/2020 QS was commuted and replaced with a 40% LPT with Allianz Re.

The UK continues to experience tough economic conditions with the heightened inflationary environment continuing to pose a significant challenge to the market. As a result, significant rate increases have been implemented and this will continue to be closely managed with latest expectations being that inflation will remain high until the end of 2023. In addition, several large weather events throughout the year and the implementation of the FCA General Insurance Pricing Practices ("GIPP") added to the tough trading conditions. As a result, the Company made a loss from continuing lines of £16.0m (2021: loss of £17.0m).

Strategic Report for the Year Ended 31 December 2022 (continued)

Gross written premiums reduced by 1.1% to £411.1m (2021: £415.7m). Significant rate increases were implemented to mitigate inflationary impacts and protect profitability which resulted in a reduction of 3.8% in policies held to 1.3m (2021: 1.35m). Motor premiums were lower than 2021 despite significant rate increases applied. Within Home, premiums were slightly higher than 2021 as a result of the rate increases but fewer policies in force.

From 1 January 2022, all UK insurers are required to ensure that customers' renewal prices are no greater than new business prices for Home and Motor products, as part of the FCA's GIPP remedy. In advance of this change, new tariffs utilising machine learning pricing models (developed in conjunction with Willis Towers Watson) were implemented by LV= on our Retail Motor and Retail Home accounts to ensure our products remain both compliant and profitable in the new environment.

Claims performance saw significant pressure in 2022 as a result of high inflation and several significant weather events. In particular, Motor has experienced a multitude of challenges including rising repair costs, labour shortages and supply chain issues. Motor claims frequency continued to increase in 2022 as drivers returned to the road after the final Covid lockdown, however, remained below pre-pandemic levels. The February storms, subsidence claims from prolonged dry weather in the summer and the freezing weather in December meant that the number of Home claims was higher than anticipated.

The claims margin held in addition to the actuarial best estimate has reduced over 2022. The drivers of the reduction include; greater certainty being gained surrounding the impact of the whiplash reform implemented in 2021, an improved outlook for the Ogden Discount Rate change in 2024, an assumption review on PPOs and a reduction in the amount held against excess inflation following best estimate assumption reviews throughout the year.

Strong cost disciplines were maintained through controlling acquisition costs, however overall expenses increased year on year due to higher fixed costs. Despite this, investment in staff, systems and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy.

In addition, the Company continues to monitor the impact of its discontinued lines following the transfer of the Commercial business to Allianz Insurance PLC. In 2022, the discontinued lines contributed a loss of £1.4m (2021: loss of £3.2m).

The Company recorded unrealised losses of £72.4m (2021: £20.5m). Investment income has benefited from higher yields, leading to the Company reporting a loss for the year of £17.4m, compared to a loss of £20.2m in 2021.

There have been restatements across several financial statement line items and risk management notes to reflect presentational changes as a result of alignment to ensure consistency and conformity with the financial statements of Allianz Insurance Plc. These have all been identified as restated within the financial statements and the respective notes.

Key performance indicators
The key financial performance indicators monitored by the Company are (all pre-quota share except where indicated):

		Restated*
	2022 **£ m**	**2021** **£ m**
Gross written premium	411.1	415.7
Net written premium	383.9	391.6
Underwriting result(1)	(19.4)	(21.0)
Loss before tax(5)	(21.9)	(26.0)
Claims ratio(2)	71.7%	75.6%
Expense ratio(3)	36.2%	33.7%
Combined ratio(4)	107.9%	109.3%
SCR coverage ratio(5)	140.0%	126.3%

Strategic Report for the Year Ended 31 December 2022 (continued)

*The prior year comparatives have been restated to show the change in basis to pre-quota share where appropriate.
(1)Underwriting result is the sum of premiums earned less incurred claims and expenses.
(2)Claims ratio is defined as incurred claims as a percentage of earned premiums.
(3)Expense ratio is defined as incurred expenses and commission as a percentage of earned premiums.
(4)Combined ratio is defined as incurred claims, expenses and commission as a percentage of earned premiums.
(5)Post quota-share

The underwriting result can be reconciled to the loss before tax reported in the Statement of Profit and Loss and Other Comprehensive Income on page 24 as follows:

	2022 £ m	Restated* 2021 £ m
Underwriting result	(19.4)	(21.0)
Impact of quota share	1.8	1.2
Investment income net of finance costs	8.6	6.1
Net realised (losses)/gains	(0.2)	2.2
Other operating and administrative expenses	(12.7)	(14.5)
Loss before tax	**(21.9)**	**(26.0)**

*The prior year comparatives have been restated to show the change in basis to pre-quota share where appropriate.

The key non-financial performance indicators monitored by the Company are:

Net Promoter Score ("NPS") performance - LVGIG:
- Achievement: Achieved Loyalty Leader in 2022.
- Target: Maintain Loyalty Leader in 2023.

Customer satisfaction is measured at an LVGIG level (incorporating the Company). NPS is an important indicator of our customer service which captures customer willingness to recommend us and is benchmarked against our competitors. The survey is managed by YouGov and is therefore an external and independent perspective. The achievement of Loyalty Leadership is a credit to our frontline teams.

Principal risks and uncertainties
We continually assess the principal risks and uncertainties facing our business, monitoring potential impacts and where necessary implementing mitigation and management solutions. Details of the principal risks and uncertainties can be found below and in note 28.

The Risk Function, alongside Internal Audit and Compliance, monitor both known and unknown risks that could affect the Company, while collaborating with the business units to mitigate any identified issues. In 2022, particular focus was on:

- **Inflation and the macro-economic environment** - inflation continues to bring material uncertainty to current and future performance and has created challenging trading conditions. The impacts which have been experienced include supply chain issues caused by materials shortages, rising energy costs, claims inflation costs, increased general expenses as well as the impact on asset valuations of increased interest rates and credit spreads. The risks associated with the macro-economic conditions are likely to extend into the medium term in the context of a potential UK recession in 2023 and the continued impact of the war in Ukraine.
- **Information security** - throughout 2022 enhancements were made to the capabilities and effectiveness of the Group's cyber defences and abilities to prevent, detect and respond to the risks posed by cyber threats.
- **Management stretch** – a significant and complex change agenda throughout the Company, in part relating to new regulation, has increased the risk of management stretch impacting the delivery of the business plan.

Strategic Report for the Year Ended 31 December 2022 (continued)

- **Supplier risk** – underperformance of third-party suppliers is a material contributor to operational incidents. The Company continues to carefully monitor third parties in order to ensure its on-going operational resilience.
- **Transformation** – an extensive change programme exists within the Company consisting of various business and regulatory priorities. Any cost challenges or delays could impact competitive positioning in the longer term.
- **Brand risk** – with cost of living challenges as well as pricing changes required by the FCA's General Insurance Pricing Practices reforms, the risk to the Company's brands from negative media and customer perception has heightened during 2022.
- **Conduct risk** - the continued Company focus on the importance of doing the right thing for our customers, recognising and responding to the needs of those more vulnerable in the current economic climate arising from the pandemic. In 2022, we continued to enhance our activities, management information and oversight of Conduct Risk throughout the business. The Customer and Conduct Committee plays a key role in providing oversight and control of conduct risk.
- **Climate change** - ensuring we remain a conscientious company which considers sustainability in all our business activities is a key focus across the Allianz SE Group and locally in the UK. Continued progress is being made towards our Environmental, Social, Governance ("ESG") and Climate Change ambitions, with significant work undertaken in our Underwriting and Investment departments.
- **People risk** – the macro-economic environment and market conditions have generally led to increased attrition and difficulty in recruiting and retaining people with the required skills and capability.

During 2022, the UK economy has experienced great uncertainty and turmoil not only due to geo-political and macro-environmental conditions caused by the Ukraine conflict, but also due to the domestic political uncertainty which has seen 3 different Prime Ministers in the space of 4 months. Whilst a technical recession has been avoided for now, the risk of entering a recession remains heightened in 2023.

The ongoing conflict in Ukraine continues to be a source of uncertainty for the Company. Management have reviewed the risks to the Company, 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 has no direct underwriting exposure to Russia or Ukraine, we are closely monitoring any impacts of events in Ukraine on claims' supply chains and inflation for our core Motor portfolio. During 2022, external factors including the crisis in Ukraine led to a material rise in claims inflation. Looking forward, the long-term effects are uncertain and dependent on the duration of the disruption.

The wider macro-economic impacts including those arising from sanctions and further upward pressure on inflation are primarily driven by rising energy costs. This further increases the pressure on our customers and the cost of our claims liabilities. The Company also recognises that in response to sanctions, there is a risk of state sponsored cyber-attacks targeted at the UK, resulting in disruption to national infrastructure or third party organisations in the supply chain. Through monitoring of emerging threats and identification of incidents, our organisational structure enables a coordinated response to cyber events within our local and global Crisis Management framework.

Due to the high-inflationary environment, pricing has been a challenging area for the Company as well as the broader market. In particular, to achieve a sufficient level of rate that covers claim inflation whilst being commercial but also competitive. These challenges are likely to continue into 2023.

The investment strategy of the Company is to invest in a high quality, well diversified investment portfolio that maximises investment return, subject to solvency, liquidity, asset liability matching and other constraints. The strategy aims to minimise risk to the core insurance operations from which the investment cash flows are derived. In respect of underwriting risk, Allianz has a robust control environment around underwriting and also has reinsurance arrangements in place providing risk mitigation.

Our investment portfolio is well diversified and high quality. During 2022, operating investment income performed strongly due to rising reinvestment yields and higher income from floating rate assets (covered bonds, floating rate notes). Investment non-operating income suffered from realised losses related to rising yields. Overall liquidity remains strong with a sufficient level of cash being retained in the Allianz SE Group cash pool (an Allianz SE treasury service which optimises surplus cash returns by investing in short term money market instruments).

Strategic Report for the Year Ended 31 December 2022 (continued)

Future outlook

We move into 2023 in a strong position despite the ongoing competitive market conditions in the UK and challenges presented by the economic environment, in particular the increased rate of inflation which is expected to remain at high levels until the end of the year. The Company is well equipped through its diverse product portfolio, customer relationships and robust financial position to manage these challenges and continue to deliver for customers and brokers. Inflation will continue to be monitored and appropriate actions taken to ensure pricing is adequate to maintain profitability and cover increased claims costs whilst offering competitive solutions for customers.

Building on the success of our ‘Renewal Agenda’ global strategic blueprint, we’re placing ‘simplicity at scale’ at the core of our operations. By achieving a consistent look and feel across client interfaces, simple and transparent products and processes, as well as quicker customer service, we expect to achieve significant productivity and efficiency gains that will benefit our customers, employees and stakeholders. Underpinned by the stability and scale of Allianz SE globally, the Company continues to invest in digitalisation, simplifying our business and, above all, our focus on customers.

Profitability is expected to improve through 2023 as the benefits of the continued investment in productivity initiatives and technical excellence are realised, supported by premium growth as a result of both volume and price increases. The Company remains vigilant with respect to claims fraud and continues to maintain good underwriting and pricing discipline with a focus on pursuing long term profitable growth. By definition, insurance is an uncertain business and profitability in 2023 is susceptible to further impacts as a result of economic uncertainty, as well as the potential for a higher than expected level of major claims or weather events. However the company will continue to monitor these impacts, in particular the impact of climate change on the frequency and severity of weather events.

There remains a risk that both growth and profitability may be tempered by ongoing pressures within the market and economy.

Going concern

The Directors, having undertaken an assessment, 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 is owned by one of the largest property and casualty insurers in the world.

Section 172(1) Companies Act 2006 Statement

Section 172 (1) of the Companies Act 2006 requires the directors of a company to act in a way that promotes the success of the Company for the benefit of its members as a whole. The Directors of the Company are committed to promoting a healthy corporate culture and understand that striving to achieve the Company’s strategic aims will ultimately increase the value of the Company, its parent, the Group and the wider Allianz SE Group.

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 have acted in a way that they considered, both individually and collectively, 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.

The Board is collectively responsible for the long-term success of the Company. The Board is responsible for setting the Company’s strategic aims and ensuring that the necessary resources are in place to meet its objectives. The Board sets the Company’s purpose, strategy, culture, values and standards and ensures that its obligations to stakeholders and others, as well as other matters set out under section 172 of the Companies Act 2006, are considered when taking decisions and in its discussions.

The Board of the Company meets at least quarterly alongside the board of directors of its intermediate shareholder, LVIC, the Board of LVGIG, AZH and the boards of directors of other key regulated entities and holding companies within the Group (collectively, the “Boards”). The Boards have adopted the same terms of reference, by which they operate, and the Directors of the Boards are the same. The governance framework applied to the key regulated entities and holding companies within the Group and the combined approach to governance, ensures that the Company’s Board also has regard to the overall strategy, interests and direction of the Group as a whole, when taking decisions and in its discussions. This includes considering the impact on the broader stakeholders of the Group, the environment in which the Company and the Group operate and the long-term success of the Company and the Group as a whole.

Strategic Report for the Year Ended 31 December 2022 (continued)

The Board receives 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. Information is also presented, where relevant, regarding any impact on the Company's or Group's reputation, impact on the environment or on the communities in which the Company or Group operate and other matters set out in section 172 of the Companies Act 2006.

The Board has undertaken a review of its effectiveness during the year and is in the process of implementing actions to further improve Board governance arrangements. An external review of governance is underway in 2023. The outcome will be shared with the Board and resulting actions for improvement will be reported back at quarterly meetings.

Stakeholder engagement

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

The Board and individual Directors engage with some stakeholders directly on specific issues. However, due to the size of the Group and how it operates, stakeholder engagement more regularly takes place at an operational level. In addition, stakeholder engagement takes place at both a Group level and a Company level depending on the matter at hand. This allows the Group to be responsive to stakeholder needs. As described above, the Company's Board receives reports 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.

Customers

Customer centricity is fundamental to the business strategy of "putting our people first and our customers at the heart of what we do".

The Group is committed to ensuring good outcomes for its customers. Customer centricity is fundamental to the Company's growth and development and is one of five important themes underpinning the Allianz SE business strategy which the Group and the Company have adopted. The Group's focus is on maintaining high levels of service and supporting its customers. Throughout 2022, as the country recovered from the effects of the pandemic and faced a cost of living crisis, the Company and the Group's employees continued to support the Group's customers, suppliers and communities through what continues to be a difficult time for many.

A key method of engaging with our customers across Allianz's businesses and ensuring that a customer-centric culture is embedded is the Net Promoter Score ("NPS"). The NPS is explained above under Key Performance Indicators on page 4. Feedback is sought and Allianz's performance across different brands is benchmarked against competitors. The NPS results are a KPI for the Company and the results are shared with the Board so this information can be considered when making decisions. Both the LV and PetPlan brands are considered loyalty leaders with scores ahead of peers.

In addition, on a day to day basis the Group's customer facing people engage and foster relationships with our brokers and 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 Customer & Conduct Committee of the Board for its consideration.

The Customer & Conduct Committee is responsible for overseeing customer conduct matters for the Group and its subsidiaries. The Customer & Conduct Committee receives reports on a variety of matters including reports from the business, including customer dashboards, metrics which help it to understand the customer experience and vulnerable customers information. The Customer & Conduct Committee has considered a number of topics and projects during the year, focusing on the customer impacts and journey and ensuring that customers are put first. The Customer & Conduct Committee reports into the Boards on all matters, ensuring that the Directors have sight of customer engagement metrics to factor into decision making and ensuring good outcomes for customers. During the year, the Boards approved the Consumer Duty implementation plan and performance against the plan is reported to the Customer & Conduct Committee.

In addition, during 2021, the Group engaged an independent third party to undertake a review of culture across the Group, including, amongst other things, how the culture supports the delivery of good customer outcomes. The Boards reviewed the findings and actions were put in place to ensure they continue to receive relevant and useful information in relation to culture. As a result, a comprehensive new culture dashboard and scorecard was implemented in 2022 to help the Boards better monitor culture, including metrics to measure customer outcomes. A common set of values has been agreed by the Boards and the rollout of these has commenced, supporting the development of a customer-centric culture.

Employees

The Company does not employ any staff. During the year, LVGIG and Allianz Management Services Limited ("AMSL"), a subsidiary of AZH, provided administration services and staff to the Company and to other Group companies. LVGIG and AMSL have a high level of resources and expertise which benefit the Company and the Group. Employee engagement is led by the Chief Human Resources Officer of the Group, with the Human Resources team working across the Group’s activities. The approach taken across the Group to employee engagement is explained below; however there are some variances in methods used across Allianz Commercial and Allianz Personal, where appropriate or required.

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 we invite our people to complete a confidential survey to provide feedback. It remains a key priority to ensure that employees are fully engaged as Allianz continues to develop during 2023.

Throughout 2022 there have been regular townhalls with other senior executives (including the CEO of Allianz Personal) invited to join the AZH CEO to discuss important topics and answer questions raised by employees.

The Allianz Personal Executive Committee conducts monthly webinars with the leadership team to share the Allianz Personal strategy and to provide updates on particular topical items of interest. 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. There are regular "employee broadcast calls" for employees working within that business (including central services) led by the Allianz Commercial Executive Committee members, where employees are encouraged to ask questions directly to key speakers.

New ’ways of working’, including hybrid working, have provided opportunities for more engagement between the Board, including the non-executive Directors, and Group employees, with onsite days being scheduled at different office locations in the UK to facilitate more engagement.

The Group seeks feedback and measures the engagement of employees in a variety of ways. Engagement methods include the Allianz Engagement Survey (“AES”) and additional ‘pulse’ surveys sent to employees on various topics, townhall presentations (which have been virtual following the impact of COVID-19) and newsletters via the employee intranets. In 2022, the AES continued to provide a valuable employee feedback platform and remains an important indicator of the Group’s corporate culture and employee engagement. The AES results include the ‘Inclusive Meritocracy Index’ which covers aspects of leadership, performance, collaboration, trust and respect, and is derived from the responses to a specific set of questions in the annual AES. A Work Well Index plus is also used to measure the quality of the work environment, practices and opportunities.

"Inclusive Meritocracy" describes the Group’s target culture. This is underpinned by four People Attributes with underlying target behaviours, helping employees understand what is expected of them.

The AES results are collated to give a Group-wide result and are also broken down by division and team. Action plans are then developed based on the feedback received within teams. The results of the survey are directly linked to the performance objectives of the Allianz Holdings plc Executive Committee and key leaders within the Group. This approach ensures that employee sentiment and impact on the workforce are carefully considered by the leadership team when making decisions. In 2022, Allianz Holdings Plc ranked 14th in the Inclusive Top 50 UK Employers 2022/23 list. Also during the year, LVGIG received a silver award from Stonewall's Workplace Equality Index, for its commitment and efforts to become an LGBTQ+ employer. Stonewall is the world's second-largest LGBTQ+ charity.

Having a strong focus on Diversity and Inclusion enables Allianz to better understand the customers it serves and its people. The Group has a clear Diversity and Inclusion strategy, which covers Allianz’s people, customers, brand and reputation. In 2022, Allianz embarked on several initiatives in support of its aim to foster an inclusive environment where a valued and diverse workforce can be heard, contribute, grow and feel a sense of belonging.

Strategic Report for the Year Ended 31 December 2022 (continued)

Allianz understands the importance of continuing to have flexible working options available to all of its employees, as they return to offices following the pandemic. To make sure that the Allianz and the Allianz SE Group are evolving their approach and to keep encouraging talent to join the business, a working group has been set up to foster a flexible working culture. The 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.

The Board has considered the impact of the global uncertainty arising from the aftermath of the pandemic and the Russian invasion of Ukraine on the Group’s employees which has informed its decisions. Allianz engages regularly with Unite, a trade union for some staff within the Group, which exists to protect and improve employee interests. Discussions with Unite are escalated to the Board and its committees as appropriate.

Reward and recognition

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

With a number of initiatives already in place through our wellbeing support programme, in 2022 there has been an increase in the number of Mental Health First Aiders ("MHFA’s") to provide in person or virtual assistance to all employees on a confidential basis in their time of need to prevent as well as react to situations. The LVGIG Wellbeing programme has been running weekly webinars and awareness campaigns covering a variety of topics including Burnout, Stress, Breathing, Meditation and Sleep. The programme has also been extended to include champions and MHFA’s from the Diversity and Inclusion employee networks to support the reach to employees from different communities or with particular characteristics. In addition, all employees have free access to the Headspace app, which provides a range of support through articles, news, applications and techniques to support their wellbeing and mental health.

Suppliers

Significant Group supplier contracts, either strategic or by reason of size and significance, which are relevant to the Company, are considered by the Boards following engagement between procurement and business teams, supported by senior management where appropriate. In 2022, significant supplier contracts, supported by summary documents, were provided to the Boards to enable an informed decision to be made covering areas such as performance, cost, risk and strategic alignment. Suppliers are required to comply with the Group’s Vendor Code of Conduct, which ensures standards are met in relation to ethics, labour and, more recently in 2022, environmental sustainability.

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. As a consequence, in 2022, the Boards gave due consideration to significant intended supplier arrangements and their suitability and ability to meet the Group’s requirements including, but not limited to, areas such as information security, data privacy, risk, protection and resilience. Alongside this, work has been done in 2022 to meet the PRA’s SS2/21 statement regarding the management and oversight of third parties, further increasing the governance and control of new and existing relationships.

Once a supplier relationship is in place, in line with Allianz’s Supplier Relationship Management Framework, relevant executives assume responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance. Regular reports on supplier performance, inclusive of inputs from fellow safeguarding functions such as Information Security, Operational Resilience and Risk, were made available to the Boards in the course of 2022 to ensure effective oversight and control.

All of these measures come together to form a productive, secure, and mutually beneficial working relationship with each supplier. This has been especially important in 2022 given the turbulent economic environment. These strong working relationships with suppliers have enabled the organisation to manage costs, mitigate risk, and work collaboratively to support strategic organisational objectives.

Regulators

The Company is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Maintaining a good relationship with the Company’s regulators is a priority for the Board and regulatory considerations are given close scrutiny when making decisions.

Strategic Report for the Year Ended 31 December 2022 (continued)

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 Board carefully considers and takes into account any letters received by the Group from the regulators. In 2022, the Board has considered the Periodic Summary Meeting ("PSM") letter from the PRA and the Firm Evaluation Letter ("FEL") from the FCA and received regular updates on progress in relation to findings and action plans from the regulators. This has informed the planned focus areas of the supervisory engagement throughout the year.

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 Board discussions. Other engagement methods with regulators include regular meetings responding to regulatory market reviews and attendance at Board meetings.

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 relevant Board, as appropriate. This ensures that regulatory matters are of key importance with a top-down approach led by the Board.

In relation to its regulatory requirements, the Board also reviewed and approved its relevant Solvency II Reports, including the Solvency and Financial Condition Report and the Company's Recovery and Resolution Plan.

Shareholder
The Company has regard to the interests of its immediate shareholder, HIG and the wider Group and Allianz SE Group when making decisions. The Company's strategy is aligned with the Group's strategy and the Allianz SE Group strategy, adapted as necessary for the Company's markets. Allianz SE nominate a non-executive Director to the Board of the Company. In 2022, the Board received regular updates from the Allianz SE Group on key matters being considered within the wider group. Shareholder views have been factored into various decisions made by the Board during the year including those on strategy, budget, investments, distributions and Board appointments.

Community and the Environment
An 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 Allianz's businesses. Allianz, including the Company, has undertaken its own initiatives during the year in the area of ESG. The Board has also reviewed the ESG strategy, analysing the Global Allianz strategy in relation to ESG and reviewing how that strategy is implemented in the UK. Allianz is fully committed to ESG principles and consideration of its impact in these areas is an important part of Company and Group discussions.

The Group participated in an activity co-ordinated by the Allianz SE Group to help Ukraine including making a global corporate donation to the German Red Cross, supporting employees who were hosting Ukranian families and offering temporary car insurance. Employees also took part in a global initiative, the Allianz World Run, which donated to the German Red Cross.

Allianz undertakes some initiatives in its communities, which complement the activities of the Group. Allianz's partnership with the England and Wales Cricket Board ("ECB") provides financial support through #Funds4Runs to help local clubs and communities get back on their feet and support some of the ECB's priorities – promoting ethnic diversity, cricket for women and people with disabilities, as well as grassroots cricket. During 2022, Allianz committed to donating £100,000 for this programme. In addition, charity and community groups run by employees in regional offices supported local community initiatives through fundraising, grants and volunteering events.

During the year, the Board considered the ESG 2025 plan and 2022 objectives for each area working on ESG including the opportunities and risks climate change poses.

Board decision-making
This part of our 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 the significant decisions that it is required to approve will impact the Company's key stakeholder groups.

<u>During the year the Directors took the following decisions:</u>

System of Governance Annual Review

Section 172 considerations: maintaining a reputation for high standards, long term consequences of decisions

Stakeholders: customers, regulators, shareholder

During the year, the Board (together with the board of AZH and a number of other key Group entities) approved a review of the System of Governance ("Review"). The System of Governance is designed to ensure that the Group has sound and prudent management of its business and is based not only on UK and EU regulatory requirements, but is necessary to ensure that its business and risk profile aligns with the Allianz SE Group. The Review was considered by the Allianz Holdings plc Executive Committee and Risk Committee before receiving Board approval and involved approval of a Statement of Accountability to confirm an effective system of governance with all necessary processes and controls remaining in place. The Review set out its findings for consideration by the Board and introduced activities for 2022 to further strengthen the Group's governance framework. The Review was considered a key decision in light of the Board's duty to ensure the Company maintains a reputation for high standards of business conduct and assure the Allianz SE Group that the Company and the Group has a sound and prudent system of governance. In overseeing this important matter, the Board had regard to the requirements of the Company's regulators and interests of the shareholder as well as the potential long term consequences of any decisions made.

Culture Dashboard

Section 172 considerations: maintaining a reputation for high standards, consequences of decisions in the long term, interests of employees, the impact of operations fostering relationships with customers and suppliers

Stakeholders: customers, regulators, employees

During the year, the Board received regular updates on performance against the culture action plan including development of the culture dashboard. Culture remains an essential component which underpins how Allianz operates and encompasses a broad range of topics affecting most key stakeholder groups. It is recognised by the regulator that a healthy culture is essential to consumer protection and well-functioning markets. The Board considers it an essential element to defining the Company's purpose, strategy and expectations for employees. A new culture dashboard was rolled out in 2022 as a key deliverable within the culture action plan which encompassed a range of cross-functional projects and actions for embedding good customer outcomes on performance, reward and talent management policies across the Group. The new culture dashboard was first considered by the Board in May 2022 and has been further developed throughout the year striving to build a consistent view of measures against four drivers of culture identified by the FCA namely purpose, governance, people policies and leadership, to support the delivery across the business of good customer outcomes. The dashboard aims at presenting a trend view of key metrics for the business, which is an aggregated view of a number of sub-component metrics and provides the Board with visibility and understanding of the culture within Allianz and any changes. The Board has oversight of and reviews progress made under the culture action plan, including the culture dashboard, underpinning it's duty to foster good customer outcomes, to consider the interests of employees and to maintain a reputation for high standards of business conduct.

Operational Resilience – Self Assessment Questionnaire

Section 172 considerations: maintaining a reputation for high standards, consequences of decisions in the long term

Stakeholders: customers, regulator

During the year the Board continued its oversight of the operational resilience project, initiated to ensure compliance with the regulatory policies on Operational Resilience, issued jointly by the PRA and FCA. In 2022, the Board considered a response to the FCA's Operational Resilience self-assessment questionnaire which the regulator had issued to a number of firms, including Allianz. The questionnaire was issued to enable the regulator to assess the level of operational resilience maturity within firms, and contributed to the FCA's aim of ensuring that regulated firms are proactively managing risks to minimise impacts during major disruptive events incidents. The Board reviewed responses to the questionnaire at its February and March meetings seeking additional assurance from the second line prior to confirming the response. The Board noted the use of subject matter experts throughout the process for providing responses to the questionnaire with a record of responses being maintained. Implementing the policies on Operational Resilience in the right way for the business and its stakeholders is critical to the success of the Company and important in maintaining the Company's reputation for high standards with the regulator and putting customers at the heart of the business.

Strategic Report for the Year Ended 31 December 2022 (continued)

Consumer Duty Implementation Plan

Section 172 considerations: maintaining a reputation for high standards, fostering relations with customers, long term consequences of decisions

Stakeholders: customers, regulators, shareholder

Following the introduction of the FCA's new Consumer Duty, which sets rigorous and transparent standards for consumer protection across financial services, Allianz has focused significant resources in ensuring readiness for the new standards, the primary purpose of which is to deliver good outcomes for customers. The new Consumer Duty, which comes into effect on 31 July 2023 for new and existing books of business, requires that firms put in place and document an implementation plan to deliver against the requirements. During the year, a Consumer Duty Implementation Plan was therefore presented to the Board for review, challenge and approval and a Board member appointed as Consumer Duty champion in order to maintain close oversight of the implementation at Board level. As part of the plan, monthly updates are provided to the Allianz Holdings plc Executive Committee to ensure the project remains on track for delivery in line with regulatory deadlines, and the Customer & Conduct Committee also maintains close oversight of performance against the plan. In approving the Consumer Duty Implementation plan, the Board gave due regard to its duty to consider the interests of and ensure good outcomes for the Group's customers, as well as considering the interests of the regulator.

On behalf of the Board

F K Dyson
Director

6 April 2023

Directors' Report for the Year Ended 31 December 2022

The Directors present their report and the audited financial statements financial statements for the year ended 31 December 2022.

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 statement
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 on the principal decisions taken by the Company's Board is contained in the section 172 statement on page 6 to page 12 of the Strategic Report.

Directors
The Directors, who held office during the year, and up to the date of signing the financial statements, were as follows:

C W T Dinesen

F K Dyson

P J Evans

C Holmes (appointed 22 February 2022)

D J Larnder

S C McGinn (appointed 22 February 2022)

R M Murison (ceased 25 September 2022)

T Robson-Capps (appointed 13 April 2022)

D A Torrance

C G Townsend

S Treloar

J R Vazquez (appointed 1 June 2022)

Results and dividends
The results for the year are set out in the Strategic Report on page 2.

No interim dividend was paid during the year ended 31 December 2022 (2021: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: £nil).

On 22 February 2022, the Company received a capital injection of £25,000,000 from its parent Highway Insurance Group Limited to improve the solvency ratio.

Future outlook
The future outlook for the Company is outlined in the Strategic Report on page 6.

Financial Instruments
The Company's policies in respect of financial instruments are given in note 28 to the Financial Statements.

Going concern
These financial statements have been prepared on a going concern basis. The Company has a good financial position, with capital significantly in excess of the minimum regulatory requirements. In addition, the board has reviewed the Company's forecasts for the next 12 months and beyond. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of signing the financial statements.

One.Finance

In 2016, the Allianz SE Group launched a project “One.Finance”. Included in the objectives is compliance with the forthcoming standards IFRS 9 “Financial instruments” and IFRS 17 “Insurance contracts”. The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The Company has established parallel work streams in the UK supporting the overall Allianz SE Group project and to ensure local readiness. The implementation date of IFRS 9 and IFRS 17, is 1 January 2023. Parallel runs have been completed for prior years.

Streamlined Energy and Carbon Reporting (“SECR”)

LVGIG fulfils the statutory requirements for SECR which includes disclosure of the Company’s carbon emissions. Under the Companies Act 2006 and SECR Regulations, ‘Large’ companies are required to report their annual emissions in their Directors’ report. It should be noted that the information disclosed relates to several entities within the Group as this is the lowest level of granularity for which the data is collected. Information relating to the Company alone is not available and identical disclosure has been made by all Companies meeting the reporting requirement.

The SECR statement covers the reporting period 1 January 2022 to 31 December 2022 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).

<u>‘Location based’ Method</u>

The total energy consumption for 2022 was 5,934,775.67 kWh (2021: 7,558,823.81 kWh) equating to 1,209.792 tCO2e (2021: 1,626.702 tCO2e).

Carbon intensity: Emissions of tCO2e/full-time equivalent during 2022 was 0.319 tCO2e (2021: 0.393 tCO2e).

However, LVGIG's strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin (“REGO”) certificates. Through this strategy, within the above 2022 total energy consumption, the Company has sourced a total of 3,026,983.46 kWh (2021: 2,787,226.73) of REGO backed (zero emission) electricity equating to 100% (2021: 83.58%) of total electricity use.

<u>'Market Based' Method</u>

The total energy consumption for 2022 was 5,934,775.67 kWh (2021: 7,558,823.81 kWh) equating to 601.709 tCO2e (2021: 1,064.100 tCO2e).

Carbon intensity: Emissions of tCO2e/full-time equivalent during 2022 was 0.159 tCO2e (2021: 0.257 tCO2e).

Energy Efficiency actions taken during 2022:

- In the Bournemouth site the final meeting & training rooms across Frizzell House had LED’s installed which means all of LVGIGs space now has LED lighting.

Over 90% of the Group's waste is recycled. The Group's aim is to divert 100% of waste from landfill. This includes office closures where the aim is to repurpose or recycle old office equipment or donate this to local charities.

The Group is committed, via a Science Basted Target, to being net zero in operations by 2030. This means reducing emissions by 70%, versus the 2019 baseline, by strengthening environmental management and sourcing 100% renewable electricity by 2023. The key drivers to delivering the emissions reduction target will be the shift to a fully electric corporate car fleet by latest 2030 and a reduction of 40% GHG emissions deriving from travel activities by 2025.

Directors’ responsibility to the Auditors

So far as the Directors are aware, there is no relevant audit information of which the Company’s auditors are unaware. The Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

Directors' Report for the Year Ended 31 December 2022 (continued)

Independent Auditors

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.

By order of the Board

C M Twemlow
Company secretary

6 April 2023

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 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.

The directors are responsible for the maintenance and integrity of the Company's financial statements published on Allianz UK's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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.

On behalf of the Board

F K Dyson
Director

6 April 2023

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

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 2022 and of its loss 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Statement of Profit and Loss and Other Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows 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 Commitee.

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 10, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- We performed a full scope audit of the financial statements of the company in accordance with our risk assessment and materiality. In doing so, we also considered qualitative and quantitative factors across all financial statements line items in the financial statements.

Key audit matters

- Valuation of Insurance contract liabilities

Materiality

- Overall materiality: £3.6m (2021: £3.8m) based on amount that would change the Combined Operating Ratio ('COR') by more than 1% excluding the effect of the internal quota share contract.
- Performance materiality: £2.7m (2021: £2.8m).

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.

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.

Key audit matter	How our audit addressed the key audit matter
Valuation of Insurance contract liabilities	
Refer to Note 1 for the accounting policies,and Notes 2 and 23 for disclosure of the related judgement and estimates.	In performing our audit over the insurance contract liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:
The company financial statements include liabilities for the estimated cost of settling insurance claims. These are included within the insurance contract liabilities. This key audit matter is focussed on the subjectivity of the assumptions used by management in the calculation of claims incurred but not reported ('IBNR') (£34.1m) and PPO reserves(£81.4m) which are included within insurance claims liabilities.	● Developing independent point estimates for classes of business considered to be higher risk, particularly focussing on the largest and most uncertain estimates, with data as at 31 August 2022 and performing roll-forward procedures to 31 December 2022. For these classes, we compared our re-projected estimates to those booked by management to form part of our determination as to whether the overall estimated insurance contract liabilities represent a reasonable estimate;
This is a significant accounting estimate in the financial statements and involves a significant degree of judgement.	● For selected high and medium risk lines we examined the methodologies and assumptions used by management to derive their estimates and whether these produced reasonable estimates against selected metrics based on the company's facts and circumstances. For lower risk classes, analytical procedures were performed;
Key areas of focus this year were:	● Evaluated management's reserve uncertainty assessment;

● The underlying volatility attached to estimates for the larger classes of business, such as personal motor and property business. For these lines of business, small changes in assumptions can lead to large changes in the level of the estimate held and the combined operating ratio.	● Obtained and reviewed relevant reinsurance contracts(including Excess of Loss agreements and the internal quota share agreement with Allianz Re Dublin dac);
● The risk that estimates in respect of large losses or events, and PPOs are inappropriate. There is significant judgement involved in the estimation of such losses, particularly as they are based on cashflow techniques rather than standard triangulation projections.	● For inflation, we tested management's assessment of future inflation within the IBNR reserves by comparing to our own independent estimate.
Further, IBNR reserves will be affected by the level of inflation, both future and current, as claims are settled. General inflation is currently higher than it has been for several years and has impacted claims settlements. Claims settlements are also likely to be impacted by future inflation particularly through higher costs of care for injury associated claims.	● Tested the underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence;
The directors include a margin on top of the actuarial best estimate to reflect the inherent uncertainty in estimating the ultimate losses on claims. This is a significant area of judgement and, therefore, a focus of our audit.	● Considered the directors’ assessment of estimation uncertainty;
Whilst this risk is predominantly focused on under-reserving, we also considered whether excessive levels of prudence exist within management’s booked insurance claims liabilities.	● Considered whether any of our audit procedures gave rise to an indication of management bias;
	● Considered external factors that could have an impact on claims reporting and settlement, such as macro economic inflation and the whiplash legal reforms; and
	● Assessed the disclosures in the financial statements.
	● Examined quarterly reserving committee minutes of meetings;
	● Examined the reporting presented by management’s actuarial team to wider management, the reserve committee, risk committee and audit committee, which included detailed reviews of key areas of uncertainty; and
	● Tested the assessment of estimation uncertainty (disclosed in Note 24) including the disclosures in relation to the effect of the change in approach to the booked margin.
	Based on the work performed and evidence obtained, we consider the valuation of insurance contract liabilities to be appropriate.

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.

The company is a UK domiciled insurer. In determining the scope of the audit, we performed risk assessment procedures which included understanding the business operations, the internal control environment and management’s process for the preparation of the financial statements. We applied our materiality benchmark across each financial statement line item to identify which items were significant to the audit of the company.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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	£3.6m (2021: £3.8m).
How we determined it	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	We consider the COR as a key performance related benchmark used by the directors and is central to the directors' communication to the public on the performance of the business. In determining our materiality, we excluded the effect of the company's internal quota share reinsurance arrangement with another Allianz SE group company to ensure materiality is calculated on a basis consistent with how management view 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% (2021: 75%) of overall materiality, amounting to £2.7m (2021: £2.8m) for the company financial statements.

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 Commitee that we would report to them misstatements identified during our audit above £0.18m (2021: £0.19m) 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:

- Obtaining the directors' going concern assessment and challenging the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence;
- Considered management's assessment of the regulatory Solvency coverage and liquidity position;
- Considering 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; and
- Assessing the disclosures made by management in the financial statements and checking the consistency of the disclosures with our knowledge of the company based on our audit and the other procedures listed here.

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 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"), 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 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 of inappropriate journal entries and management bias in accounting estimates and judgemental areas of the financial statements, such as the valuation of insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussing with the Board of Directors, management, internal audit, senior management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating management's controls designed to prevent and detect irregularities;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- 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;
- Attending relevant meetings of the Audit Committee and reviewing meeting minutes, including those of the Board of Directors;
- Testing significant accounting estimates and judgements, such as insurance contract liabilities, as included in the key audit matters section above;
- 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.

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.

Appointment

Following the recommendation of the Audit Commitee, we were appointed by the directors in 2019 to audit the financial statements for the year ended 31 December 2009 and subsequent financial periods. The period of total uninterrupted engagement is 14 years, covering the years ended 31 December 2009 to 31 December 2022.

MNichols

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
6 April 2023

Statement of Profit and Loss and Other Comprehensive Income For the Year Ended 31 December 2022

	Note	2022 £ m	Restated 2021 £ m
Gross earned premiums	4	422.0	410.0
Reinsurers' share of gross earned premiums	4	(185.2)	(177.7)
Net insurance revenue	**4**	**236.8**	**232.3**
Reinsurance commission*		46.2	34.3
Investment income	5	8.1	5.9
Net realised (losses)/gains	7	(0.2)	2.0
Other revenue		**54.1**	**42.2**
Total revenue		**290.9**	**274.5**
Gross insurance claims paid	23	(281.0)	(224.0)
Reinsurers' share of gross insurance claims paid	23	57.6	84.4
Gross change in insurance liabilities	23	17.3	(120.2)
Reinsurers' share of gross change in insurance liabilities	23	39.2	94.2
Net insurance claims		**(166.9)**	**(165.6)**
Commission*		(70.2)	(76.9)
Finance costs	6	(1.4)	(0.5)
Other operating and administrative expenses*	8	(72.6)	(53.6)
Other expenses		**(144.2)**	**(131.0)**
Total claims and expenses		**(311.1)**	**(296.6)**
Loss before tax from continuing operations		**(20.2)**	**(22.1)**
Income tax receipt	11.1	4.2	5.1
Loss for the year from continuing operations		**(16.0)**	**(17.0)**
Loss for the year from discontinued operations	**3**	**(1.4)**	**(3.2)**
Loss for the year attributable to the equity holder		**(17.4)**	**(20.2)**
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss			
Deficit on revaluation of available for sale financial assets		(72.4)	(20.5)
Net change in fair value of available for sale financial assets transferred to profit or loss		0.2	(2.2)
Income tax relating to these items		18.0	4.8
		(54.2)	**(17.9)**
Other comprehensive expense for the year, net of tax		**(54.2)**	**(17.9)**
Total comprehensive expense attributable to the equity holder		**(71.6)**	**(38.1)**

*These items have been restated for 2021 due to presentational changes. For more information, please see the notes to the financial statements.

The accounting policies and notes on pages 29 to 71 are an integral part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2022

	Share capital £ m	Capital contribution reserve £ m	Fair value reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2021	75.0	106.4	11.8	57.2	250.4
Net change in fair value of available for sale financial assets	-	-	(20.5)	-	(20.5)
Net change in fair value of available for sale financial assets transferred to profit or loss	-	-	(2.2)	-	(2.2)
Tax on fair value movements	-	-	4.8	-	4.8
Loss for the year	-	-	-	(20.2)	(20.2)
Total recognised income and expense for the year	**-**	**-**	**(17.9)**	**(20.2)**	**(38.1)**
At 31 December 2021	**75.0**	**106.4**	**(6.1)**	**37.0**	**212.3**

	Share capital £ m	Capital contribution reserve £ m	Fair value reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2022	75.0	106.4	(6.1)	37.0	212.3
Net change in fair value of available for sale financial assets	-	-	(72.4)	-	(72.4)
Net change in fair value of available for sale financial assets transferred to profit or loss	-	-	0.2	-	0.2
Tax on fair value movements	-	-	18.0	-	18.0
Loss for the year	-	-	-	(17.4)	(17.4)
Capital injection	-	25.0	-	-	25.0
Total recognised income and expense for the year	**-**	**25.0**	**(54.2)**	**(17.4)**	**(46.6)**
At 31 December 2022	**75.0**	**131.4**	**(60.3)**	**19.6**	**165.7**

The accounting policies and notes on pages 29 to 71 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2022

	Note	2022 £ m	Restated 2021 £ m
Assets			
Intangible assets	14	2.4	3.0
Deferred acquisition costs	15	38.9	43.9
Deferred tax assets	11.5	20.1	2.1
Reinsurance assets	16, 23	443.1	392.5
Financial assets			
Available for sale financial assets	18	646.8	683.9
Insurance receivables*	19	82.1	71.2
Current tax receivables	11.4	4.3	4.0
Other receivables*	20	52.4	45.1
Accrued income and prepayments	17	9.2	8.9
Cash and cash equivalents	21	5.9	10.6
Total assets		**1,305.2**	**1,265.2**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	22	(75.0)	(75.0)
Capital contribution reserve	22	(131.4)	(106.4)
Fair value reserve		60.3	6.1
Retained earnings		(19.6)	(37.0)
Total equity		**(165.7)**	**(212.3)**
Liabilities			
Insurance contract liabilities	23	(835.9)	(862.5)
Reinsurers' share of deferred acquisition costs	15	(23.1)	(17.7)
Insurance related payables*	25	(246.3)	(147.0)
Loans and borrowings*	27	(15.4)	(10.1)
Accruals and other payables*	26	(18.8)	(15.6)
Total liabilities		**(1,139.5)**	**(1,052.9)**
Total equity and liabilities		**(1,305.2)**	**(1,265.2)**

*These items have been restated for 2021 due to presentational changes. For more information, please see the notes to the financial statements.

These financial statements on pages 24 to 71 were approved by the Board of Directors on 4 April 2023 and signed on its behalf by:

F K Dyson
Director

Highway Insurance Company Limited
Registered Number: 03730662

The accounting policies and notes on pages 29 to 71 are an integral part of these financial statements.

Statement of Cash Flows
For the Year Ended 31 December 2022

	Note	2022 £ m	Restated 2021 £ m
Cash flows from operating activities			
Loss before tax from continuing operations		**(20.2)**	**(22.1)**
Loss before tax from discontinued operations		**(1.7)**	**(3.9)**
Adjusted for non-cash items			
Amortisation of intangible assets	14	0.6	0.1
Net acquisition costs deferred during the year	15	10.4	8.6
Net realised losses/(gains)	7	0.2	(2.2)
Exchange losses/(gains) recognised in the Statement of Comprehensive Income		0.5	(0.7)
Investment income		(9.0)	(6.4)
Finance costs		1.4	0.5
		(17.8)	**(26.1)**
Changes in working capital			
Increase in reinsurance assets	16	(50.6)	(180.1)
Increase in accrued income and prepayments	17	(0.3)	(0.1)
Increase in insurance receivables*	19	(10.9)	(20.8)
(Decrease)/increase in insurance contract liabilities	23	(26.6)	91.3
Increase in insurance related payables*	25	99.3	141.4
Increase in accruals and other payables*	26	3.2	(6.9)
Increase in other receivables*		(7.3)	(15.2)
Cash generated from operations		**(11.0)**	**(16.5)**
Income tax refund	11.3	4.2	3.0
Net cash flow used in operating activities		**(6.8)**	**(13.5)**
Cash flows from investing activities			
Purchase of available for sale financial assets*		(130.2)	(333.9)
Proceeds from sale of financial assets*		87.4	332.9
Interest received		16.5	16.3
Purchase of Intangible Assets	14	-	(2.4)
Net cash flows (used in)/generated from investing activities		**(26.3)**	**12.9**
Cash flows from financing activities			
Interest paid		(1.4)	(0.5)
Proceeds from capital injection		25.0	-
Net cash flows generated from/(used in) financing activities		**23.6**	**(0.5)**
Net decrease in cash and cash equivalents		**(9.5)**	**(1.1)**
Cash and cash equivalents at the beginning of the year	**21**	**10.6**	**11.7**
Cash and cash equivalents at the end of the year	**21**	**1.1**	**10.6**

The accounting policies and notes on pages 29 to 71 are an integral part of these financial statements.

Statement of Cash Flows
For the Year Ended 31 December 2022 (continued)

*These items have been restated for 2021 due to presentational changes. For more information, please see the notes to the financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2022

1 ACCOUNTING POLICIES

1.1 Company and its operations
Highway Insurance Company Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom, 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.

1.2 Statement of compliance
The financial statements of the Company 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.

1.3 Basis of preparation
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 (Allianz SE) (see note 29). The financial statements present information about the Company as an individual undertaking and not about the its Group.

The financial statements have been prepared on the historical cost basis except for the following assets and liabilities that are stated at their fair value:

- Financial assets classified as available for sale

The functional and presentational currency is British Pounds.

Restatement
There have been restatements across several financial statement line items and risk management notes to reflect presentational changes as a result of alignment with the financial statements of Allianz Insurance Plc. These have all been identified as restated within the financial statements and the respective notes.

All amounts in the financial statements and notes have been rounded to the nearest one hundred thousand Sterling Pound, unless otherwise stated. This is a change in presentation from the prior year where they were rounded to the nearest thousand Sterling Pound.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

Statement of Profit and Loss and Other Comprehensive Income

	Note	2021 £m	Adjustments £m	Restated £m
Gross earned premiums	4	410.0	-	410.0
Reinsurers' share of gross earned premiums	4	(177.7)	-	(177.7)
Net insurance revenue	**4**	**232.3**	**-**	**232.3**
Reinsurance commission*		-	34.3	34.3
Investment income*	5	5.9	-	5.9
Net realised (losses)/gains	7	2.0	-	2.0
Other income*		1.7	(1.7)	-
Other revenue		**9.6**	**32.6**	**42.2**
Total revenue		**241.9**	**32.6**	**274.5**
Gross insurance claims paid*	23	(224.0)	-	(224.0)
Reinsurers' share of gross insurance claims paid*	23	84.4	-	84.4
Gross change in insurance liabilities*	23	(120.2)	-	(120.2)
Reinsurers' share of gross change in insurance liabilities*	23	94.2	-	94.2
Net insurance claims		**(165.6)**	**-**	**(165.6)**
Commission*		-	(76.9)	(76.9)
Finance costs*	6	(0.5)	-	(0.5)
Other operating and administrative expenses*	8	(97.9)	44.3	(53.6)
Other expenses		**(98.4)**	**(32.6)**	**(131.0)**
Total claims and expenses		**(264.0)**	**(32.6)**	**(296.6)**
Loss before tax from continuing operations		**(22.1)**	**-**	**(22.1)**

Restatement - errors

*Reinsurance commission previously classified within Other operating and administrative expenses included £32.6m which has now been reclassified to Reinsurance commission on the face of the Statement of Profit and Loss and Other Comprehensive Income.

Restatement - changes in accounting policies

*£1.7m has also been reclassified from Other income to Reinsurance Commission.

*Commission (paid to Brokers) of £76.9m has been reclassified from Other operating and administrative expenses to Commission on the face of the Statement of Profit and Loss and Other Comprehensive Income.

*Other operating and administrative expenses has been reclassified by £44.3m to reflect the reclassification of Reinsurance Commission (£32.6m) offset by Commission paid to Brokers (£76.9m).

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

Statement of Financial Position

	Note	2021 £m	Adjustments £m	Restated 2021 £m
Assets				
Intangible assets	14	3.0	-	3.0
Deferred acquisition costs	15	43.9	-	43.9
Deferred tax assets	11.5	2.1	-	2.1
Reinsurance assets	16, 23	392.5	-	392.5
Financial assets				
Available for sale financial assets	18	683.9	-	683.9
Insurance receivables*	19	71.4	(0.2)	71.2
Other receivables*	20	44.7	0.4	45.1
Current tax receivables	11.4	4.0	-	4.0
Accrued income and prepayments*	17	8.9	-	8.9
Cash and cash equivalents	21	10.6	-	10.6
Total assets		**1,265.0**	**0.2**	**1,265.2**
Equity and liabilities				
Equity attributable to equity holders of the parent				
Share capital	22	(75.0)	-	(75.0)
Capital contribution reserve		(106.4)	-	(106.4)
Fair value reserve		6.1	-	6.1
Retained earnings		(37.0)	-	(37.0)
Total equity		**(212.3)**	**-**	**(212.3)**
Liabilities				
Insurance contract liabilities	23	(862.5)	-	(862.5)
Reinsurers' share of deferred acquisition costs	15	(17.7)	-	(17.7)
Insurance related payables*	25	(4.7)	(142.3)	(147.0)
Loans and borrowings	27	(10.1)	-	(10.1)
Funds withheld to reinsurers'		(132.6)	132.6	-
Accruals and other payables*	26	(25.1)	9.5	(15.6)
Total liabilities		**(1,052.7)**	**(0.2)**	**(1,052.9)**
Total equity and liabilities		**(1,265.0)**	**(0.2)**	**(1,265.2)**

Restatement errors

*Insurance related payables has been reclassified by £9.5m from Accruals and other payables.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

Restatement - changes in accounting policies
*Insurance receivables has been restated by £0.2m reflecting a reclassification between Insurance payables and Insurance receivables (due from reinsurers).

*Other receivables has been restated by £0.4m reflecting a reclassification between Insurance payables and Other receivables.

*Insurance related payables has been reclassified by £142.3m due to a £132.6m reclassification from Funds withheld to reinsurers'; £9.5m reclassified from Accruals and other payables (as detailed above), £0.4m from Other receivables offset by £0.2m to Insurance receivables.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

Statement of Cash Flows

	Note	2021 £ m	Adjustment £ m	Restated 2021 £ m
Cash flows from operating activities				
Loss before tax from continuing operations		(22.1)	-	(22.1)
Profit/(loss) before tax from discontinued operations		(3.9)	-	(3.9)
(Loss)/profit before tax		**(26.0)**	**-**	**(26.0)**
Adjusted for non-cash items				
Amortisation of intangible assets	14	0.1	-	0.1
Amortisation of net deferred acquisition costs	15	8.6	-	8.6
Net realised losses/(gains)	7	(2.2)	-	(2.2)
Currency (gains)/losses		(0.7)	-	(0.7)
Investment income		(6.4)	-	(6.4)
Finance costs		0.5	-	0.5
		(26.1)	**-**	**(26.1)**
Changes in working capital				
Increase in reinsurance assets	16	(180.1)	-	(180.1)
Increase in accrued income and prepayments*	17	(0.1)	-	(0.1)
Increase in insurance receivables*	19	(21.0)	0.2	(20.8)
Increase in other receivables*		(14.8)	(0.4)	(15.2)
Increase in funds withheld to reinsurers'		132.6	(132.6)	-
Increase in insurance contract liabilities	23	91.3	-	91.3
Increase in insurance related payables*	25	(0.9)	142.3	141.4
Increase/(decrease) in accruals and other payables*	26	2.6	(9.5)	(6.9)
Cash generated from operations		**(16.5)**	**-**	**(16.5)**
Income tax paid	11.3	3.0	-	3.0
Net cash flow used in operating activities		**(13.5)**	**-**	**(13.5)**
Cash flows from investing activities				
Net decrease of available for sale financial assets*		9.2	(9.2)	-
Purchase of available for sale financial assets*		-	(333.9)	(333.9)
Proceeds from sale of available for sale financial assets*		-	332.9	332.9
Interest received		6.1	10.2	16.3
Purchase of Intangible Assets	14	(2.4)	-	(2.4)
Net cash flows generated from investing activities		**12.9**	**-**	**12.9**

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

	Note	2021 £ m	Adjustment £ m	Restated 2021 £ m
Cash flows from financing activities				
Interest paid		(0.5)	-	(0.5)
Net decrease in cash and cash equivalents		**(1.1)**	**-**	**(1.1)**
Cash and cash equivalents at the beginning of the year	**21**	**11.7**	**-**	**11.7**
Cash and cash equivalents at the end of the year	**21**	**10.6**	**-**	**10.6**

Restatement - errors

*The net decrease of available for sale assets has been restated to reflect the Purchase of available for sale financial assets (£333.9m), offset by the Proceeds from sale of available for sale financial assets (£332.9m) and Interest received (cash flows from investing activities) (£10.2m).

*Insurance related payables has been reclassified by £9.5m from Accruals and other payables.

Restatement - change in accounting policies

*Insurance receivables has been restated by £0.2m reflecting a reclassification between Insurance payables and Insurance receivables (due from reinsurers).

*Other receivables has been restated by £0.4m reflecting a reclassification between Insurance payables and Other receivables.

*Insurance related payables has been reclassified by £142.3m due to a £132.6m reclassification from Funds withheld to reinsurers'; £9.5m reclassified from Accruals and other payables (as detailed above), £0.4m from Other receivables offset by £0.2m to Insurance receivables.

Going concern

These financial statements are prepared on a going concern basis. For more information on the going concern assessment please refer to the Directors' Report on page 13.

New standards and interpretations adopted by the Company

There are no new standards and interpretations affecting the Company that are mandatorily effective from 1 January 2022. The accounting policies have been consistently applied unless a new policy has been implemented.

New standards and interpretations not yet adopted by the Company

New standards and interpretations 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 UK Endorsement Board ("UKEB").

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

IFRS 17 - Insurance Contracts

IFRS 17 "Insurance Contracts" – In May 2017 the International Accounting Standards Board ("IASB") issued IFRS 17 and it was amended in June 2020 and December 2021. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4. The effective date of the new standard was postponed until 1 January 2023. The latest amendment issued by the IASB on 9 December 2021 adds a transition option that permits an entity to apply a classification overlay in the comparative periods presented on initial application of IFRS 17. The overlay allows all financial assets, including those held in respect of activities not connected to contracts within the scope of IFRS 17, to be classified, on an instrument-by-instrument basis, in the comparative periods in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9. The Company intends to apply the classification overlay, including the impairment requirements of IFRS 9, consistently to all eligible financial instruments.

IFRS 17 provides comprehensive guidance on accounting for insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features. It introduces three new measurement models, namely the General measurement model ("GMM"), Variable fee approach ("VFA") and Premium allocation approach ("PAA"), reflecting a different extent of policyholder participation in investment performance or overall insurance entity performance. The Company has assessed the insurance contracts issued and the work completed to date would suggest that these will be PAA eligible. The exception to this approach is the reinsurance Loss Portfolio Transfer arrangement with a fellow Allianz SE Group Company for the pre 1 January 2021 contract years, which has been measured under the GMM approach and further information is included within the key judgements section.

The PAA is a simplified approach for the measurement of the liability of remaining coverage. An entity may choose to use this when the coverage period of each contract in the group of insurance contracts is one year or less or the PAA provides a measurement which is not materially different from that under GMM. Under PAA, the Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the:

- Liability for remaining coverage at the beginning of the period;
- Plus premiums received in the period;
- Minus insurance acquisition cash flows;
- Plus any amounts relating to the amortisation of the acquisition cash flows recognised as an expense in the reporting period;
- Minus the amount recognised as insurance revenue for the coverage period and
- Plus any increase or minus and decrease in the loss component over the period.

The GMM, also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin ("CSM"). The fulfillment cash flows represent the risk-adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting and an explicit risk adjustment for non-financial risk. The CSM represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period.

The measurement of the liability for incurred claims is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting.

Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts.

In the Statement of Financial Position, deferred acquisition costs and insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities.

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

The amounts presented in the Statement of Profit and Loss and Other Comprehensive Income need to be disaggregated into an insurance service result, consisting of the insurance revenue, insurance service expense and directly attributable expenses. Income and expenses from reinsurance contracts held are presented separately from income and expenses from insurance contracts issued.

Expected accounting policy application of IFRS 17

- Portfolios have been established comprising of contracts subject to similar risks that are managed together. Groups of contracts will be established according to profitability.
- All gross and reinsurance contracts will use the PAA with the exception of the reinsurance Loss Portfolio Transfer arrangement for pre 1 January 2021 contract years with Allianz Re which will use the GMM approach. These contract years are not eligible for the PAA as the coverage period, which is equal to the settlement period of the liabilities, is greater than 1 year.
- All costs have been reviewed to identify the key changes from IFRS 4 to IFRS17.No material changes have been identified in the classification of expenses between claims handling, administration and acquisition expenses. Further assessment has been performed to determine costs which are not fully attributable to the fulfilment of insurance contracts. This provides no material impact to the net income as these non-attributable costs are included elsewhere in the Statement of Profit and Loss and Other Comprehensive Income however, it does reduce the costs included within the insurance service result and subsequent reduction in the deferral of acquisition costs.
- Insurance acquisition costs have been reviewed for costs which are incurred upfront at the acquisition of a contract and relevant to subsequent renewals which as per IFRS 17 should be deferred over the expected lifetime of the underlying policy. The Company acquires its insurance policies through broker channels. As broker acquisition costs are incurred during subsequent policy renewals there is no additional capitalisation over the lifetime of the policy resulting in no overall increase in the deferral of acquisition costs.
- Reinsurance/Insurance contract Assets and Reinsurance/Insurance contract Liabilities have both been presented under IFRS 17 to align with the requirement to recognise insurance liabilities (or assets) and reinsurance assets (or liabilities) respectively within liabilities or assets on the Statement of Financial Position.

A number of key judgments have been made for the application of IFRS17:

- Whilst IFRS 17 does not prescribe a single estimation technique to derive discount rates, it sets out two possible approaches: a ‘top-down’ and a ‘bottom-up’ approach. The ‘top-down’ approach determines the discount rate based on the yield on a reference portfolio of assets which is adjusted downwards to eliminate any factors that aren’t relevant to insurance contracts. The ‘bottom-up’ approach determines the discount rate based on a liquid risk-free yield curve which is adjusted to eliminate differences between the liquidity characteristics of the financial instruments that underlie the chosen curve and those of the insurance contract. The ‘bottom-up’ approach can be used for cashflows that don’t vary based on the return on the underlying items. This is the case for the Company and the ‘bottom-up’ approach will be adopted.
- The risk adjustment will be calculated using a cost of capital based approach.

At the point of transition the Company has applied the fully retrospective approach for the liability for remaining coverage and the liability for incurred claims, balances back to accident year 2014 with prior accident year balances applying the modified retrospective approach due to the impracticability of acquiring all required data.

IFRS 17 has to be applied retrospectively unless this is impracticable. Under the full retrospective approach fulfillment cash flows are determined prospectively at every reporting date, including the date of initial application. The objective of the modified retrospective approach is to use reasonable and supportable information available without undue cost or effort to achieve the closest possible outcome to full retrospective application. To the extent a retrospective determination is not possible, certain modifications are allowed. Under the fair value approach, the contractual service margin of a group of contracts at transition is determined as the difference between the fair value of this group at transition determined in accordance with IFRS 13 and the corresponding IFRS 17 fulfillment cash flows measures at transition. As detailed above the transition approach for the Company has been confirmed.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

The Company has completed parallel runs of the financial results under IFRS 17 in line with the "One.Finance" project to understand the impact of these changes. Although the IFRS 17 implementation project has made significant progress, the financial results that are available and that have been reported to Allianz SE Group are in line with Group accounting requirements.

From a local perspective work is still on-going to calculate the impact of adoption and as such it is not practicable to quantify the effects on the Company's IFRS 17 opening balance sheet for the fiscal year 2022 or on any financial statements for subsequent periods.

IFRS 9 - Financial Instruments

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and changes the classification and measurement of financial assets, based on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses ("ECL"). The Company, based on the impact assessment performed under One.Finance, has taken advantage of the exemption available as its activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after 1 January 2018) until 1 January 2023, which will coincide with the expected implementation of IFRS 17. IFRS 9 introduces a forward looking ECL model. This requires judgement about how changes in economic factors affect ECLs which are determined on a probability weighted basis. Based on the assessment undertaken to date, no significant impact to the financial statements is anticipated in either net income or equity.

In order to qualify for the temporary exemption an entity has to prove that its activities are predominantly connected to insurance as of 31 December 2015. Under the amended IFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of IFRS 4. Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities within the scope of IFRS 4 relative to the total carrying amount of all liabilities is greater than 90%. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the Company's activities during the annual period that ended on that date.

As of 31 December 2015, the Company's total carrying amount of liabilities connected with insurance represented more than 90% of its total liabilities at 96%. No change in the activities of the Company has occurred subsequently that would have required a reassessment.

The following table discloses whether the financial assets meet the solely payments of principal and interest ("SPPI") criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, or that is managed and whose performance is evaluated on a fair value basis).

Financial assets under IFRS 9 classification rules:

As at 31 December 2022	Financial assets that meet the SPPI criterion		Financial assets that do not meet the SPPI criterion	
	Fair value £ m	Fair Value change during the year £ m	Fair Value £ m	Fair Value change during the year £ m
Cash and cash-equivalents	5.9	-	-	-
Debt securities	291.8	(15.6)	-	-
Government and government agency bonds	120.0	(10.1)	-	-
Corporate bonds	234.5	(46.4)	0.5	-
Total	**652.2**	**(72.1)**	**0.5**	**-**

Carrying amounts of financial assets that meet the SPPI criterion by rating:

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

As at 31 December 2022

Investment grade	Cash and cash equivalents £ m	Government and government agency bonds £ m	Corporate bonds £ m
AAA	-	16.6	233.2
AA	-	103.4	57.8
A	5.9	-	85.3
BBB	-	-	149.0
Non-investment grade	-	-	1.0
Total	**5.9**	**120.0**	**526.3**

1.4 Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance contract liabilities, the ascertainment of fair values of financial assets and liabilities and probability of deferred tax assets being realised. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgements based on information and financial data that may change in the future periods. Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce significantly different results. Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of significant adjustments in the next year are discussed in note 2.

The significant accounting policies adopted in the preparation of the financial statements are set out in the following paragraphs.

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(a) Intangible assets

The Company applies the cost model to account for intangible assets. The cost of acquiring renewal rights to portfolios of insurance business is amortised on a straight line basis over the expected life of the intangible asset. This useful life has been assessed as within the range of 10 to 20 years.

(b) Deferred acquisition costs ("DAC")

Commission and other acquisition costs (gross and reinsurance) incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins.

DAC are capitalised and amortised based on the incidence of risk of the underlying insurance contract. All other acquisition costs are recognised as an expense when incurred.

The DAC asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written which is unearned at the Statement of Financial Position date.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount, and the impairment loss is recognised immediately in the Statement of Profit and Loss and Other Comprehensive Income.

(c) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Profit and Loss and Other Comprehensive Income. Current tax and deferred tax shall be recognised outside profit and loss if the tax relates to items that are recognised, in the same or a different period, outside profit and loss.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the Statement of Financial Position date, together with adjustments to tax payable in respect of prior years.

Deferred income tax is provided in full using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the Statement of Financial Position date. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the Statement of Financial Position date.

Deferred income tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets are reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

Group tax losses are utilised when available. Consideration paid for group relief is accounted for in the financial statements as though the payment had been made to the relevant tax authorities.

(d) Reinsurance assets

The Company cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract.

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(d) Reinsurance assets (continued)

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably. Impairment losses are recognised in the Statement of Profit and Loss and Other Comprehensive Income.

(e) Financial assets

The Company classifies its investments as available for sale financial assets.

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 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.

Available for sale financial assets

Available for sale financial assets, 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 Profit and Loss and Other Comprehensive Income.

Impairments

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. At each Statement of Financial Position date, an assessment is made of whether there is any objective evidence of impairment. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has either fallen significantly below cost price or been below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the Company's long term investment strategy.

For available for sale financial assets, a significant prolonged decline in the fair value indicates an impairment. For available for sale financial assets the impairment loss is the difference between its current fair value and its original cost, less any impairment losses previously recognised in the Statement of Profit and Loss and Other Comprehensive Income.

Impairment losses are recognised in the Statement of Profit and Loss and Other Comprehensive Income immediately.

(f) Fair value reserve

The fair value reserve relates to the changes in the fair value gains or losses on investments classified as available for sale.

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(g) Insurance receivables

Insurance receivables are recognised in a manner consistent with the premium income recognition as detailed in the revenue recognition accounting policy (m). The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Profit and Loss and Other Comprehensive Income.

(h) 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 at the date of placement.

(i) Insurance contract liabilities

Insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of Financial Position date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the Statement of Financial Position date.

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium along the duration of the insurance contracts and amortised based on the incidence of risk of the underlying insurance contract. The change in the provision for unearned premium is taken to the Statement of Profit and Loss and Other Comprehensive Income in order that revenue is recognised over the period of risk.

At each Statement of Financial Position date, a liability adequacy test is performed, to ensure the adequacy of insurance liabilities. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the Statement of Profit and Loss and Other Comprehensive Income by establishing an unexpired risk provision.

(j) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at fair value of the consideration expected to be payable.

(k) Levies

Levies payable are treated as costs of underwriting business. A liability to pay a levy is recognised at the date of the obligating event, which may be at a point in time or over a period of time.

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(l) Accruals and other payables

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

(m) Revenue recognition

Premium income

Premiums written are net of premium taxes and other levies. These are recognised on policy inception and earned on a pro rata basis or, for risks where a pro rata basis is inappropriate, a basis consistent with the risk profile over the term of the related policy coverage.

Reinsurance commission

A proportionate 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 on individual classes of business. Commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy (b).

Investment income

Interest income is recognised in the Statement of Profit and Loss and Other Comprehensive Income as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Interest income includes the amortisation of any discount or premium. Investment income also includes dividends, which are included on the date the shares become quoted ex dividend.

Net realised gains and losses

Realised gains and losses on the sale of property and equipment and of available for sale financial assets 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 Profit and Loss and Other Comprehensive Income when the sale transaction occurred.

(n) Claims incurred

Claims incurred include all losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

(o) Interest payable

Interest payable is recorded in the period in which it is incurred.

(p) Foreign currency translation

The Company's presentational currency is British Pounds. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are retranslated at the functional currency rate of exchange ruling at the Statement of Financial Position date. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the Statement of Profit and Loss and Other Comprehensive Income, unless required to be taken to equity.

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(q) Dividends
Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by the Board.

(r) 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 Statement of Profit and Loss and Other Comprehensive Income. It comprises the profit or loss after tax from discontinued operations together with the gain or loss after tax recognised on completed sales.

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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:

Valuation of general insurance contract liabilities
For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the Statement of Financial Position 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, such as the Chain Ladder method are used to estimate the majority of outstanding claims. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are generally analysed separately from damage provisions. In addition, for motor classes, we analyse third party liability damage separately from own damage 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. 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 Statement of Profit and Loss and Other Comprehensive Income in future years.

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. Estimates are made for the expected ultimate cost of claims as at the Statement of Financial Position 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.

A key area of uncertainty is the high inflation environment in 2022, and allowance has been made in the provisions for the impact of inflation on the ultimate cost of claims.

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

PPO claims also continue to be a significant uncertainty owing to the annuity-type structure of claim payments i.e. they are typically paid annually over the claimant's life. PPOs have to be projected over a longer-term period and reserved for on a discounted basis accordingly, and are therefore sensitive to the assumed inflation and discount rate. These are deemed as significant assumptions and sensitivity analysis is disclosed in note 24.

Significant judgement applied to estimate
At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Current year estimates are established and reassessed throughout the year. Claims provisions are not discounted for the time value of money except for claims being settled by PPOs. The high inflation environment in 2022 has been allowed for when setting the provisions. The claims margin held in addition to the actuarial best estimate has been reassessed following developments over 2022. Further details of the claims estimation process are described in note 24.

The carrying value at the Statement of Financial Position date for these general insurance contracts is £835.9m (2021: £862.5m).

3 DISCONTINUED OPERATIONS

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 28 December 2017. Therefore the business meets the criteria to be presented as a discontinued operation which has been sold.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 DISCONTINUED OPERATIONS (CONTINUED)

Financial information relating to the discontinued operation for the years to 31 December 2022 and 2021 are presented below.

	2022 £ m	2021 £ m
Net earned premiums	-	-
Net fair value on financial assets at fair value through income	-	0.2
Investment income	0.9	0.5
Net insurance claims	(2.5)	(4.6)
Expenses	(0.1)	-
Loss before tax	**(1.7)**	**(3.9)**
Income tax credit	0.3	0.7
Loss after tax of discontinued operation	**(1.4)**	**(3.2)**
Net cash outflow from operating activities	(1.7)	(3.9)
Net decrease in cash generated by Commercial broker	**(1.7)**	**(3.9)**

4 NET INSURANCE REVENUE

	Note	2022 £ m	2021 £ m
(a) Gross written premiums			
Premiums written		411.1	415.7
Gross change in unearned premium provision	23	10.9	(5.7)
Total gross earned premiums		**422.0**	**410.0**
(b) Reinsurers' share of gross written premiums			
Premiums payable		(180.8)	(263.4)
Reinsurers' share of change in unearned premium provision	23	(4.4)	85.7
Total reinsurers' share of gross earned premiums		**(185.2)**	**(177.7)**
Total net insurance revenue		**236.8**	**232.3**

The Company did not assume or cede any reinsurance policies during the year resulting in a profit or loss on inception.

5 INVESTMENT INCOME

	2022 £ m	2021 £ m
Interest income	8.1	5.9
Total investment income	**8.1**	**5.9**

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

6 FINANCE COSTS

	2022 £ m	2021 £ m
Ceded investment income[1]	1.0	0.2
Interest on bank overdrafts and borrowings	0.4	0.3
Total finance costs	**1.4**	**0.5**

[1]This amount relates to interest payable on the ceded retained reserves under the quota share reinsurance contract.

7 NET REALISED (LOSSES)/GAINS

	2022 £ m	2021 £ m
Realised gains - debt securities	-	3.8
Realised losses - debt securities	(0.2)	(1.8)
Total net realised (losses)/gains	**(0.2)**	**2.0**

8 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2022 £ m	Restated 2021 £ m
Acquisition costs*	9.5	6.6
Movement in deferred acquisition costs – Gross	5.0	(9.1)
Movement in deferred acquisition costs – Reinsurance	5.4	17.7
Restructuring and integration charges	9.5	14.4
Administrative expenses*	42.6	23.9
Amortisation of renewal rights*	0.6	0.1
Total other operating and administrative expenses	**72.6**	**53.6**

*Restructuring and integration charges were previously included within Administrative expenses and have now been separately classified. Amortisation of renewal rights were previously included within Administrative expenses and have now been separately classified. Please also refer to the restatement in note 1.

9 EMPLOYEE RELATED COSTS

The Company has no employees (2021: none) and as such incurs no employee related costs (2021: £nil). AMS and LVGIG, companies within the Group, provide services and staff resources to the Company as well as to other Group Companies.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

10 AUDITORS' REMUNERATION

The total remuneration payable by the Company excluding VAT, to its auditors in respect of the audit of these financial statements, is shown below. The Company's audit fees are borne by LVGIG. Other services supplied pursuant to legislation were £0.1m (2021: £0.1m).

	2022 £ m	2021 £ m
Fees payable to the Company's auditors and its associates	0.4	0.3
Audit-related assurance services	0.1	0.1

11 INCOME TAX

11.1 Income tax recognised in profit and loss

Tax credited in the Statement of Profit and Loss and Other Comprehensive Income

	2022 £ m	2021 £ m
Current taxation		
In respect of the current year from continuing operations	(4.2)	(4.6)
In respect of the current year from discontinued operations	(0.3)	(0.7)
In respect of prior years	-	(0.5)
	(4.5)	**(5.8)**

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

	2022 £ m	2021 £ m
Loss before tax from continuing operations	(20.2)	(22.1)
Loss before tax from discontinued operations	(1.7)	(3.9)
Loss before tax	**(21.9)**	**(26.0)**
Corporation tax at standard rate	**(4.2)**	**(5.0)**
Decrease in current tax from adjustment for prior periods	-	(0.5)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	0.1	-
Decrease from transfer pricing adjustments	(0.4)	(0.3)
Total tax credit	**(4.5)**	**(5.8)**

The tax rate used for the 2022 and 2021 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.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 INCOME TAX (CONTINUED)

11.2 Income tax recognised in other comprehensive income

	2022 £ m	2021 £ m
Deferred tax	18.0	4.8
Total income tax recognised in other comprehensive income	**18.0**	**4.8**

11.3 Tax received for cash flow purposes

	2022 £ m	2021 £ m
Current tax receivable at 1 January	(4.0)	(1.2)
Amounts credited to profit and loss	(4.5)	(5.8)
Tax received during the year	4.2	3.0
Current tax receivables at 31 December	**(4.3)**	**(4.0)**

11.4 Current tax receivables

	2022 £ m	2021 £ m
Current tax receivables	**(4.3)**	**(4.0)**

11.5 Deferred tax balances

	2022 £ m	2021 £ m
Deferred tax assets		
Unrealised losses on bonds	20.0	2.0
Other		
Capital allowances	0.1	0.1
Total deferred tax assets	**20.1**	**2.1**
Net deferred tax assets	**20.1**	**2.1**

Deferred tax (liabilities)/assets in relation to	**Unrealised losses on bonds £ m**	**Other £ m**	**Total £ m**
At 1 January 2021	(2.8)	0.1	(2.7)
Credited			
- to other comprehensive income	4.8	-	4.8
At 31 December 2021	**2.0**	**0.1**	**2.1**
At 1 January 2022	2.0	0.1	2.1
Credited			
- to other comprehensive income	18.0	-	18.0
At 31 December 2022	**20.0**	**0.1**	**20.1**

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 INCOME TAX (CONTINUED)

11.5 Deferred tax balances (continued)

	2022 £ m	2021 £ m
Deferred tax asset	20.1	2.1
Non-current deferred tax asset	20.1	2.1

The UK Government announced its intention in the budget of 3 March 2021 to legislate to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023. This legislation was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

12 DIRECTORS' EMOLUMENTS

The directors' remuneration for the year was as follows:

	2022 £	2021 £
Emoluments	5,867,982	3,834,472

In respect of the highest paid director:

	2022 £	2021 £
Emoluments	2,422,866	1,283,589

Emoluments include £84,600 (2021: £373,959) of payments received following the exercise of Restricted Stock Units under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE and payments of £217,396 received as Mid-Term Bonus which is a 3 year deferred incentive plan and the cash awarded is subject to a multi-year sustainability assessment.

The emoluments also include £624,500 (2021: £361,167) of payments received during 2022 by the highest paid Director relating to the vesting of Liverpool Victoria General Insurance Group Limited ("LVGIG") Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £130,000 (2021: £364,550) receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

An individual who was previously a Director of the Company received a compensation for loss of office of £2,237,290. The individual also received a payment of £177,409 following the exercise of Restricted Stock Units relating to a grant in a previous year when they were in office as a Director. The individual also received a payment of £206,612 under the Mid-Term Bonus scheme.

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 Holdings plc Group directorships. Save for one Director, the Directors' emoluments were paid by AMS, a fellow Allianz Holdings plc subsidiary, on behalf of the Group. One Director's emoluments were paid by LVGIG, a fellow Allianz Holdings plc subsidiary, on behalf of the Group.

13 DIVIDENDS

No interim dividend was paid during the year ended 31 December 2022 (2021: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: £nil).

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 INTANGIBLE ASSETS

	Renewal rights £ m	Total £ m
Cost or valuation		
At 1 January 2021	1.0	1.0
Additions	2.4	2.4
At 31 December 2021	**3.4**	**3.4**
At 1 January 2022	3.4	3.4
At 31 December 2022	**3.4**	**3.4**
Accumulated Amortisation		
At 1 January 2021	0.3	0.3
Charge for year	0.1	0.1
At 31 December 2021	**0.4**	**0.4**
At 1 January 2022	0.4	0.4
Charge for year	0.6	0.6
At 31 December 2022	**1.0**	**1.0**
Carrying amount		
At 31 December 2022	**2.4**	**2.4**
At 31 December 2021	**3.0**	**3.0**

The amortisation charge has been included within other operating and administrative expenses.

The Company has considered whether there are any indications of impairment of the intangible assets at the Statement of Financial Position date. No indications of impairment were identified.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 DEFERRED ACQUISITION COST

	2022 £ m	2021 £ m
Gross		
At 1 January	43.9	34.7
Costs deferred during the year	79.7	83.6
Amortisation charge for the year	(84.7)	(74.4)
At 31 December	**38.9**	**43.9**
Reinsurance		
At 1 January	17.7	-
Costs deferred during the year	50.7	50.2
Amortisation charge for the year	(45.3)	(32.5)
At 31 December	**23.1**	**17.7**
Net		
At 1 January	26.2	34.7
Costs deferred during the year	29.0	33.4
Amortisation charge for the year	(39.4)	(41.9)
At 31 December	**15.8**	**26.2**

Acquisition costs comprise the commission and management expenses of acquiring insurance policies written during the year. Acquisition costs which relate to a subsequent financial year are deferred to the extent that they are attributable to premiums unearned at the Statement of Financial Position date.

The movement in the reinsurers' share of deferred acquisition costs, which is associated with reinsurance commission income, is included within Other Operating and Administrative Expenses. Refer to note 8.

In 2021, a new quota share arrangement with Allianz Re was entered into, recognising a funds withheld balance. The new arrangement also resulted in reinsurance deferred acquisition costs for 2021.

16 REINSURANCE ASSETS

	2022 £ m	2021 £ m
Reinsurers’ share of insurance contract liabilities	443.1	392.5
Total reinsurance assets	**443.1**	**392.5**

For the current and non-current split, refer to note 23.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

17 ACCRUED INCOME AND PREPAYMENTS

	2022 £ m	2021 £ m
Accrued Interest	7.3	6.0
Accrued income	0.8	2.0
Prepayments	1.1	0.9
Total accrued income and prepayments	**9.2**	**8.9**

The carrying amount for accrued income disclosed above reasonably approximates to its fair value at year end and is expected to be realised within a year from the Statement of Financial Position date.

18 FINANCIAL ASSETS

The financial asset investments are summarised by measurement categories as follows:

	2022 £ m	2021 £ m
Available for sale financial assets	646.8	683.9
Total financial assets	**646.8**	**683.9**

18.1 Available for sale financial assets

	2022 £ m	2021 £ m
At fair value		
Debt securities	646.8	683.9
At cost		
Debt securities	727.1	692.0

No collateral was held at 31 December 2022 and none has been sold or repledged during the year (2021: nil).

19 INSURANCE RECEIVABLES

	2022 £ m	Restated 2021 £ m
Due from reinsurers(1)*	32.0	21.1
Due from agents, brokers and intermediaries	50.1	50.1
Total insurance receivables	**82.1**	**71.2**

(1) Included in amounts due from reinsurers are balances due from related parties of £32.0m (2021: £20.9m).

*Please refer to the restatement in note 1.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

19 INSURANCE RECEIVABLES (CONTINUED)

	2022 £ m	Restated 2021 £ m
Current insurance receivables	82.1	71.2
Non-current insurance receivables	-	-
	82.1	**71.2**

The carrying amounts disclosed above reasonably approximate fair values at year end.

20 OTHER RECEIVABLES

Current	2022 £ m	Restated 2021 £ m
Receivables from related parties	-	3.7
Other receivables*	52.4	41.4
	52.4	**45.1**

Other receivables primarily comprises of a cashpool account operated by Allianz SE.

*Please refer to the restatement in note 1.

The Company's exposure to credit and market risks, including maturity analysis, relating to other receivables is disclosed in note 28 "Risk management policies".

21 CASH AND CASH EQUIVALENTS

	2022 £ m	2021 £ m
Cash and cash equivalents	5.9	10.6
Bank overdrafts	(4.8)	-
Total	**1.1**	**10.6**

Deposits are subject to an average interest rate of 0.8% (2021: 1.5%) and have an average maturity of 1 day (2021: 1 day). The carrying amounts disclosed above are reasonably approximate to fair value at year-end.

22 EQUITY

Share capital - allotted, called up and fully paid

	2022 No.	2022 £	2021 No.	2021 £
Ordinary shares of £1 each	75,000,000	75,000,000	75,000,000	75,000,000

22 EQUITY (CONTINUED)

Capital contribution reserve	2022 £ m	2021 £ m
Balance at 1 January	106.4	106.4
Capital injection	25.0	-
Balance at 31 December	**131.4**	**106.4**

On 22 February 2022 HIG made a permanent capital contribution of £25,000,000 to the Company.

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

23 INSURANCE CONTRACT LIABILITIES

	2022			Restated 2021		
	Insurance contract liabilities £ m	Reinsurers' share of liabilities £ m	Net £ m	Insurance contract liabilities £ m	Reinsurers' share of liabilities £ m	Net £ m
Provisions for claims reported by policyholders*	590.0	(333.6)	256.4	628.6	(275.4)	353.2
Provisions for claims incurred but not reported	34.1	(26.8)	7.3	21.3	(31.2)	(9.9)
Increase in the expected cost of claims for unexpired risks	10.1	(1.2)	8.9	-	-	-
Total claims reported and IBNR	**634.2**	**(361.6)**	**272.6**	**649.9**	**(306.6)**	**343.3**
Provision for unearned premiums	201.7	(81.5)	120.2	212.6	(85.9)	126.7
Total general insurance contract liabilities	**835.9**	**(443.1)**	**392.8**	**862.5**	**(392.5)**	**470.0**
Current general insurance contract liabilities	355.0	(144.8)	210.2	388.5	(137.7)	250.8
Non-current general insurance contract liabilities	480.9	(298.3)	182.6	474.0	(254.8)	219.2

*The provisions for claims reported by policyholders has been restated to include the claims handling provision.

23 INSURANCE CONTRACT LIABILITIES (CONTINUED)

The provision for claims reported by policyholders and claims incurred but not yet reported can be analysed as follows:

	2022 Insurance contract liabilities £ m	2022 Reinsurers' share of liabilities £ m	2022 Net £ m	Restated 2021 Insurance contract liabilities £ m	Restated 2021 Reinsurers' share of liabilities £ m	Restated 2021 Net £ m
At 1 January	650.0	(306.6)	343.4	564.3	(212.2)	352.1
Unwind of discount of PPO claim reserves*	1.8	(1.4)	0.4	1.9	(1.4)	0.5
	651.8	**(308.0)**	**343.8**	**566.2**	**(213.6)**	**352.6**
Claims incurred in the current accident year	310.7	(128.6)	182.1	341.9	(169.7)	172.2
Movement on claims incurred in prior accident years*	(40.6)	16.0	(24.6)	(5.9)	(0.3)	(6.2)
Claims paid during the year	(297.8)	60.2	(237.6)	(252.2)	77.0	(175.2)
Movement in the unexpired risk reserve	10.1	(1.2)	8.9	-	-	-
At 31 December	**634.2**	**(361.6)**	**272.6**	**650.0**	**(306.6)**	**343.4**

*There has been a restatement of £1.9m gross (£0.5m net) between the unwind of discount of PPO claims reserves and movement on claims incurred in prior accident years.

The provision for unearned premiums can be analysed as follows:

	2022 Insurance contract liabilities £ m	2022 Reinsurers' share of liabilities £ m	2022 Net £ m	2021 Insurance contract liabilities £ m	2021 Reinsurers' share of liabilities £ m	2021 Net £ m
At 1 January	212.6	(85.9)	126.7	206.9	(0.2)	206.7
Premiums written in the year	411.1	(180.8)	230.3	415.7	(263.4)	152.3
Premiums earned during the year	(422.0)	185.2	(236.8)	(410.0)	177.7	(232.3)
At 31 December	**201.7**	**(81.5)**	**120.2**	**212.6**	**(85.9)**	**126.7**

24 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES

The major classes of general insurance written by the Company include motor and property. Risks under these policies usually cover a 12-month duration.

The Company adopts a consistent process in the calculation of an adequate provision for these contracts. The overriding aim is to establish reserves which are expected to be adequate and that there is consistency from year to year. However, there is a risk that, due to unforeseen circumstances, the reserves may be insufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

24 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

The claims provision at the reporting date comprises the estimated ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This is estimated based on known facts at the Statement of Financial Position date. The provision is revised quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported.

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of PPOs established under the Courts Act 2003. During 2022, there have been no claimant deaths and one new PPO settlement, increasing the total number of outstanding PPOs to 15. Total settled PPO reserves are £81.4m (2021: £61.9m) gross and £20.0m (2021: £16.3m) net of reinsurance. The corresponding undiscounted amounts are £158.8m (2021: £128.1m) gross and £35.9m (2021: £30.7m) net. The interest rate used to discount PPOs is assumed to be in line with inflation. The following sensitivities show the impact of changing the interest rate and inflation assumptions on settled PPO reserves:

- An increase in the interest rate by 1% would decrease the discounted PPO reserves by £17.6m gross and £4.9m net
- A a decrease in the interest rate by 1% would increase the discounted PPO reserves by £24.2m gross and £6.9m net
- An increase in the inflation rate by 1% would increase the discounted PPO reserves by £23.2m gross and £8.5m net
- A decrease in the inflation rate by 1% would decrease the discounted PPO reserves by £17.2m gross and £6.2m net

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. The Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. The current rate is set at -0.25% in England and Wales, and 0.75% in Scotland. The rates will be reviewed by the end of 2024. The Company has very limited exposure to Northern Ireland which is expected to move to a statutory process for setting the Ogden discount rate similar to England and Wales. In March 2022, the personal injury discount rate in Northern Ireland was set to -1.5%. This is subject to further review in July 2024. Ultimate claims costs continue to be calculated using the current Ogden discount rates.

The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available.

The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques, such as the Chain Ladder method. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are generally analysed separately from damage provisions. In addition, for motor classes, we analyse third party liability damage separately from own damage claims.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in internal claim handling processes,
- changes in the mix of insurance contracts written,
- the impact of large losses and weather events.

Historical claims development is mainly analysed by accident period. Claims development is separately analysed for each class of business. Estimation uncertainties differ by line of business for reasons such as the following:

24 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

- differences in the terms and conditions of insurance contracts,
- differences in the complexity of claims,
- the severity of individual claims,
- differences in the period between the occurrence and the reporting of claims.

Large claims are usually addressed separately, either by being reserved at the face value of loss adjuster estimates or being based on the results of statistical modelling of the underlying accounts.

For the main classes of business, the Company purchases excess of loss contracts with sufficiently high retentions for only relatively few large claims to be recoverable. Incurred but not reported provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. Impairment of the reinsurance asset is considered separately.

Other than the Ogden discount rate as outlined above, the assumptions that have the greatest effect on the movement of provisions are those that affect the expected level of claims. These can come from a number of sources, including, but not limited to:

- claim reporting patterns being different from those expected;
- claims inflation being different from that expected;
- claim handling costs being different from those expected; and
- the emergence of currently unknown latent diseases.

Assumptions on claim reporting patterns are derived in the main from those historically observed, as described above. External claim handling costs are included in the cost of claims, while an assumption on the cost of internal claims handling has been made for each line of business.

Changes in assumptions and claims experience have caused a £57.0m gross decrease in insurance provisions in respect of the prior period, driven by a reduction in Personal Motor, with most of this decrease coming from all three bodily injury layers. This has been partially offset by increases in Household. The net effect of £19.0m decrease is driven by the same drivers. This includes a £13.8m net reduction in the claims margin.

The sensitivity of profit or loss before tax and total equity to changes in the assumptions used to measure insurance provisions and reinsurance assets is measured using various actuarial and statistical techniques. These are based on the Company's historical claim experience, using past volatility as a guide to the future and considering the interaction of the various classes of business and sources of volatility. All sources of volatility are considered together, and the biggest sources of uncertainty are the assumptions concerning the interrelationship between the various lines of business.

Loss development triangles

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at each Statement of Financial Position date, together with cumulative claims as at the current Statement of Financial Position date. In the loss development triangles, the cumulative claims estimates and payments for each accident year are translated into pounds sterling at the exchange rates that applied at the Statement of Financial Position date.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

24 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

Gross of reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year	241.0	221.3	247.6	266.7	289.8	316.9	295.5	276.4	341.9	310.7	2,807.8
One year later	222.1	204.9	251.5	253.4	266.0	305.2	307.5	251.5	316.4	-	2,378.5
Two years later	222.7	198.7	236.5	240.5	258.6	321.7	329.6	238.1	-	-	2,046.4
Three years later	225.7	195.8	222.1	222.7	263.3	322.6	306.2	-	-	-	1,758.4
Four years later	227.1	189.5	223.7	225.6	263.6	315.3	-	-	-	-	1,444.8
Five years later	221.2	189.2	222.1	228.8	261.9	-	-	-	-	-	1,123.2
Six years later	222.1	188.8	220.7	227.6	-	-	-	-	-	-	859.2
Seven years later	217.9	188.6	224.2	-	-	-	-	-	-	-	630.7
Eight years later	216.7	191.0	-	-	-	-	-	-	-	-	407.7
Nine years later	226.9	-	-	-	-	-	-	-	-	-	226.9
Current estimate of cumulative claims	226.9	191.0	224.2	227.6	261.9	315.3	306.2	238.1	316.4	310.7	2,618.3
Cumulative payments to date	203.9	188.5	213.5	221.6	248.6	265.3	243.9	178.5	188.2	149.7	2,101.7
Reserve in respect of prior years											103.2
Claims handling provision											4.3
Unexpired risk reserve											10.1
Total gross liability as per the Statement of Financial Position	23.0	2.5	10.7	6.0	13.3	50.0	62.3	59.6	128.2	161.0	634.2

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

24 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

Net of reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year	232.6	219.0	208.9	228.7	210.9	242.8	226.9	208.2	172.2	182.1	2,132.3
One year later	211.1	188.7	223.4	198.3	201.9	234.8	234.4	190.1	164.7	-	1,847.4
Two years later	202.0	190.1	204.4	190.4	198.8	240.8	244.8	241.7	-	-	1,713.0
Three years later	207.1	185.9	193.0	178.1	202.9	243.7	210.9	-	-	-	1,421.6
Four years later	204.3	177.2	194.4	180.5	203.5	223.9	-	-	-	-	1,183.8
Five years later	199.4	178.2	193.1	182.8	201.8	-	-	-	-	-	955.3
Six years later	200.4	177.9	191.7	180.5	-	-	-	-	-	-	750.5
Seven years later	198.9	177.6	190.9	-	-	-	-	-	-	-	567.4
Eight years later	197.9	175.2	-	-	-	-	-	-	-	-	373.1
Nine years later	195.6	-	-	-	-	-	-	-	-	-	195.6
Current estimate of cumulative claims	195.6	175.2	190.9	180.5	201.8	223.9	210.9	241.7	164.7	182.1	1,967.3
Cumulative payments to date	191.7	173.7	184.8	176.9	194.2	203.6	180.2	215.4	113.1	90.6	1,724.2
Reserve in respect of prior years											16.4
Claims handling provision											4.2
Unexpired risk reserve											8.9
Total net liability as per the Statement of Financial Position	3.9	1.5	6.1	3.6	7.6	20.3	30.7	26.3	51.6	91.5	272.6

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

25 INSURANCE RELATED PAYABLES

	2022 £ m	Restated 2021 £ m
Arising out of direct insurance operations		
Third parties*	7.7	9.5
Policyholders*	1.5	0.6
	9.2	**10.1**
Deposits received from reinsurers		
Amounts due to related parties*	231.1	132.8
	231.1	**132.8**
Arising out of reinsurance operations		
Arising out of reinsurance operations*	6.0	4.1
	6.0	**4.1**
Total insurance related payables	**246.3**	**147.0**
Current insurance related payables	246.3	147.0

The carrying amounts disclosed above reasonably approximate fair values at year end. The current liabilities are payable within 12 months of the Statement of Financial Position date.

*Please refer to the restatement in note 1.

26 ACCRUALS AND OTHER PAYABLES

	2022 £ m	Restated 2021 £ m
Amounts due to related parties	5.8	1.1
Accrued expenses*	0.5	1.2
Tax payables	11.7	12.2
Other	0.8	1.1
Total accruals and other payables	**18.8**	**15.6**

The carrying amounts disclosed above reasonably approximate fair values at year end. All of the liabilities are payable within 12 months of the Statement of Financial Position date.

*Please refer to the restatement in note 1.

27 LOANS AND BORROWINGS

	2022 £ m	2021 £ m
Non-current loans and borrowings		
Other borrowings	10.6	10.1

€12.0m 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 £11.6m (2021: £11.8m) based on discounted cash flow model basis.

	2022 £ m	2021 £ m
Current loans and borrowings		
Bank overdrafts	4.8	-

The Company's exposure to market and liquidity risks, including maturity analysis, relating to loans and borrowings is disclosed in note 28 "Risk management policies".

28 RISK MANAGEMENT POLICIES

The Company only transacts general insurance business which is wholly written in UK and the majority of risk exposure is confined within the UK.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur, including the adequacy of the price charged for the risk and uncertainty as to the amount and time of any resulting claim. The principal risk that the Company faces under such contracts is that the actual claims will exceed the carrying value of insurance contract liabilities. This is influenced by the frequency of claims, severity of claims, weather events and other factors dependent upon the type of the insurance contract. By the nature of an insurance contract, insurance risk is random and unpredictable. Therefore the actual claims costs may exceed the estimated insurance contract liabilities.

Risk exposure is improved by diversification across a large portfolio of similar insurance contracts, as a more diversified portfolio is less likely to be affected by specific events. Exposure is also improved by careful selection and implementation of underwriting strategies, strict claim review policies to assess all new and ongoing claims, as well as the careful investigation of possible fraudulent claims.

The price charged by the Company for an insurance contract is generally determined using actuarial techniques which take into account past experience, anticipated loss ratios, claims frequency, expected claims inflation, reinsurance costs and other relevant influences such as the Company's required return on capital. For some products where the market is highly competitive and the rate determined by the application of actuarial techniques will not necessarily be obtainable. In these circumstances the Company seeks to minimise the impact of uneconomic rates by strictly controlling the amount of business it writes in these segments and by seeking profitable niches within the segment. The Company has and will withdraw from segments of the market which do not offer the prospect of an acceptable return on capital over the medium term.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

28 RISK MANAGEMENT POLICIES (CONTINUED)

The Company uses both proportional and non-proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather related claims. In addition, the Company limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. Maximum exposure for each line of business is limited according to risk appetite, capital requirements and the return on capital.

The Company uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses.

Based upon the modelling work undertaken, the Company buys reinsurance protection for a 1-in-250-year single event. In order to protect its risk capital from extreme events the Company also purchases catastrophe reinsurance for a modelled 1-in-500-year loss event.

The Company places proportional reinsurance cover with the ultimate parent Company’s reinsurance Company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime.

The purpose of these underwriting and reinsurance strategies is to limit exposure to a series of unconnected events and catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by the board.

As detailed below under financial risk policies (b) Credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full.

The Company has issued the following types of general insurance contract: motor and household. The following table sets out the concentration of insurance risk by contract type:

	Gross 2022 £ m	2022 Reinsurers' Share 2022 £ m	Net £ m	Gross 2021 £ m	2021 Reinsurers' Share 2021 £ m	Net £ m
Claims liabilities						
Motor	556.1	(330.7)	225.4	613.2	(291.7)	321.5
Household	78.1	(30.9)	47.2	36.7	(14.9)	21.8
Total	**634.2**	**(361.6)**	**272.6**	**649.9**	**(306.6)**	**343.3**

Note 24 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Company's estimation techniques for claims payments.

Financial risk

The Company is exposed to financial risk through its financial assets, including investments, reinsurance assets, insurance receivables and cash and cash equivalents held primarily to meet obligations under insurance contract liabilities. The key financial risk is that proceeds from the realisation of assets are insufficient to meet obligations under insurance contracts. The most important aspects of financial risk comprise market risk, credit risk and liquidity risk.

28.1 Market risk

Market risk is the risk that changes in market prices will affect the value of the Company's assets and income. The Company's liabilities have very limited exposure to these movements. The Company is exposed to market risk on its available for sale financial assets and receivables.

The Company manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders’ funds. A substantial part of the Company's financial assets are invested in available for sale fixed interest securities. These are quoted on a recognised stock exchange and are readily tradable.

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.1 Market risk (continued)

i) Interest rate risk

A substantial part of the Company's available for sale financial assets are invested in financial fixed interest securities. Interest rate risk is the risk that interest rates will change, adversely affecting the market value of the fixed interest portfolio and consequently the value of the assets that the Company has available to meet insurance contract liabilities. None of the Company's general insurance contracts include benefits which involve contractual interest payments.

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contract liabilities. At 31 December 2022 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.7 years (2021: 3.2 years) compared with the average duration of the insurance contract liabilities which is estimated to be 2.8 years (2021: 3.8 years).

ii) Inflation risk

Inflation risk is the risk that changes in inflation expectation will adversely affect the Company's net asset value. The Company's insurance contract liabilities are subject to changes in inflation, in particular PPO liabilities.

Impacts from COVID-19, Brexit and the Russia/Ukraine conflict 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 through 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.

iii) Equity risk

Equity risk is the risk that the market price of managed funds will fall in value as a result of adverse stock market movements. The Company does not currently hold any traded equity holdings.

iv) Credit spread risk

Credit spread risk is the risk of changes in the Company's net asset value from movements in credit spreads, there is no offsetting between assets and liabilities as liabilities are not subject to credit spread risk. Hence this risk is managed in a similar way to credit risk, through applying a comprehensive series of limits determined after taking into account publicly available credit ratings.

v) Currency risk

Currency risk is the risk that fluctuations in exchange rates may lead to a material change in the value of currency denominated assets or liabilities. Currency risk is small as the majority of the Company's insurance contracts and insurance risks are either concluded or situated in the UK.

The Company has a policy of broadly matching currency liabilities with assets denominated in the same currency in order to minimise currency risk. Rebalancing of net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values. At 31 December, the largest currency exposures were:

	2022 £ m	2021 £ m
Euro		
Assets	7.4	7.1
Liabilities	(21.4)	(20.6)

The Company holds insurance contract liabilities and corresponding reinsurance assets in addition to the subordinated loan note in Euros.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.1 Market risk (continued)

vi) Sensitivity to market risk

The table below shows the sensitivity of the Company's profit or loss before tax and equity to changes in market risk factors.

	2022		Restated 2021	
	Profit/(loss) £ m	Equity £ m	Profit/(loss) £ m	Equity £ m
Interest rate risk				
+100 basis points shift in yield curves	-	(20.1)	-	(25.3)
-100 basis points shift in yield curves	-	21.6	-	27.4
Currency rate risk				
10% weakening of Euro exchange rate	1.4	1.4	1.3	1.3
10% strengthening of Euro exchange rate	(1.4)	(1.4)	(1.3)	(1.3)

*The 2021 comparatives have been restated to reflect the change in the sensitivities above.

The effects of the specified changes in factors are determined using statistical models, as relevant. The level of movements in market factors on which the sensitivity analysis is based were determined based on economic forecasts and historical experience of variations in these factors.

The following table provides an analysis of the sensitivity of profit or loss before tax and total equity to changes in the assumptions used to measure general insurance contract provisions and reinsurance assets at the reporting date. The effect is shown before and after reinsurance.

2022	Profit/(loss)		Equity	
	Gross £ m	Net £ m	Gross £ m	Net £ m
Expense ratio				
1% increase in current year	(4.2)	(3.9)	(3.4)	(3.2)
1% decrease in current year	4.2	3.9	3.4	3.2
Loss ratio				
1% increase in current year	(3.1)	(1.8)	(3.1)	(1.8)
1% increase in all of the last 3 years	(8.6)	(5.8)	(8.6)	(5.8)
1% decrease in current year	3.1	1.8	3.1	1.8
1% decrease in all of the last 3 years	8.6	5.8	8.6	5.8

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.1 Market risk (continued)

2021	Profit/(loss) Gross £ m	Profit/(loss) Net £ m	Equity Gross £ m	Equity Net £ m
Expense ratio				
1% increase in current year	(4.1)	(3.9)	(3.3)	(3.1)
1% decrease in current year	4.1	3.9	3.3	3.1
Loss ratio				
1% increase in current year	(3.3)	(1.6)	(3.3)	(1.6)
1% increase in all of the last 3 years	(9.0)	(5.9)	(9.0)	(5.9)
1% decrease in current year	3.3	1.6	3.3	1.6
1% decrease in all of the last 3 years	9.0	5.9	9.0	5.9

28.2 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. The Company is exposed to credit risk through its available for sale financial assets, cash and cash equivalents, reinsurance assets, insurance receivables and trade and other receivables.

The Company manages credit risk for financial assets (other than the amounts invested in government securities) and cash and cash equivalents by limiting the amount of exposure to individual counterparties. This is achieved through applying a comprehensive series of limits determined after taking into account publicly available credit ratings and such other information considered relevant. These limits restrict, dependent upon credit rating, the amount of financial assets exposed to each counterparty or where the counterparty is a member of a group the exposure to the group. The broad strategy is to limit the credit risk to tolerable levels whilst at the same time taking limited and controlled advantage of the additional returns which are available for additional risk.

The Company deems the risk associated with its cash and cash equivalents to be low as the cash balances are held with financial institutions with A credit ratings and are immediately available. The Company deems the risk associated with its other receivables to be low. The amount due from group undertakings is due from other companies within the Allianz group. Despite the remaining other receivables being unrated, the Company deems the associated risk to be low because these amounts are due from many separate counterparties and are due within one year.

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. Where there is a significant or potentially significant exposure to an individual captive, additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at 31 December 2022 was £295.9m (2021: £239.6m).

Insurance receivables are closely monitored via the credit control process. For amounts due from brokers, credit terms are applied which are determined by a range of factors including the type of business, size of account and financial standing. For policyholders, credit is managed so that the amount due is matched to the unexpired risk.

Where amounts fall outside credit terms a full range of credit control procedures are applied. Where these are not successful, the debt is impaired.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.2 Credit risk (continued)

The following table provides information regarding the credit risk exposure of the Company at 31 December, by classifying assets according to the credit ratings of counterparties

2022	AAA	AA	A	BBB	BB	B	CCC	C	Others not rated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Reinsurance assets	-	380.5	62.6	-	-	-	-	-	-	443.1
Available for sale financial assets	249.9	161.2	85.3	149.5	0.4	-	-	-	0.5	646.8
Insurance receivables (1)	-	-	32.0	-	-	-	-	-	50.1	82.1
Cash and cash equivalents	-	-	5.9	-	-	-	-	-	-	5.9
Total £m	249.9	541.7	185.8	149.5	0.4	-	-	-	50.6	1,177.9
Percent	21.2	46.0	15.8	12.7	0.0	-	-	-	4.3	100.0

Restated

2021	AAA	AA	A	BBB	BB	B	CCC	C	Others not rated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Reinsurance assets	-	337.0	55.5	-	-	-	-	-	-	392.5
Available for sale financial assets	257.3	173.8	91.3	160.8	-	-	-	-	0.7	683.9
Insurance receivables(1)	-	21.2	0.2	-	-	-	-	-	49.8	71.2
Cash and cash equivalents	-	-	10.6	-	-	-	-	-	-	10.6
Total £m	257.3	532.0	157.6	160.8	-	-	-	-	50.5	1,158.2
Percent	22.2	45.9	13.6	13.9	-	-	-	-	4.4	100.0

*The above table has been restated for 2021 to reflect the changes in the credit rating categories and the reclassifications in insurance receivables.

(1) The not rated balance relates to debts from brokers and intermediaries, most of whom are regional and provincial brokers who whilst not independently rated are regulated by the FCA.

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.2 Credit risk (continued)

The following table provides information on the carrying value of reinsurance assets and insurance receivables:

	2022 Reinsurance assets £ m	2022 Insurance receivables £ m	2021 Reinsurance assets £ m	2021 Insurance receivables £ m
Neither past due or impaired	443.1	81.3	392.5	68.2
Past due but not impaired	-	0.7	-	2.8
Individually impaired	-	0.1	-	0.2
Total	**443.1**	**82.1**	**392.5**	**71.2**

The Company has insurance receivables that are past due date but not impaired. The Company believes that impairment of these assets is not appropriate as the amounts due will be collected through normal credit control procedures. An age analysis of these balances is presented below:

2022	**< 31 days £ m**	**31 - 60 days £ m**	**61 - 90 days £ m**	**> 90 days £ m**	**Total £ m**
Brokers	0.4	0.2	-	0.1	0.7
Total	**0.4**	**0.2**	**-**	**0.1**	**0.7**

2021	**< 31 days £ m**	**31 - 60 days £ m**	**61 - 90 days £ m**	**> 90 days £ m**	**Total £ m**
Brokers	2.2	0.3	0.1	0.2	2.8
Total	**2.2**	**0.3**	**0.1**	**0.2**	**2.8**

Fair value hierarchy

The following table shows a three-level fair value hierarchy for financial assets depending on the inputs used to determine fair value. The fair value hierarchy has the following levels:

Level 1: quoted prices in active markets for identical assets.

Level 2: valuation technique which uses the current prices in an active market of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

Level 3: if one or more of the significant inputs is not based on observable market data.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.2 Credit risk (continued)

Fair value hierarchy (continued)

Fair value as of 31 December 2022

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Own use property	-	-	-	-
Government and government agency bonds [1]	99.1	93.0	-	192.1
Corporate bonds [1]	1.5	453.2	-	454.7
Managed funds	-	-	-	-
	100.6	**546.2**	**-**	**646.8**

Fair value as of 31 December 2021

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Own use property	-	-	-	-
Government and government agency bonds [1]	108.5	99.3	-	207.8
Corporate bonds [1]	-	476.1	-	476.1
Managed funds	-	-	-	-
	108.5	**575.4**	**-**	**683.9**

[1] Included within debt securities as available for sale financial assets are government and government agency bonds and corporate bonds. These have been shown separately within the fair value hierarchy table in order to appropriately disclose the level and valuation assumptions.

28.3 Liquidity risk

Liquidity risk is the risk that funds might not be available to settle obligations when they fall due. The Company is exposed to liquidity risk through its insurance contract liabilities, trade and other payables, loans and borrowings and accruals and other payables. In regards to liquidity risk associated with the trade and other payables and accruals and other payables, the Company has sufficient liquid assets to settle these amounts as they fall due.

The Company is exposed to calls on its available resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's available for sale financial assets and loans at 31 December 2022 amounted to £646.8m (2021: £683.9m). In 2022, the cash pool was £36.2m (2021: £26.9m) plus cash and cash equivalents of £5.9m (2021: £10.6m) totalled £42.1m (2021: £37.5m). As a result the Company's exposure to potential liquidity risk is extremely low and in the risk capital model used by the Company no capital is allocated to this risk.

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.3 Liquidity risk (continued)

The following tables show information about the estimated timing of the net cash flows from the Company's financial assets and liabilities. The analysis provided is by estimating timings of the amounts recognised in the Statement of Financial Position.

2022 Non-derivative assets	Carrying amount £ m	Less than 1 year £ m	1-2 years £ m	2-5 years £ m	5-10 years £ m	More than 10 years £ m
Available for sale financial assets	646.8	45.3	117.1	295.4	171.0	18.0
Cash and short-term deposits	5.9	5.9	-	-	-	-

2022 Non-derivative liabilities	Carrying amount £ m	Less than 1 year £ m	1-2 years £ m	2-5 years £ m	5-10 years £ m	More than 10 years £ m
Insurance contract liabilities	634.2	153.3	120.1	187.0	90.9	82.9

Restated 2021 Non-derivative assets	Carrying amount £ m	Less than 1 year £ m	1-2 years £ m	2-5 years £ m	5-10 years £ m	More than 10 years £ m
Available for sale financial assets	683.9	52.0	65.4	356.6	182.2	27.7
Cash and short-term deposits	10.6	10.6	-	-	-	-

Restated 2021 Non-derivative liabilities	Carrying amount £ m	Less than 1 year £ m	1-2 years £ m	2-5 years £ m	5-10 years £ m	More than 10 years £ m
Insurance contract liabilities	649.9	175.9	107.4	206.5	92.8	67.3

*The 2021 comparatives above have been restated to reflect the revised periods in the liquidity risk disclosure.

Reinsurers' share of deferred acquisition costs and Insurance related payables are all payable within 12 months of the Statement of Financial Position date

28.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

28 RISK MANAGEMENT POLICIES (CONTINUED)

28.4 Operational risk (continued)

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk.

Compliance with Company standards is supported by a programme of periodic reviews.

Capital management

The Company maintains sufficient capital to protect policyholders' and creditors' interests and satisfy regulators whilst creating shareholder value.

The level of capital required by the Company is determined by its risk appetite, approved by the Board. Under the Solvency II regime adopted by the PRA, 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 2022. Capital held to back the SCR is of high quality and clearly meets the tests for the composition of capital laid down by the Solvency II Directive.

The Company is regulated in respect of prudential requirements (including capitalisation) by the PRA. The Company aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of pre-specified financial market and insurance shocks. This risk appetite provides for a buffer above the SCR to ensure that the company is adequately capitalised in most expected circumstances.

The Company's capital comprises total shareholders' equity and amounts to £165.7m (2021: £212.3m).

The Company has complied with all externally and internally imposed capital requirements throughout the year. At 31 December 2022 the own funds amount to £184.2m with a surplus of 140.0% on SCR (2021: own funds equal to £202.6m with a surplus of 126.3% on SCR).

29 PARENT AND ULTIMATE PARENT UNDERTAKING

The Company's immediate parent is Highway Insurance Group Limited ('HIG'), a company registered in the UK.

The ultimate parent Allianz Societas Europaea ("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.

The most senior parent entity producing publicly available financial statements is Allianz SE. These financial statements are available upon request from their registered office address of Allianz SE, Königinstrasse 28, 80802 München, Germany.

30 CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a significant effect on its results and financial position.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 CONTINGENCIES AND COMMITMENTS (CONTINUED)

Contingent liabilities

The Company has identified a misstatement relating to underpayment of historic levies. This misstatement has been communicated to the relevant body but the amount, if any, to be settled is unknown and has not been disclosed as it is impractical to do so.

31 RELATED PARTY TRANSACTIONS

31.1 Transactions with and balances from or to related parties

The Company enters into transactions with fellow group undertakings and key management personnel in the normal course of business. Details of transactions carried out during the year with related parties are as follows;

	2022 £ m	2021 £ m
Cost of repairs from LV Repair Services Limited	17.3	14.7
Management charge to the Company from LV General Insurance Group Limited	62.8	59.3
Management charge to the Company from LV Insurance Management Limited	2.8	3.5

Year-end balances arising from transactions carried out with related parties are as follows:

	2022 £ m	2021 £ m
Due (to)/from related parties at 31 December		
LVGIG Group undertakings	(5.8)	2.6

	2022 £ m	2021 £ m
Due to related parties at 31 December		
Allianz Group	(199.0)	(127.8)

Since 2016, the Company placed a quota share treaty with the ultimate parent Company's reinsurance Company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime.

Management services were bought from Group companies (LVGIG) and (LVIM). The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given by the Company. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The Company considers its key management personnel to be the Directors only. The Company incurred £0.2m (2021: £0.4m) in respect of the services of key management personnel provided by a separate management entity within the LVGIG Group. Further information is disclosed in note 12.

32 SUBSEQUENT EVENTS

There have been no subsequent events after the Statement of Financial Position date to the date of signing the financial statements.