Highway Insurance Company Limited

Solvency and Financial Condition Report 2022

Summary

This is the solvency and financial condition report ("SFCR") for Highway Insurance Company Limited ("HICO", "the Company"). Publication of an SFCR is a mandatory requirement of the Solvency II Directive[1] for all insurance companies domiciled in the EU. Although the UK has left the EU, the Prudential Regulatory Authority ("PRA") has adopted an equivalent approach.

The ultimate parent undertaking is Allianz Societas Europaea ("Allianz SE"). Globally, Allianz SE is a financial services provider with more than 100 million retail and corporate customers in more than 70 countries. In 2022, it had revenue of €152.7bn and made an operating profit of €14.2bn. More information about Allianz SE and its operations around the world can be found on the Allianz SE website[2].

The SFCR is made up of 5 key sections that together give a comprehensive view of the Company's business strategy and performance, its system of governance, its risk profile, its current valuation for Solvency II purposes, and its capital management approach and current capital position.

Section A looks at the business and performance of HICO during 2022. It starts with a section describing the legal structure of the Company and its place in the Allianz Holdings plc Group ("the Group") before covering the two main sources of the Company's result – the underwriting of insurance and the investment of the capital held in order to pay future claims. HICO reported a loss before tax for the year of £22m (2021: loss of £26m). The Company had a quota share ("QS") reinsurance arrangement of 40% in 2022 impacting the net results.

Section B looks at the System of Governance. This is the set of rules and processes by which the Company is managed. This section describes the ways in which the Company ensures that its business runs effectively and in compliance with the regulations of Solvency II.

The Company's Board of Directors have overall oversight of the business, while day to day running is conducted by management. The actions of management take place within the confines of the System of Governance. Further details regarding the Board and its committees is provided in sections B.1 and B.3.

The Company operates a "three lines of defence" model to risk management. The Enterprise Risk Management Framework is embedded in the operations of the Company and is managed by the Chief Risk Officer ("CRO").

The Own Risk and Solvency Assessment ("ORSA") process forms a substantial part of the Company's Enterprise Risk Management Framework. Produced at least annually, the ORSA report is provided to the Board to inform them of all risks facing the Company and outlines how these are assessed and managed. The ORSA process is overseen by the Board Risk Committee.

Finally, the section reviews how the Company relies on other companies to undertake some activities on its behalf. In Section B.7, the Company has outlined the most material outsourced activities.

Section C reviews the risks which the Company faces. These are:

- Underwriting Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

Each type of risk is covered in turn. The risk itself and the methods for understanding, managing and mitigating that risk are described, and any major concentration of that risk type is identified.

This section confirms that each risk type to which the Company is exposed to is appropriately understood, managed and mitigated.

[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51 – 56.

[2] www.allianz.com

Summary continued

Section D reviews the balance sheet of the Company. The balance sheet is the main mechanism by which the solvency of the Company, the amount of capital it has available to protect it and its policyholders against a shock, is assessed. This section describes the methods used to value the items on that balance sheet in accordance with the Solvency II Directive and explains any significant valuation differences to the valuation applied in the preparation of the Annual Report and Financial Statements.

In section D.2 Technical Provisions are considered. Technical Provisions represent the current amount required to transfer insurance obligations immediately to another insurance entity. They include the funds the Company has put aside specifically to pay future claims. Section D.2 examines in detail the separate elements that make up the technical provisions and explains the actuarial methods and assumptions used.

Section E refers to the capital available within the Company for the purpose of absorbing shocks. The amount of Own Funds required by Solvency II is defined by the Minimum Capital Requirement ("MCR") and the Solvency Capital Requirement ("SCR"). The MCR is the level of Own Funds below which the Company may no longer legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

The Company uses the default standard formula approach as prescribed by Solvency II to determine its capital requirements.

As at 31 December 2022 the MCR was £45m and is covered by £162m of eligible Own Funds. As at 31 December 2022 the SCR was £132m and is covered by £184m of eligible Own Funds (£153m tier 1, £12m Tier 2 and £19m tier 3). The Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is 140%. During the year, the Company received a capital injection of £25m from Liverpool Victoria Insurance Company Limited (“LVIC”) via its immediate parent company Highway Insurance Group Limited (“HIG”). The Company has fully complied with the SCR throughout the period.

Further information about the quality of the Own Funds and the makeup of the SCR is provided in sections E.1 and E.2.

The SFCR contains a Statement of Directors’ Responsibilities and the independent auditors' opinion in respect of those parts of the SFCR which are audited.

Finally, the following (“Quantitative Reporting Templates”) QRTs have been disclosed as an appendix to the SFCR;

- S.02.01.02 Balance Sheet
- S.05.01.02 Premiums, claims and expenses by line of business
- S.12.01.02 Life and Health SLT Technical Provisions
- S.17.01.02 Non-life Technical Provisions
- S.19.01.21-01 Non-life Insurance Claims Information
- S.19.01.21-02 Non-life Insurance Claims Information
- S.23.01.01 Own Funds
- S.25.01.21 Solvency Capital Requirement (for undertakings on Standard Formula)
- S.28.01.01 Minimum Capital Requirement (Only life or non-life insurance or reinsurance activity)

A. Business and Performance

This section is unaudited.

A.1 Business

Name and legal form of undertaking

The Company is a UK incorporated and domiciled company limited by shares, under company number 03730662.

Registered office: 57 Ladymead, Guildford, Surrey, England, GU1 1DB

Name and contact details of the supervisory authority responsible for financial supervision.

The PRA and Financial Conduct Authority ("FCA") are responsible for the financial supervision of the Company.

PRA: 20 Moorgate, London, EC2R 6DA

FCA: 12 Endeavour Square, London, E20 1JN

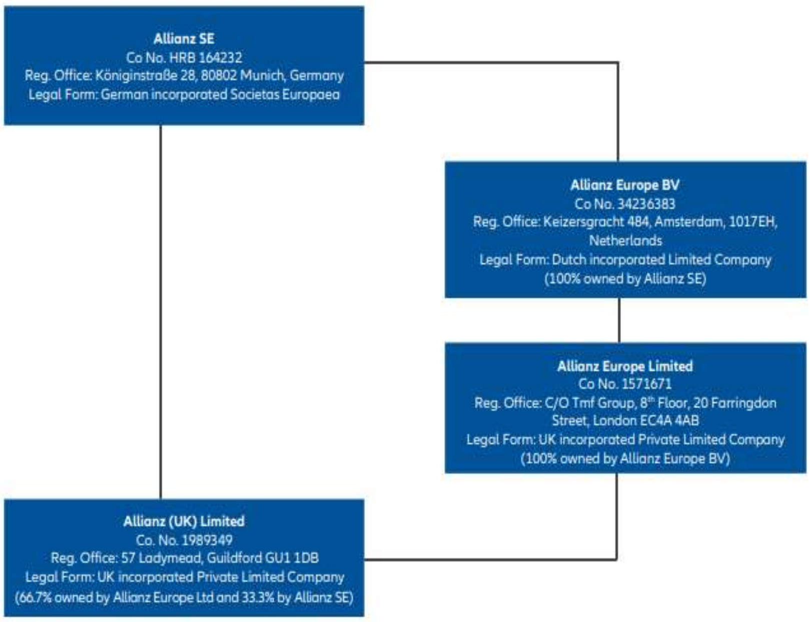
Name and contact details of the external auditor

PricewaterhouseCoopers LLP: 7 More London Riverside, London, SE1 2RT

Description of the holders of qualifying holdings in the undertaking

The Company is a wholly owned subsidiary (via intermediate holding companies) of Allianz SE, incorporated in Germany (Registered address; Königinstraße 28, 80802 München, Germany).

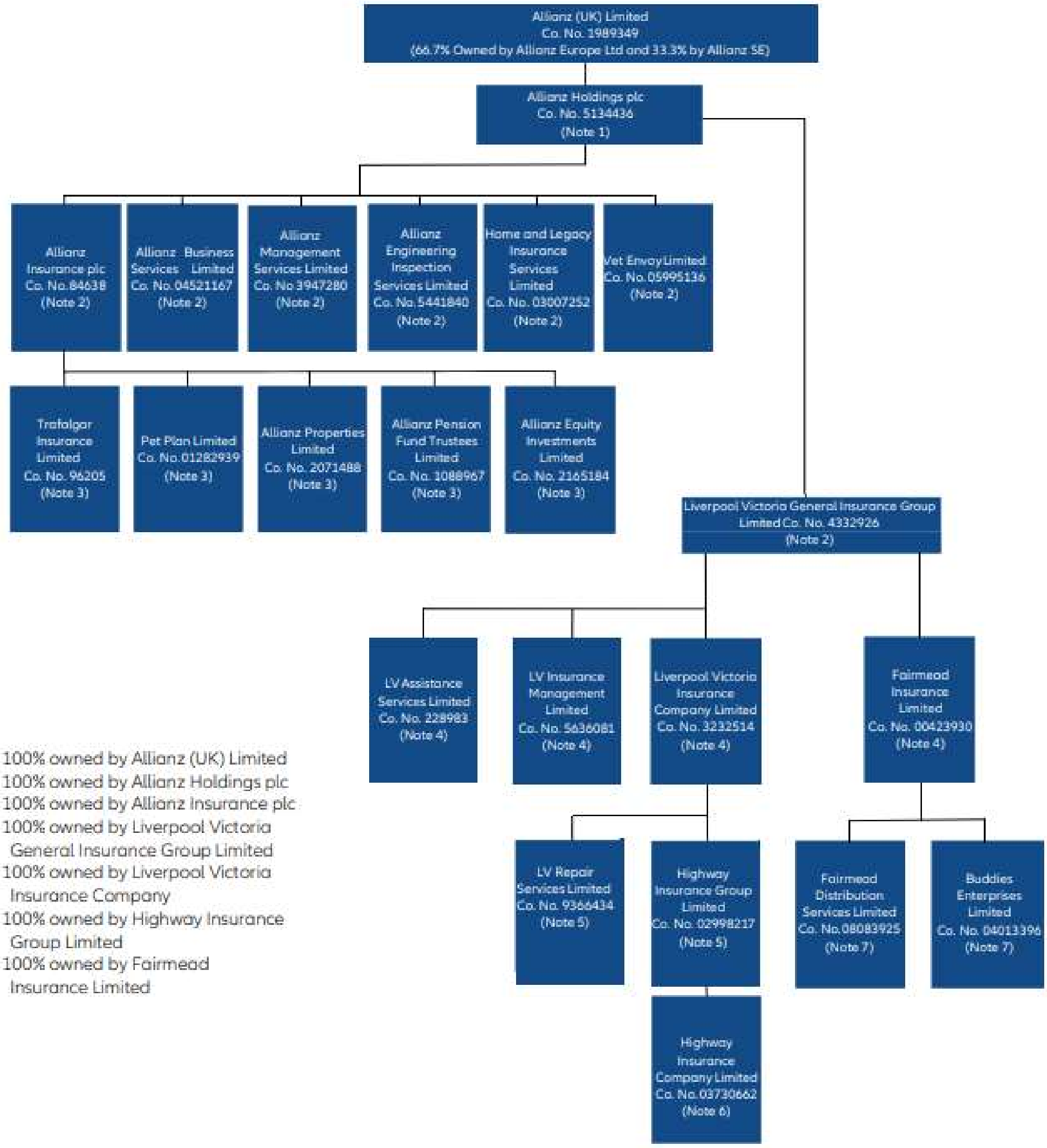
The structure charts below describe the position of HICO within the Allianz SE group, including details of the holders of qualifying holdings in the Company, and also its material related undertakings.



A. Business and Performance continued

Details of the undertakings within the group

All Allianz UK Group companies shown on this page are UK incorporated. As at 31 December 2022, all Allianz UK companies had their registered offices at 57 Ladymead, Guildford, GU1 1DB. All Allianz UK companies shown on this page are private limited companies except for Allianz Holdings plc ("AZH") and Allianz Insurance plc which are public limited companies.



1. 100% owned by Allianz (UK) Limited
2. 100% owned by Allianz Holdings plc
3. 100% owned by Allianz Insurance plc
4. 100% owned by Liverpool Victoria General Insurance Group Limited
5. 100% owned by Liverpool Victoria Insurance Company
6. 100% owned by Highway Insurance Group Limited
7. 100% owned by Fairmead Insurance Limited

A. Business and Performance continued

Material lines of business and material geographic areas

HICO underwrites non-life insurance contracts within the UK.

HICO conducts general insurance business through the broker distribution channel. The primary sources of premium income are from the sale of Motor insurance products and Home insurance products. Motor insurance products include Private Car, Specialist Car and Motorcycle.

As such the following Solvency II non-life lines of business are written on either a standalone or bundled product basis:

- Motor vehicle liability insurance
- Other motor insurance
- Fire and other damage to property insurance
- General liability insurance
- Legal expenses insurance
- Assistance

Significant business or other events occurring during the reporting period that have a material impact on the undertaking.

The UK continues to experience tough economic conditions and there are a number of external factors that impacted the 2022 result. In particular, the heightened inflationary environment is continuing to pose a significant challenge to the market with latest expectations that inflation will remain high until the end of 2023. In addition, there were several large weather events that impacted the underwriting result throughout 2022. Investment income benefitted from increased yields however this was partially offset by impairments and realised losses, some of which relate to the conflict in Ukraine.

There have been no significant changes to structure or operations of the Company throughout 2022.

The SFCR and all tables within it are presented in pounds sterling rounded to the nearest million which is consistent with the presentation in the International Financial Reporting Standards ("IFRS") financial statements. The QRTs are presented in pounds sterling rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

A.2 Underwriting performance

The table below summarises the premium volume and underwriting performance in 2022 and 2021, split by Solvency II line of business. The table shows the performance net of reinsurance including the whole account quota share.

	2022			2021		
	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio
Motor vehicle liability	217	125	93%	224	145	106%
Other motor	62	35	94%	64	41	106%
Fire and other damage to property	130	76	128%	126	46	119%
Assistance	1	-	71%	1	-	116%
Legal Expenses	-	-	74%	-	-	123%
General liability	1	1	128%	1	-	119%
Total	411	237	104%	416	232	109%

The combined operating ratio has been calculated as (Net claims incurred + Expenses incurred) ÷ Net earned premiums.

A. Business and Performance continued

The Company has a history of reinsurance contracts that affect business written in prior years. HICO entered into an LPT and QS agreements with Swiss Re for years 2015 and prior and 2016 – 2018 respectively. The cession was 20%. In addition, HICO entered in to a QS with an Allianz SE reinsurance company, Allianz Re, for the years 2019 and 2020 again with a 20% cession. All contracts were on a Funds Transferred basis. In December 2022 these contracts were commuted and replaced with an LPT ("Loss Portfolio Transfer") agreement covering reserves for 2020 and prior. The cession was increased to 40% and is on a Funds Withheld basis.

The Company has a quota share arrangement with Allianz Re which means for 2023 a set percentage of premiums and claims are shared with Allianz Re. This provides capital relief to the Company. The Company will cede 40% of insurance risks to Allianz Re on an accident year basis for 2023. In 2023, the ceding commission has changed to 28.6% of the Company's net earned premium ("NEP"). The quota share arrangement results in a reduction to the capital requirement.

Since the Company's performance is managed prior to the application of the reinsurance quota share arrangement, and to facilitate comparisons with the prior year, the following commentary on underwriting performance quotes numbers before quota share. The commentary has also been written based on the Company's local lines of business as this is how its performance is managed. As part of Solvency II regulation, separate Solvency II lines of business have been defined, where appropriate these are also referenced in brackets.

Market conditions have remained very competitive and economic conditions have continued to pose challenge, in particular the heightened inflationary environment with latest expectations that inflation will remain high until the end of 2023. As a result, significant rate increases have been implemented leading to a reduction in policies held of 3.8% resulting in written premium 1.1% lower than 2021. Motor (Solvency II lines of business: motor vehicle liability, other motor and Assistance) premiums were lower than 2021 despite significant rate increases applied. Within Home (Solvency II lines of business: Fire and other damage to property), premiums were slightly higher than 2021 however policies in force were lower than 2021 as a result of the rate increases. Throughout 2022, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing long term profitable growth.

The Company's underwriting result increased during 2022, with the combined ratio improving from 109% to 104%. The heightened inflationary environment posed a significant challenge in 2022, in particular Motor experienced a multitude of challenges including rising repair costs, labour shortages and supply chain challenges. Motor claims frequency also increased, mainly in the first half of the year as drivers returned to the road following the final COVID-19 lockdown, however remained below pre-pandemic levels. Within Home, the February storms, subsidence claims from prolonged dry weather in the summer and the freezing weather in December meant that number of claims reported were higher than anticipated.

HICO has maintained strong cost disciplines through controlling acquisition costs and operating expenses. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy.

A. Business and Performance continued

A.3 Investment performance

The table below summarises the investment performance during 2022 of the funds directly invested by the Company and provides a comparison with the prior year.

(£m)	Carrying value 31/12/2020	Net additions /(disposals)	Net unrealised gains /(losses)	Carrying value 31/12/2021	Net additions /(disposals)	Net unrealised gains /(losses)	Carrying value 31/12/2022	2022			2021		
								Net realised gains /write downs	Income	Expense	Net realised gains /write downs	Income	Expense
Fixed Income	**682**	**27**	**(19)**	**690**	**36**	**(72)**	**654**	**-**	**9**	**(1)**	**(1)**	**6**	**(1)**
Government	208	73	(8)	273	(6)	(26)	241	-	2	(1)	-	1	(1)
Securitised	12	4	-	16	5	(3)	18	-	-	-	-	-	-
Corporates	462	(50)	(11)	401	37	(43)	395	-	7	-	(1)	5	-
Collective Investment Undertakings	**37**	**(33)**	**(4)**	-	-	-	-	-		-	-	-	-
Loans	**29**	**11**	**-**	**40**	**10**	**-**	**50**	**-**	**-**	**-**	-	-	**-**
Total	**748**	**5**	**(23)**	**730**	**46**	**(72)**	**704**	**-**	**9**	**(1)**	**(1)**	**6**	**(1)**

The table above shows the investments held directly by the Company.

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 Company invests insurance assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the business model, nature and duration of its insurance liabilities.

Government bonds include investment in government related issuers. Covered bonds in the portfolio are classified under corporates. The allocation to high quality, corporate bonds remained overweight in order to enhance yield. The Company continues to use the expert investment management facilities available within the wider Allianz SE Group, particularly in managing the fixed interest portfolio.

Investment income in 2022 was £9m compared with £6m in 2021. Income increased over the year due to rising reinvestment yields and higher income from floating rate assets. Unrealised losses increased over the year due to rising yields and widening spreads. Investment expenses remained flat compared with the previous year.

A.4 Performance of other activities

In 2022, the Company incurred £83m (2021: £78m) other expenses in management charges from a fellow Group undertaking for administrative and claims management services.

A. Business and Performance continued

A.5 Any other information

During the year, the Company invested in restructuring and integration activity with related costs reported within other expenses. These costs amounted to £9.6m (2021: £14.4m) and included costs of redundancy, building of new products, and setting up new processes in relation to the continued integration of the Fairmead business as well as ongoing alignment of HICO processes and technologies to those of the Group.

The SCR ratio as at 31 December 2022 is 140% (2021: 126%).

During 2022, the UK economy has experienced great uncertainty and turmoil not only due to geo-political and macro-economic conditions caused by the Ukraine conflict, but also due to the domestic political uncertainty which saw 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 the event in Ukraine on claims' supply chains and inflation for our core Motor portfolio. As of today, we believe these are within our normal trading parameters, however, long term effects are uncertain and dependent on the duration of the disruption.

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. 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) and another money market fund.

The wider macro-economic impacts including those arising from sanctions include further upward pressure on inflation, particularly driven by rising energy costs, increasing the pressure on our customers and increasing the cost of our claim's 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.

Management are taking particular care with our people, ensuring that communications are focused on wellbeing and providing additional support to colleagues who are personally impacted by the conflict.

B. System of Governance

This section is unaudited.

B.1 General information on the system of governance

Boards and Committees

The Company leverages the governance structure of the Group. The Boards of the Company, Allianz Holdings plc and other key regulated entities and holding companies within the Group (together 'Boards') have the same Directors. Board meetings for all of these entities are held together, with each company discussing matters relevant to it and the Directors considering matters from the perspective of each relevant Company for each item on the agenda.

On 31 December 2022, the Board of the Company comprised six independent non-executive Directors, including an independent non-executive Chair, one shareholder nominated non-executive Director and four executive Directors.

During the year, the Board was strengthened by the appointment of Teresa Robson-Capps on 13 April 2022 and Jose Vazquez on 1 June 2022 as independent non-executive Directors, whilst Rosanne Murison stepped down from her role as a non-executive Director on 25 September 2022.

The executive Directors include the Group Chief Executive Officer ("CEO") (Colm Holmes), the Allianz Personal ("AzP") and Allianz Commercial ("AzC") CEOs (Stephen Treloar and Simon McGinn respectively) as well as the Group Chief Financial Officer ("CFO") (Fernley Dyson). Colm Holmes and Simon McGinn were appointed during the year on 22 February 2022. The role of the Chair (being the Chair of the Board of AZH as well as the Company and the role of Group CEO) and the Allianz Commercial and Personal CEOs, are separate and clearly defined.

The Allianz Holdings plc Board is responsible for deciding the business strategy and for ultimate oversight of the conduct and performance of the Group as a whole. It is also responsible for the external reporting of the Group.

The Board of the Company considers the Group strategy and develops the strategy of the Company, monitors its performance and has oversight of the conduct of the Company. The Board of the Company considers the external reporting of the Company.

The Allianz Holdings plc Board has established a number of committees and a system of internal control to ensure the efficient and effective operation of the Group's businesses. The committees include the Allianz Holdings plc Executive Committee, the Audit Committee, the Risk Committee, the Customer & Conduct Committee, the Compensation & Nomination Committee and the Finance & Investment Committee. All of these committees (save for the Allianz Holding plc Executive Committee and the Finance & Investment Committee) are chaired by a non-executive Director who provides constructive challenge and oversight across the work carried out by those committees. The Finance & Investment Committee has one non-executive Director member and is chaired by the CEO of Allianz Holdings plc. The Committees are responsible for oversight of their subject matter on behalf of the Company and other subsidiaries in the Group. Rolling forward agendas are reviewed at quarterly committee meetings and updated as required, to ensure members have an advanced view of the key matters for consideration throughout the year. The Company's Board is satisfied that the governance structure is appropriate and that the Committees effectively consider matters on behalf of the Company.

B. System of Governance continued

The Board regularly reviews its effectiveness and during 2022, the Board undertook a review of Board governance effectiveness (the "Review"), led by the Chair of the Board in conjunction with the Chief Legal Officer and Company Secretary. An independent third party was also engaged to assist with carrying out the effectiveness surveys and collating the findings. The Review covered Board and committee effectiveness in all respects. The methodology used included a director skills assessment, director behavioural feedback and the effectiveness survey. The Review concluded that there was an overall improvement in the effectiveness of the Board and its Committees relative to the outcomes from the 2021 review.

The legal Directors of the Company's Board as at 31 December 2022 are detailed below, as well as their memberships of the Allianz Holdings plc Board Committees. Rosanne Murison was not a director at the end of 2022 but has been included to illustrate her committee memberships for part of the reporting period.

		AZH Executive Committee	Risk Committee	Audit Committee	Finance & Investment Committee	Compensation & Nomination Committee	Customer & Conduct Committee
Paul Evans	Non-Executive Director - Chair		x	x		x	x
Christian Dinesen	Non-Executive Director		x	Chair		x	
Denise Larnder	Non-Executive Director		Chair	x			x
Rosanne Murison [1]	Non-Executive Director		x	x		Chair	Chair
Teresa Robson-Capps [2]	Non-Executive Director		x	x			Chair[3]
Andrew Torrance	Non-Executive Director		x	x	x	Chair[3]	x
Christopher Townsend	Non-Executive Director						
Jose Vazquez [4]	Non-Executive Director		x	x			x
Fernley Dyson	Chief Financial Officer, AZH	x			x		
Colm Holmes [5]	Chief Executive Officer, AZH	Chair			Chair		x
Simon McGinn [5]	Chief Executive Officer, AzC	x			x		x
Stephen Treloar	Chief Executive Officer, AzP	x			x		x

1 – Resigned from all roles with effect from 25 September 2022

2 – Appointed to all roles with effect from 13 April 2022

3 – Appointed as a Chair with effect from 17 September 2022. Rosanne Murison was Chair before that date

4 – Appointed to all roles with effect from 1 June 2022

5 – Appointed as a Director with effect from 22 February 2022

Potential conflicts of interest between the Company, its policyholders and other companies in the Group are regularly identified and managed. The processes in place to manage those conflicts include documented requirements for governance and appropriate independence. The Company's Board maintains and regularly reviews a register of the interests of the Directors.

The Customer & Conduct Committee is responsible for oversight of material customer and conduct matters both current and emerging, including reviewing matters from a customer impact perspective. The Committee is responsible for highlighting such matters that may require attention by the Company's Board, the Board of Allianz Holdings plc or by the Allianz SE Group. Membership of the Committee during the year comprised an independent non-executive director who acted as Chair, at least three other members who were independent non-executive Directors and one of whom was the Risk Committee Chair. In addition, the executive members of the Committee comprised the CEO of Allianz Holdings plc, the CEO of Allianz Personal and the CEO of Allianz Commercial.

B. System of Governance continued

The Risk Committee is responsible for oversight of risks (current and emerging), the links between different risks, the Enterprise Risk Management Framework within which the Company manages those risks, and the activities of the Risk function. The Committee is also responsible for highlighting any risk issues that may require attention by the Company's Board, the Board of Allianz Holdings plc or Allianz SE Group. Membership of the Committee comprises an independent non-executive director who acts as chair and at least three other independent non-executive Directors.

The Audit Committee is responsible for the oversight of policies and procedures relating to internal control and financial/regulatory reporting, to ensure the independence and effectiveness of internal and external audit functions and the integrity of financial and narrative statements for the Company. The Committee is responsible for highlighting such matters that may require attention by the Company's Board, the Board of Allianz Holdings plc or by the Allianz SE Group. Membership of the Committee comprises an independent non-executive Director, who acts as chair, and at least two other members who must be independent non-executive Directors.

The Compensation & Nomination Committee is responsible for oversight of all compensation and nomination matters relating to executives and employees of the Company and the Group. The Committee's responsibilities include the designing, governance and operation of the Group's compensation system; identifying local risk takers and to control their compensation according to applicable regulations; reviewing the size, structure, and composition of the Board; identifying non-executive Director candidates when vacancies arise; reviewing the leadership needs of the organisation; and reviewing gender pay gaps and diversity and inclusion matters. The Committee is responsible for highlighting matters that may require attention by the Company's Board, the Allianz Holdings plc Board or Allianz SE Group. Membership of the Committee comprises an independent non-executive Director who acts as Chair and at least two other members who must be independent non-executive Directors.

No senior management appointment is made without the applicant undertaking a comprehensive assessment to determine the level of his or her management skills. The Committee also reviews any Board performance evaluation process and recommendations.

The Finance and Investment Committee has responsibility for oversight and management of the investment portfolios of the Group (including the Company's portfolio) and for overseeing their investment-related risks. The Committee also has responsibilities concerning, and reports by exception on, investment risk matters to the Board Risk Committee. In addition to its investment portfolio responsibilities, the Committee's objectives include overseeing the planning and development of the Group asset allocation and investment income, overseeing the Group capital structure and liquidity position, and approving individual investment transactions with significant impact for companies within the Group. Membership of the Committee comprises the Group CEO as Chair, the Group Chief Financial Officer ("CFO") who acts as Deputy Chair, the Group Chief Investment Officer ("CIO") and the Regional CIO of Allianz Investment Management SE, an independent non-executive Director of the Company, the CEO of Allianz Personal (previously CEO of LVGIG), the CEO of Allianz Commercial and the Deputy CFO of the Group.

There is also an Executive Committee of Allianz Holdings plc, which is required to meet at least 10 times a year but met at bi-weekly intervals most months during the year. The Committee monitors and oversees the implementation of business performance against strategy, compliance and risk management and discusses developing issues and to make material operational decisions.

The members of the Allianz Holdings Executive Committee as at 31 December 2022 were:

- CEO, AZH, who will be the chair ("the Chair")
- CFO, AZH
- CEO, AzC
- CEO, AzP
- Chief HR Officer, AZH
- Chief Operations Officer, AZH
- CRO, AZH

The CEOs of Allianz Commercial and Allianz Personal also have a respective Executive Committee, consisting of the senior leadership of each distinct business.

B. System of Governance continued

Defined Roles and Responsibilities

The following four key functions required by Solvency II are each headed by the following individuals:

- Risk Function: John Berry – Chief Risk Officer, AZH
- Compliance Function: Alison Rayner - Chief Compliance and Corporate Affairs Officer, AZH (Margo Young – Chief Compliance Officer, AZH up to 14 February 2023)
- Actuarial Function: Laurence Townley – Chief Actuarial Officer, AZH (Phil Singh – Chief Actuarial Officer, AZH up to 31 December 2022)
- Internal Audit Function: Matthew Cox – Chief Audit Officer, AZH

Key function authority, operational independence and resources are described in sections B.3 – B.6 of this report. All members of the Company's Board and Allianz Holdings Executive Committee, the heads of the four key functions and certain other senior managers have been approved by the PRA and/or the FCA.

The Senior Managers and Certification Regime ("SMCR") sets out the prescribed responsibilities which must be allocated to specific individuals in insurance companies. The following table sets out which role within the Company is responsible for the execution of each specific responsibility.

Prescribed Responsibility	Allocation
Senior Managers Regime	SMF1 Chief Executive
Certification Regime	SMF1 Chief Executive
Conduct rules training and reporting	SMF1 Chief Executive
Responsibilities map	SMF2 CFO
Anti-financial crime policies and controls	SMF1 Chief Executive
Obligations in Insurance for Fitness and Propriety	SMF9 Chair
Leading development of the firm's culture by the governing body as a whole	SMF9 Chair
Overseeing adoption of the firm's culture in the day-to-day management of the firm	SMF1 Chief Executive
Responsibility for production and integrity of firm's financial information and its regulatory reporting	SMF2 CFO
Management of the allocation and maintenance of the firm's a) capital and b) liquidity	SMF2 CFO
Responsibility for the performance of the firm's ORSA	SMF4 CRO
Induction, training and professional development of all members of the firm's governing body	SMF9 Chair
Induction, training and professional development of all the firm's SMF managers and Key Function Holders	SMF1 Chief Executive

Oversight of the independence, autonomy and effectiveness of Whistleblowing policies and procedures	SMF11 Chair of Audit Committee
Development and implementation of remuneration policies and practices	SMF12 Chair of Remuneration Committee
Obligations in respect of outsourced operational functions and activities	SMF1 Chief Executive
Development and maintenance of the firm's business model by the governing body	SMF1 Chief Executive

Solvency II legislation requires that the System of Governance be subject to regular internal review. The Group, including the Company, conducts this review annually and it is intended to be a consolidated cross-functional assessment of elements of the System of Governance through all relevant sources for evaluation. Entity level control assessment testing forms part of the review, and is carried out by the Internal Audit department. Adequacy assessment of certain System of Governance elements, as selected by the Allianz SE Group, are also reviewed. There were three material observations in the 2022 System of Governance review that are relevant to report back to Allianz SE Group:

1) CBEST – Addressing actions from red team exercises and ensuring closure of the RMP from the regulator;
2) Information and Document Management (ASIDM) - Implementing compliance with the Allianz Standard for Information and Document Management;
3) Business performance monitoring and forecasting – Implementing the recommendations of the risk review to improve the effectiveness of the forecasting process;

The requirement to conduct the System of Governance review is reflected in the Allianz SE Group Governance and Control Policy, and mirrored in the Allianz Holdings plc Governance and Control Policy. The System of Governance review is assessed by the Governance and Control Committee, which is a sub-committee of the Allianz Holdings plc Executive Committee and was assessed for 2022 as being adequate in proportion to the nature, scale and complexity of the risks inherent in the business. The System of Governance review was also reviewed by the Board Risk Committee and Allianz Holdings plc Board, ahead of a Statement of Accountability Attestation being completed by Colm Holmes and Fernley Dyson and returned to Allianz SE Group.

The Company remuneration framework has been constructed to ensure that it is competitive and provides a balance of both fixed and variable pay but does not encourage excessive risk taking. The framework and the processes within it are reviewed by the Compensation and Nomination Committee. The review also monitors the remuneration framework's consistency with the Company's identified risk appetite.

The Compensation and Nomination Committee is responsible for the sign off of all remuneration decisions affecting the senior executive managers of the Company. This ensures impartiality of decision-making and ensures there are no conflicts of interest in respect of remuneration decisions and is guided by Group principles and requirements.

The remuneration of all employees comprises a combination of basic salary, appropriate benefits and a performance related bonus. In the case of some senior employees, the bonus is paid as a combination of cash and long-term equity incentives whose value is related to the price of Allianz SE shares. The performance related bonus is based upon a combination of company performance against targets and personal performance against specific personal objectives. Personal objectives comprise both business and behavioural components which receive equal emphasis. The most senior managers complete a 360-degree feedback process to contribute to their assessment. There is also a standard compliance objective. It is the responsibility of managers to ensure that personal targets in place are objective and understood by the participants.

External non-executive directors receive fixed remuneration.

In this context "persons who exercise significant influence" are deemed equivalent to "People with Significant Control" as defined by the Companies Act 2006, together with the people with significant control over those people and so on to the ultimate group shareholder.

B. System of Governance continued

B.2 Fit and proper

The Company requires that all Directors and other senior managers possess integrity, good repute, specific skills, knowledge and the experience necessary to execute their respective roles. This requirement has been aligned to satisfy the requirements of the PRA and/or FCA within the UK regulatory SMCR, including all managers identified as Key Function Holders and/or Key Function Performers. The individuals, with the support of their line managers, are responsible for ensuring that their skills, knowledge and experience remain adequate and are kept up to date.

Processes are undertaken to assess the fitness and propriety of individual managers and directors subject to the SMCR prior to those persons joining the Company or assuming a relevant position. Thereafter, annually throughout their employment, a detailed attestation is required from the relevant individual. This includes declarations concerning:

- Criminal proceedings or investigations against them or any firm over which they have held influence;
- Civil proceedings and bankruptcy orders or liquidation or similar proceedings against them or any firm over which they have held influence;
- Disciplinary proceedings or findings against them;
- Regulatory proceedings or findings against them or any firm over which they have held influence;
- Compliance with procedures concerning personal account dealings in Allianz SE and other securities; and
- Potential or actual conflicts of interest.

B.3 Enterprise Risk Management Framework including Own Risk & Solvency Assessment

Enterprise Risk Management Framework

The design and operation of the Enterprise Risk Management Framework is the responsibility of the Chief Risk Officer. The Enterprise Risk Management Framework encompasses all levels of the Company's management. The components of the framework, described below, are embedded in the operations of the organisation.

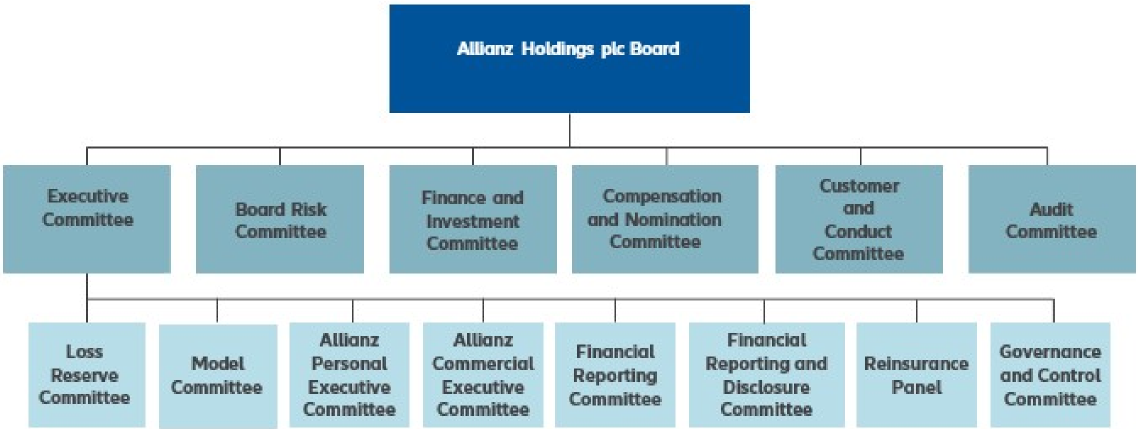
The system is built around the Three Lines of Defence model:

- The first-line of defence comprises risk taking units which are responsible for delivering profit or loss
- The second-line comprises independent risk controlling units, including Risk and Compliance, which oversee the framework in which the business works
- The third-line of defence is the Internal Audit function, which reviews the activities of both first and second lines of defence

The Board of Directors and Executive Committee are responsible for setting the firm's strategy and risk appetite, with the support and challenge of the Risk function.

B. System of Governance continued

A comprehensive committee structure is in place to ensure that risks are considered at the appropriate level. The diagram below gives further details of the Board Committees.



The Board identifies and prioritises all the material risks facing its business, supported by the Executive Committee, the Board Risk Committee and the Risk function. After identifying the risks, the Executive Committee ensures arrangements are put in place to control those risks, along with the respective Executive Committees for Allianz Personal and Allianz Commercial. Risk and control policies are documented.

To ensure risk management is fully integrated into the business and effective control is maintained, key risks and controls are owned by members of the Executive Committee and the respective Commercial and Personal Executive Committees. Members of the Executive Committee and their direct reports take first-line accountability for the identification and management of all risks in the organisation.

The main risks are kept under regular review by the Board via reports from the Risk function to the Board Risk Committee. The Executive Committee is supported in its oversight of risk by a number of sub-committees including the Executive Committees for Allianz Commercial and Allianz Personal.

The role and responsibilities of the CRO, the Executive Committee, and its sub committees, are laid down in the relevant job description or terms of reference.

The CRO is supported by a full-time Risk function consisting of risk and actuarial professionals. It has responsibility for the calculation of risk capital, the development and monitoring of the implementation of risk policies, the identification and monitoring of risks, including conduct risk, and the management testing of the key controls that mitigate risk.

The Risk function has a reporting line independent of first-line functions, and independence is prescribed by written policy and overseen by the Board Risk Committee.

In order to ensure comprehensive coverage of the risk landscape, risk analysis is undertaken within a local risk taxonomy (more details in section C) which is split into three broad groups of risk types:

1) Quantified: Market, Credit, Insurance and Operational
2) Unquantified: Reputational, Liquidity and Strategic
3) Cross-risks: Aggregation and accumulation, Conduct, Group and Emerging

Modelled risks are quantified using the Standard Formula and recalculated in a full model run each quarter. Risk tolerance limits are used to monitor quantifiable risks regularly. A number of qualitative risk assessment processes covering all risks are undertaken by the first-line of defence, with support, challenge and oversight from the Risk function. The results of these assessments are used to inform key business decisions and planning.

B. System of Governance continued

ORSA PROCESS

The ORSA process forms a substantial part of the Enterprise Risk Management Framework described above. The ORSA consists of a number of interlinked sub-processes, including but not limited to:

- Top risk assessments
- Internal Risk and Control System
- Stress and scenario testing
- Internal capital modelling
- Corporate strategy and planning

The Board is responsible for setting the business strategy and risk appetite. Business strategy is determined by the Board and its implementation in terms of types of business, business volumes, capital requirements, financial performance and other appropriate measures, is set out in the business plan. The business plan is prepared annually and outlines the goals in support of corporate strategy to be implemented by the Executive Committee and supporting Executive Committees throughout the business.

The risk strategy and appetite are agreed by the Board with reference to the latest versions of the Allianz SE Group Risk Strategy and Risk Appetite. These include specific principles around capital management which give the Board comfort that the Company can rely on its ultimate parent for support. The Company manages risk in line with the stated risk appetite through its Enterprise Risk Management framework. This consists of ORSA processes which identify, evaluate, treat, mitigate and monitor events or combination of events, so that through an informed decision making process the likelihood and consequences of occurrence are within limits considered acceptable by the Board.

The ORSA covers the overall solvency needs from a forward-looking perspective taking into account the Company risk profile, approved risk tolerance limits, the business strategy and the significance with which the Company risk profile deviates from the assumptions underlying the Standard Formula. The ORSA is an integral part of the development and monitoring of the business strategy and is taken into account on an ongoing basis in strategic decisions. The roles and responsibilities relating to the ORSA include the Board setting the process requirements and challenging and approving the ORSA report.

The ORSA report is produced annually in alignment with the corporate planning process, and is supported by quarterly updates to the Board Risk Committee. The ORSA may also be updated following any event that materially changes the risk profile of the organisation.

A full non-regular ORSA process may be required after any event that could substantially alter the overall conclusions of the most recent (regular annual) ORSA report. The following potential trigger events have been identified:

- Large UK-based natural catastrophe events that have a significant impact on the Company risk portfolios
- Major change in business situation e.g. merger, acquisition or divestiture activity which would require the Company to assess the impact on its current and projected solvency
- Significant capital market dislocation that has a material impact on the Company investment portfolios
- Material regulatory intervention
- Significant changes to the risk capital model
- Significant changes to reinsurance arrangements
- Significant changes in regulation or legislation, e.g. material changes to capital requirements
- Materialisation of a significant non-quantified risk (e.g. strategic, reputational or liquidity risk)

In 2022, a comprehensive analysis of the potential impact of different economic scenarios has been regularly performed. The impact of inflation and global geo-political conflicts has also been considered as part of the regular ORSA process, with the Risk function being involved across the business in evaluating emerging risks.

The ORSA process is underpinned by individual accountabilities and processes undertaken by first-line managers across the organisation. These include but are not limited to defined authority levels for claim handling and underwriting, and limits on investment risk-taking.

B. System of Governance continued

The major sub-processes which contribute to the ORSA process are:

- The setting of risk strategy and appetite by the Board, on the advice of the Board Risk Committee and CRO
- The development of strategy and a business plan by the Executive Committees within the defined risk appetite
- The approval of policies and standards in the management of risk by appropriate governance bodies and the monitoring of compliance with those policies and standards by the Risk function
- A number of Risk evaluation processes, including:
    - The maintenance of a top risk register, including a record of the controls around those risks
    - The regular analysis of the impact of specific stress scenarios
    - The maintenance of a register of key operational risks
- Regular internal reporting on risk exposure and control to governance bodies inside the organisation
- Regular external reporting to regulators and to the public, as required by Solvency II and UK regulation

The Company uses the Standard Formula to determine its solvency needs (refer to section C). The Standard Formula is used as the primary input for decisions on capital management (refer to section E). The CFO ensures that recommendations to the Board on capital management take account of risk management activities. The Company's policy on capital management is documented and approved by the Board.

Dividends are planned through the Company's annual planning mechanisms, taking into account the Board's requirement to hold an appropriate buffer of capital over SCR and MCR.

B.4 Internal control system

To ensure an effective internal control system, all functions cooperate to exchange necessary information and advice. Second and third-line functions maintain open lines of communication with first-line functions, and regularly attend key committees at all levels.

With specific regard to the integrity of financial reporting, the Risk function oversees the operation of a process of internal control via the Integrated Risk and Control System ("IRCS"). Under IRCS, processes relevant for financial reporting are tested by first-line management and discussed with the Risk function. Internal Audit tests the operating effectiveness of entity level controls. Senior managers across the organisation, culminating in the CFO and the CEO, are held accountable for the effective design and performance of processes within their span of control. The IRCS process, including the reporting of deficiencies and their remediation, is monitored by the Audit Committee.

Compliance Function

Compliance is a key function within the Internal Control System. The function's primary responsibilities and activities are:

- To support and monitor compliance with applicable law, regulations and administrative provisions to protect the Company against compliance and conduct risks
- To advise senior management, committees and the Board on compliance with laws, regulations and administrative provisions adopted pursuant to the Solvency II Directive

The activities and processes of the compliance function are not exclusively performed by the Compliance Department but may be delegated to, or supported by, other departments, business areas, Internal Audit, Risk, and Actuarial, or external resources.

B. System of Governance continued

The Compliance Department comprises a full-time team of compliance professionals led by the Chief Compliance Officer. It is a second-line function reporting into the CRO, but with dotted lines to the Board Risk Committee and Group Chief Compliance Officer for Allianz SE Group; independence of the function is ensured by written policy and by the oversight of the Board Risk Committee. The Compliance Department produces an annual plan in consultation with the Risk and Internal Audit functions for approval by the AZH Executive Committee and the AZH Board Risk Committee. Delivery of this plan, findings from monitoring exercises and remediation of those findings are overseen by the AZH Executive Committee and the AZH Board Risk Committee.

B.5 Internal audit

The Internal Audit function exists to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. Internal Audit helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. Internal Audit has a Policy and Charter, approved annually by the Allianz Holdings plc Audit Committee to document its mission, scope, independence, accountabilities, responsibilities, authorities and standards. The Chief Audit Officer reports functionally to the Chair of the Allianz Holdings plc Audit Committee and administratively (i.e. day-to-day operations) to the Allianz Holdings plc Chief Executive Officer. The Chief Audit Officer has unrestricted access to, and communicates and interacts directly with, the AZH Executive Committee and Allianz Holdings plc Audit Committee, including in private meetings without management present. The Chief Audit Officer does not have any additional roles or responsibilities outside of internal auditing and all internal audit personnel report directly to the Chief Audit Officer.

Internal Audit prepares, at least annually, a risk-based internal audit plan to the Audit Committee for review and approval. Senior management and second-line assurance functions are consulted during the preparation of the plan. Over the five year planning cycle, all applicable audit universe components and legal entities are expected to be audited, with exceptions identified to Allianz Holdings plc Audit Committee for ratification.

The plan is reviewed and adjusted, as necessary, in response to changes in the Group's business, risks, operations, programmes, systems, and controls. Plan performance, including the results of audits, completion of open audit findings and any significant interim changes to the internal audit plan, are regularly communicated to senior management and the Allianz Holdings plc Audit Committee.

B.6 Actuarial function

Solvency II requires that each company has an Actuarial function to:

- Coordinate the calculation and validation of technical items under IFRS and Solvency II, including technical provisions calculations
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience
- Inform the Board of the reliability and adequacy of the calculation of technical provisions;
- Express an opinion on the overall underwriting policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to the effective implementation of the risk- management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements
- Prepare an annual report on the actuarial function (Actuarial Function Report)
- Report the results of the reserve valuations to the Board and Group via the Audit Committee

The Actuarial function is independent of pricing and underwriting decisions and this independence is supported by an actuarial policy. It recommends the level of technical provisions to the Financial Reporting and Disclosure Committee. The work of the Actuarial function, and its independence, is overseen on behalf of the Board by the Audit Committee.

The Actuarial function consists of the Chief Actuary who is supported by a team of actuarial professionals with a depth of experience. The Chief Actuary holds an appropriate Institute & Faculty of Actuaries Chief Actuary Practising Certificate and is the SMF20 Chief Actuary Function Holder. The Actuarial function's compliance with the above requirements is documented in an Actuarial Function Report.

B. System of Governance continued

B.7 Outsourcing policy

All outsourcing arrangements are entered into and managed in accordance with the requirements of the Allianz UK Outsourcing Policy ("The Policy"). The Policy is owned by the Head of Procurement and is approved by the Allianz Holdings plc Board on an annual basis (approved November 2022). The UK Policy is aligned to the Allianz Group Outsourcing Policy.

The Policy sets out a clear framework for deciding on when to outsource, the requirements to contract with a service provider and the management of the outsourcing arrangement. Compliance with The Policy is overseen by the local outsourcing function, who, with the Procurement team, also provide expert advice on setting up, managing and terminating outsourcing and other contracts. Suppliers are risk-assessed by Procurement at the point of initial engagement, and at intervals throughout the lifetime of the contract, drawing advice from safeguarding functions as and where required. Risks considered include (but are not limited to) cyber risk, information security risk, business continuity risk and data privacy risk. Critical or important function suppliers are managed closely ensuring that the appropriate monitoring and oversight is in place for these suppliers.

All requirements set out in the Policy also apply to Group Internal Outsourcing. If a Group Internal Outsourcing is followed by an external Sub-Outsourcing, compliance of the Sub-Outsourcing with the requirements set out in the Policy needs to be ascertained and the Outsourcing itself has to be classified as external Outsourcing.

In 2022, the approach to oversight included the following controls;

- All outsourcing arrangements must have a signed contract incorporating standard terms and conditions or necessary risk assessed and negotiated terms
- Financial health monitoring using an industry automated alerting system
- Monitoring of third-party directors against the HMRC Sanctions list
- Where information is shared with third parties a series of questionnaires (relating to cyber risk, information security and data protection) are sent to each supplier prior to the commencement of their service and subsequently the risks assessed against appetite
- Privacy impact assessment used to inform data protection
- On an annual basis a review is completed on each critical or important supplier. It reviews third parties' internal controls as well as completion of activities relating to relationship management and oversight. This includes, but not limited to, details relating to Policy Compliance, Exit Planning, Business Continuity Planning, Supplier Capability, Performance Reviews, Conduct Risk etc. Summaries of information are provided to safeguarding functions and Business Owners for sign off prior to being submitted to Exco for review
- Creation of supplier service specific business continuity and exit plans including provisions for management of cyber risk events– agreed and signed off by business owners

B. System of Governance continued

The table below outlines the critical or important functions or activities that at the end of 2022 HICO outsourced, and the jurisdiction in which the service providers are located:

Activity outsourced	Fellow member of the Allianz SE Group	Outsourcing Provider's Jurisdiction
Delegated authority to handle specific claims and/or underwriting of specific segments	Y N	France/ United Kingdom United Kingdom
Provision of document preparation, printing and distribution	N	United Kingdom
IT services including hosting, development and support of business services	N N	United Kingdom Latvia
Information technology infrastructure provision	Y	Germany
Asset and Real Estate Management	Y N	United Kingdom United Kingdom
Pension Advisory services	N	United Kingdom
Management Services, including provision of staff	Y	United Kingdom

The Company does not outsource outside the Group any of the four key functions – Risk, Compliance, Actuarial and Internal Audit – as defined by Solvency II - apart from an element of the pensions actuarial work via a third party. The remaining key functions are all provided as management services and are outsourced to a fellow subsidiary of the Group.

B.8 Additional information

The Group continuously monitors the effectiveness and adequacy of its System of Governance, including the effectiveness of specific functions, and believes them to be operating effectively. This assessment takes into account the nature, scale and complexity of the risks inherent in its business.

Throughout 2022, inflation has brought material uncertainty to current and future performance, driven by supply chain issues and materials shortages, rising energy costs, claims inflation costs and increased general expenses. The cost of living continues to be challenging for UK households, with inflation reaching the highest in 41 years. This challenge is likely to extend into the medium term with the heightened risk of the UK entering a recession in 2023. The Group will continue to react accordingly to the macro-economic situation.

The Risk function is responsible, among other things, for assessing risks and monitoring risk capital. This also includes the ongoing assessment of risks resulting from global geo-political conflicts and high inflation rates. Financial impacts of potential adverse events on the Company's solvency position have been assessed and closely monitored by a quarterly stress and scenario analysis, reported in the Company's ORSA.

C. Risk Profile

This section is unaudited.

This section provides information on the Company's overall risk profile followed by a description of each risk category in detail.

Measurement of Risk Exposures

Risk is measured and steered using a number of quantitative and qualitative tools which allows management to identify the key areas of risk exposure and make informed decisions as to whether the current levels of exposure are consistent with risk appetite:

- The main quantitative tool is the Solvency II Standard Formula, under which the Company derives its risk capital from potential adverse developments of Own Funds. The resulting profile provides an overview of how risks are distributed over different risk categories and determines the regulatory capital requirements in accordance with Solvency II

- An analysis of change is performed on the regulatory capital requirements on a quarterly basis, looking at individual risks as well as the whole SCR

- Capital and Own Funds are monitored on a regular basis and the results are reported to Senior Management

- Stress testing and sensitivity analysis for all material risks and events is performed quarterly for the Own Risk and Solvency Assessment and business planning exercises. Information on the Company's risk sensitivities, including a description of methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks is provided in section C.7

- The Company uses a combination of processes, such as expert judgement and incident management, to identify, assess and control qualitative risks. Qualitative risks are regularly monitored by management to ensure that they do not materially impact on the operational activities necessary for the achievement of business plans

Risk Exposures Overview

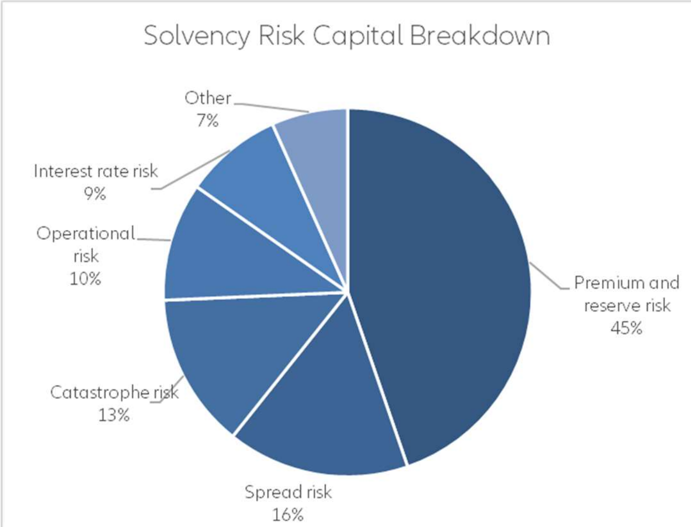
The Company insures only non-life insurance risks though it is also exposed to some life insurance risks because it settles certain claims as Periodic Payment Orders ("PPOs"). These make up a small proportion of the Company's overall claims. As a result of its asset management activities to support its primary business activities, the Company is also exposed to market and credit risks.

The Company does not use Special Purpose Vehicles to transfer risk and is not exposed to risk from positions off its balance sheet.

During 2022 there were no material changes in the methods used to assess risks. Due to the migration of exposure from Fairmead Insurance Limited over 2022, the Company has seen a slight change in its risk profile due to an increase in the size of its household insurance portfolio. In respect of the Company's SCR, the main movements are driven by reductions in premium and reserve risk capital described in section E.2.

The chart below shows the 2022 Year End split of the Standard Formula Solvency Capital Requirement by risk type, before diversification between categories. The largest exposure, 45% of the SCR, relates to premium & reserve risk followed by spread risk with 16%, catastrophe risk with 13% and operational risk with 10%.

C. Risk Profile continued



Prudent Person Principle

The Company operates within an investment framework which ensures that all assets are invested in accordance with the prudent person principle. All investment and strategic management decisions are set within Board approved risk appetite limits. The Company meets the Prudent Person Principle by employing a professional CIO, who is supported by the global and specialist expertise of Allianz Investment Management. It also invests with reference to a Strategic Asset Allocation ("SAA") which defines its long-term investment strategy for the investment portfolio as a whole. All investment guidelines are approved by the Board or a delegated authority of the Board.

C.1 Underwriting risk

In determining the price of its insurance products and when reporting the financial results relating to these products, the Company makes a number of assumptions related to the future amount and timing of payments. Underwriting risk arises from the actual outcome being different to these assumptions.

The underwriting risk consists of:

- Premium and reserve risk
- Catastrophe risk
- Lapse risk

The key underwriting risk concentration for the Company is geographical – business is written in the UK so it is exposed to UK government decisions, such as the change in the Personal Injury Discount Rate. Nevertheless, its insurance portfolio is geographically dispersed across England, Scotland, Wales and Northern Ireland in order to help reduce concentration and potential impacts from a Natural Catastrophe risk perspective, and it displays significant diversity within its product set, as illustrated by the table in section A.2. The geographical diversity of the Company risk exposure has remained fairly stable over 2022.

C. Risk Profile continued

Reinsurance purchase is the main tool used to keep underwriting exposure within risk appetite. A range of reinsurance contracts are entered into, typically annually, across different lines of business mitigate peak risks including accumulation risks:

- Excess of loss programmes to limit the impact of individual losses
- Catastrophe reinsurance, which covers total losses stemming from an event across property lines, reduces catastrophe risk
- A Whole Account Quota Share programme to reduce the total premium risk, reserve risk and catastrophe risk

The continued effectiveness of these contracts is overseen by a reinsurance panel, which is a sub-committee of the Executive Committee (ExCo).

The capital held for underwriting risk before diversification within this category or with other risk categories is £108m. More details can be found in section E.2.

Premium and reserve risk

As the Company is predominantly a motor writer, its underwriting risk capital is driven by premium and reserve risks, which under the Standard Formula are considered as a single risk category.

The Company receives premiums from its customers and provides insurance protection in return. Changes in profitability over time are measured based on combined ratios and their fluctuations. The Company faces the risk that underwriting profitability is less than expected because there are more claims than expected, or claims are higher in value than expected on average. This risk is referred to as premium risk.

The Company actively manages its premium risk. Reinsurance purchase is one of the main tools used to keep underwriting exposure within risk appetite. A range of reinsurance contracts are entered into, typically annually, across different lines of business to mitigate the losses arising from individual large losses and catastrophe events.

Furthermore, the Company holds reserves for claims resulting from past events that have not yet been settled. If the claims reserves are insufficient to cover claims to be settled in the future due to unexpected changes, losses would be incurred. Claims reserves could be under-estimated if, for example, more claims had occurred in the past than have been estimated or average amounts paid per claim to settle these are higher than expected. This risk is referred to as reserve risk.

The Company monitors the development of reserves for insurance claims on a line of business level quarterly through a reserving exercise assessing the unpaid claims reserves both gross and net of reinsurance. In addition, it conducts annual reserve uncertainty analyses based on similar methods to those used for premium risk calculations.

The undiversified risk capital for premium and reserve risk as at 31 December 2022 was £83m.

Catastrophe risk

Catastrophe Risk is defined as the risk that losses from catastrophe events differ from expected. This could be due to a divergence from expectations in either the claim frequency and/or average claim severity. The Company writes household business which is exposed to natural catastrophe events, primarily floods and windstorms. The risk of catastrophe losses is heavily mitigated by the use of a Catastrophe Excess of Loss reinsurance programme as well as the Quota Share programme.

The undiversified risk capital for catastrophe risk as at 31 December 2022 was £25m.

Lapse risk

Lapse Risk is modelled explicitly within the Standard Formula and is the risk that profitable policies lapse over the one-year time horizon. The undiversified risk capital for lapse risk as at 31 December 2022 was £0.1m and so is of limited materiality.

C. Risk Profile continued

C.2 Market risk

Market Risk arises as part of the general investment performance and impact of discounting on liabilities.

The Company assesses its market risk exposure via quantitative and qualitative processes carried out by the Investment and Risk functions, including regular dialogue between the functions and formal reporting to the Finance & Investment Committee and the Risk Committee.

The guiding principle for the Company's investment risk management, covering market risk, credit risk and liquidity risk, is the Prudent Person Principle (Article 132 of the Solvency II EU Directive). The Company only invests in assets it can properly identify, measure, monitor, manage, control, report and appropriately integrate in its solvency assessment. The table in section A.3 provides information on the investment portfolio as at 31 December 2022.

The SAA is the main mechanism used to mitigate investment risk – it covers both the target value of assets in particular asset classes and the matching of duration between the asset and liability portfolios. Compliance with the SAA is monitored by the Risk function and by the Risk Committee with support from the Finance & Investment Committee. When setting up the SAA, care is taken to ensure an adequate target level of asset quality and security (for example, ratings and collateral) together with a sustainable return, as well as sufficient liquidity.

Concentrations in any one company or industry are limited by investment policies in place.

The capital held for market risk before diversification within this category or with other risk categories is £46m. The main driver is spread risk.

The market risk capital remained broadly stable compared to last year. More details can be found in section E.2.

Interest rate risk

Movements in interest rates can cause the value of the Company's investments to move adversely relative to its technical provisions which are discounted on the Solvency II balance sheet. Exposure to this risk is mitigated substantially by undertaking asset-liability matching exercises in order to consider the liability duration when setting a target asset duration as part of the SAA. The undiversified risk capital for interest rate risk as at 31 December 2022 was £16m.

Credit spread risk

Credit spread is the difference in yield between two assets of similar maturity but different credit quality.

The Company is directly exposed to credit spread risk through its investments in fixed income assets – such as bonds. Credit spread risk is mitigated by managing the credit quality of the fixed interest portfolio by monitoring the credit ratings and large exposures in the portfolio, in conjunction with stress testing to assess the sensitivity of credit spread risk to movements in spreads.

The undiversified risk capital for spread risk as at 31 December 2022 was £30m.

C.3 Credit risk

Counterparty default risk arises from the holding of certain investment assets, reinsuring risks to third parties, and from normal trade credit such as brokers and premium finance. The risk to the Company is that a counterparty defaults on its obligations or fails to meet them in a timely manner.

The only material concentration of counterparty default risk is in respect of fellow Allianz SE Group companies. The Company's current reinsurance programme is placed with Allianz Re Dublin for all risks. In respect of reinsurance, the credit rating of Allianz Re Dublin is such that an impact on the Company would only be felt in the event of a major global shock impacting the ability of reinsurance to respond to a major localised shock, such as a 1:200 natural catastrophe in the UK.

C. Risk Profile continued

The Company uses a variety of measures to limit any excess concentrations in credit risk, such as investing in a range of assets governed by investment mandates and asset counterparty limits as well as managing counterparty risk through risk limits on exposure and concentration.

The risk capital before diversification with other risk categories allocated to credit risk amounts to £11m.

C.4 Liquidity Risk

Liquidity risk is the risk that requirements for current or future payment obligations cannot be met. Liquidity risk is not modelled within the Standard Formula SCR because capital is not an appropriate mitigant. Instead, the Company closely monitors liquidity risk on a quarterly basis through scenarios.

The nature of the Company's core business limits its exposure to liquidity risk, to the extent that it has negligible residual risk in normal circumstances.

Premiums are received well in advance of liabilities and most assets are traded in deeply liquid markets so that funds are available from the selling of these without a material discount except in the most extreme situations.

The Company monitors the liquidity position under stressed scenarios, including major claim events and extreme reductions in market liquidity, to ensure that should large amounts of liquidity be required at short notice adequate liquidity would be available. Even in the most extreme modelled situation, the Company liquidity remains that it is able to meet its ongoing liquidity requirements.

There have been no material changes in exposure to liquidity risk over the reporting period and the Company has no major concentrations which affect its liquidity risk. Any large cash transfers are managed closely by the accounting functions in conjunction with the CIO.

C.5 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, or from external factors other than financial risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The risk capital before diversification with other risk categories allocated to operational risk as at 31 December 2022 amounts to £19m.

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.

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 these standards is supported by a programme of periodic reviews.

The main operational risks identified include those related to information security, management stretch and supplier risk management; these are included in the top risk assessment reviewed by the Risk Committee.

The key mitigants around operational risk are the development and maintenance of controls to address the risks, this is documented in a risk catalogue which is reviewed annually to ensure appropriate mitigation is in place for identified risks. First-line governance forums and the Personal Risk Committee undertake monitoring of operational risks, including reviewing operational losses and key control failings on a quarterly basis. Operational risks are assessed as per the IRCS and an annual plan is produced with progress against this plan reported to the Personal Risk Committee.

Concentration of internal operational risks, insofar as it exists in relation to business continuity, compliance and outsourcing risks, is monitored and managed through second-line and first-line review and oversight. In addition, the Internal Audit department assesses the effectiveness of the internal control system through planned reviews of business activities.

C. Risk Profile continued

C.6 Other material risks

Strategic risk

Strategic risk is defined as negative effects on capital and earnings due to business policy decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the economic environment. Strategic risks are mitigated by the review of strategies and plans by the Board and Allianz SE. They are evaluated and analysed as an input to the strategy and planning process and as part of the review of corporate plans by the CEO, CFO and CRO.

Reputational risk

Reputational risk is the risk of an unexpected negative change in the Company's value as a result of a decline in the reputation of the Company in the eyes of its customers, regulators or staff. Reputational risks are mitigated by the implementation of policies on external and internal communication, and by active management of the relationships between the Company and its regulators. They are evaluated and analysed in discussions between the Risk function and the corporate communications team.

Conduct risk

Conduct risk is defined as the risk that inappropriate decisions, actions, and/or processes impact the ability to achieve fair customer outcomes. Conduct risk considerations arise for all business activities and risk categories. The Company endeavours to execute its business activities appropriately, seeking to ensure that there is no risk of significant detriment to customers, the Company itself or corporate partners as a result of inappropriate execution. The Company aims to have a culture of appropriate behaviour throughout the business. Conduct risk is mitigated by internal processes and is reinforced by thorough training and communication programmes. It is evaluated and analysed by the Risk function and the Compliance function in conjunction with the first-line.

Climate change

Climate change risk refers to climate change resulting in volatile weather patterns. These volatile weather patterns could have a material impact on Company's claims experience as extreme weather events such as flooding, droughts, storms and heat waves become more frequent and more severe. Both the physical and investment risks arising from climate change continue to be areas of focus for the Company and these are managed through our risk management framework.

C.7 Any Other Information

Risk sensitivity analysis

In order to adequately understand its risk exposures, the Company uses stress testing and sensitivity analysis for all material risks and events.

These stresses are used to identify the most material impacts to the Company and then feed into investment decisions and underwriting activities as well as areas of focus for monitoring.

It is also periodically used to perform investigations into specific real-world scenarios of relevance to the Company, across all risk types, and also to undertake regular analyses of one-factor stresses. This analysis covers both the direct impact on the balance sheet and also secondary impacts on solvency. All these analyses are reported to the Risk Committee, and are also used as input into decisions about capital requirements.

As at 31 December 2022 the Company's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) was 140%. The table below shows the results of the sensitivity analysis for one-factor stresses, covering both market and non-market risks. The results include the impact on Own Funds and the on the Company's Solvency ratio.

C. Risk Profile continued

The results represent the estimated direct quantitative impact of the stresses and do not consider future management actions that could potentially alleviate the situation. Examples of possible recovery options that the Company's management

could decide to action following a stress include changing the investment portfolio to address market or credit risk, requesting capital from Allianz SE, altering the business portfolio and changing reinsurance arrangements.

The results are reasonable given the strategy and business of the Company.

	Impact on Own Funds (£m)	Impact on Solvency ratio
Market risk		
Interest Rates: 100bps increase	(5)	(3%)
Interest Rates: 100bps decrease	4	3%
Credit Spreads: 100bps increase relative to swaps	(17)	(13%)
Credit Spreads: 100bps decrease relative to swaps	18	14%
Inflation: 100bps increase	(11)	(8%)
Inflation: 100bps decrease	9	6%
Non-market risk		
Premium risk: 1 in 5 year event	(9)	(7%)
Reserve risk: 1 in 5 year event	(20)	(14%)

Following the Russian-Ukrainian crisis, high inflation as well as prolonged post-pandemic effects, the economic environment in the UK remained uncertain in 2022. The risk profile of the Company was impacted by inflation reaching the highest in 41 years in 2022 as well as by rising interest rates, which affected both assets and liabilities of the Company and led to impacts on underwriting risk and market risk profiles of the Company. In addition to the one-factor stresses presented above, the Company performs a regular assessment of how its solvency position could be affected in a range of adverse real-world economic scenarios, as part of the quarterly risk reporting process to the Risk Committee.

D. Valuation for Solvency Purposes

The scope of this section of the report is to represent the excess of assets over liabilities of the Company.

For Solvency II valuation purposes, assets and other liabilities are valued consistently with IFRS provided that IFRS valuation methods are consistent with Article 75 of Directive 2009/138. Assets and liabilities represent the fair value amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction.

The table below shows the IFRS Statement of Financial Position of the Company as at 31 December 2022 and the key reclassifications and valuation differences between that and the balance sheet used for solvency purposes.

Assets	IFRS Balance Sheet (£m)	Reclassifications (£m)	Valuation Difference (£m)	Solvency II Balance Sheet (£m)
Deferred acquisition costs	16	–	(16)	–
Intangible assets	2	–	(2)	–
Deferred tax asset	20	–	(1)	19
Government bonds	240	1	–	241
Corporate bonds	389	6	–	395
Securitised bonds	18	–	–	18
Loans and mortgages	50	–	–	50
Reinsurance recoverables from Non-life and health similar to non-life	443	(47)	(52)	344
Reinsurance recoverables from Life excluding health and index-linked and unit-linked	–	66	–	66
Insurance and intermediaries receivables	50	(50)	–	–
Reinsurance receivables	34	(34)	–	–
Receivables (Trade, not insurance)	1	–	–	1
Cash and cash equivalents	6	–	–	6
Any other assets, not elsewhere shown	14	(8)	(2)	4
TOTAL ASSETS	1,283	(65)	(73)	1,144

Liabilities

Best Estimate – non-life	755	(58)	(66)	631
Risk Margin – non-life	–	14	–	14
Best Estimate – life	81	–	(3)	78
Risk Margin – life	–	1	–	1
Deposits from reinsurers	231	(7)	(12)	212
Reinsurance payables	7	(7)	–	–
Payables (trade, not insurance)	31	(8)	–	23
Subordinated liabilities	11	–	1	12
TOTAL LIABILITIES	1,117	(65)	(80)	971
Excess of assets over liabilities	166	–	–	173

D. Valuation for Solvency Purposes continued

D.1 Assets

Goodwill, intangible assets and deferred acquisition costs

For Solvency II valuation purposes, these are valued at £nil.

Insurance and intermediaries receivables

Receivables have been reported in the Solvency II balance sheet at the value included under IFRS accounts. This is deemed market consistent given that the receivables are due within 12 months and therefore the discounting effect of the time value of money is not deemed significant.

In the case of insurance-related receivables, the difference between IFRS and Solvency II balance sheet mainly relates to the recognition of certain premiums that are included in the receivables under IFRS, while they are recognised within technical provisions in the Solvency II balance sheet, because such premiums are not yet due by the balance sheet date.

Investments

Where there are quoted prices in active markets for identical assets, these assets are classified as "Level 1". Investments classified as Level 1 are reported in the Solvency II balance sheet at the value included in the IFRS accounts except for the reclassification of accrued interest.

Where there are inputs other than quoted prices that are observable either directly or indirectly these assets are classified as "Level 2". According to Article 10 of the Delegated Regulation 2015/35, Level 2 investments are valued using quoted market prices in active markets for similar assets with adjustments to reflect factors specific to the asset, including the condition or location of the asset, the extent to which inputs relate to items that are comparable to the asset and the volume or level of activity in the markets within which the inputs are observed. The value used for the preparation of the IFRS accounts is considered a fair approximation of the market value according to Solvency II rules, therefore no adjustment has been made to the value included in the IFRS accounts except for the reclassification of accrued interest.

Where inputs that are not based on observable market data are used, these assets are classified as "Level 3". Investments classified as Level 3 are valued using an income approach for both IFRS and Solvency II balance sheets and are covered in section D.4 Alternative Valuation Methods.

The split of investment classifications is provided in the table below.

	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)
Government bonds	100	141	-	241
Corporate bonds	2	393	-	395
Securitised bonds	-	18	-	18
Total	102	552	-	654

For cash and cash equivalents is no material difference in valuation between the Solvency II balance sheet and the IFRS accounts.

For all material classes of assets there have been no changes to the recognition or valuation basis in the year.

Assumptions and judgements that affect the reported amounts of assets are disclosed in the Company Annual Report and Financial Statements.

D. Valuation for Solvency Purposes continued

Deferred tax asset

Deferred taxes, except deferred tax assets arising from the carry forward of unused tax losses, are valued on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive, and the values ascribed to assets and liabilities as recognised and valued for tax purposes. The valuation difference relating to deferred taxes mainly results from differences in technical provisions and insurance receivables for Solvency II.

Temporary differences between the Solvency II value of the assets and liabilities and their corresponding tax base as defined in International Accounting Standards ("IAS") 12 are assessed, and any deferred tax asset or liability is adjusted or set up as required. The methods used to value deferred tax assets and/or liabilities under IAS 12 are disclosed in the Company Annual Report and Financial Statements.

The tax rates used in the calculation are the applicable UK tax rates. For losses this is a rate based on the applicable rate at the time the deferred tax items are expected to reverse. Deferred tax on all other items is calculated at the rate that was in force on the reporting date.

The UK Government announced its intention in the budget of 3 March 2021 to legislate to increase the rate of corporation tax from 19.0% to 25.0% with effect from 1 April 2023. This legislation was substantively enacted on 24 May 2021.

The Solvency II to IFRS valuation differences, their applicable tax rate and the deferred tax impact are outlined below.

D. Valuation for Solvency Purposes continued

	Valuation differences before deferred tax (£m)	Tax rate applied	Deferred tax impact (£m)	Net differences between IFRS and SII (£m)
Goodwill	-	25%	–	–
Deferred acquisition costs	(16)	25%	4	(12)
Intangible assets	(2)	0%	–	(2)
Loans and mortgages	-	25%	–	–
Reinsurance recoverables from non-life and health similar to non-life	(99)	25%	25	(74)
Technical provisions – Best Estimate – non-life	195	25%	(49)	146
Technical provisions – Risk Margin – non-life	(14)	25%	3	(11)
Technical provisions – Best Estimate – life	(78)	25%	20	(58)
Technical provisions – Risk Margin – life	(1)	25%	–	(1)
Other Liabilities	7	25%	(2)	5

Any other assets, not elsewhere shown

For Solvency II valuation purposes, prepayments and accrued income are valued consistently with IFRS. On the Solvency II balance sheet, the accrued interest on bonds is included in the market value of Investments. Under IFRS, prepayments and accrued income balances are all due within one year. These are valued at fair value based on amounts receivable on demand.

D.2 Technical Provisions

The table below shows the technical provisions both gross and net of reinsurance by Solvency II line of business.

SII line of business	Gross (£m)				Net (£m)			
	Claims Provision	Premium Provision	Risk Margin	SII Technical Provision	Claims Provision	Premium Provision	Risk Margin	SII Technical Provision
Motor vehicle liability insurance	432	53	11	496	174	25	11	210
Other motor insurance	1	36	1	38	-	26	1	27
Fire and other damage to property insurance	64	42	2	108	36	25	2	63
General liability insurance	2	-	-	2	1	-	-	1
Legal expenses insurance	-	-	-	-	-	-	-	-
Assistance	1	-	-	1	-	-	-	-
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	78	-	1	79	12	-	1	13
Total	**578**	**131**	**15**	**724**	**223**	**76**	**15**	**314**

D. Valuation for Solvency Purposes continued

Technical provisions are calculated in respect of all insurance obligations to policyholders.

The value of the technical provisions corresponds to the current amount required to transfer insurance obligations immediately to another insurance entity.

The technical provisions consist of the claims provision, premium provision and risk margin, and these elements are calculated separately. Each element is calculated by line of business, both gross of reinsurance and for associated reinsurance recoveries. For each line of business, the approach taken is the same, and the methods and assumptions used for each line of business are based on the actual exposure and experience of that line of business.

Methods and main assumptions

The calculation of the technical provisions is based on up-to-date and credible information and realistic assumptions and is performed using actuarial and statistical methods relevant to the line of business.

Claims provision

The claims provision is based on the IFRS claims provision, with the addition of an allowance for future claims handling and investment management expenses. A payment pattern derived from historical data for each line of business is applied to each element of the claims provision to obtain future cash flows, which are discounted to reflect the time value of money in line with Solvency II requirements. A final adjustment is made as described below in respect of future premiums.

Premium provision

To calculate the premium provision, the IFRS Unearned Premium Reserve ("UPR"), adjusted to allow for future premium development arising from mid-term adjustments or cancellations and premiums relating to business written but not incepted, is used as an exposure measure.

Future loss ratio assumptions, derived separately for each line of business, are applied to the adjusted UPR to obtain an estimate of future claims. Allowances are also made for future expenses, profit commission and levies. A payment pattern is applied to each element of the premium provision to obtain future cash flows, which are discounted in line with Solvency II requirements.

Under IFRS, future premiums are held as receivables on the balance sheet. Under Solvency II, all future cash flows arising from insurance contracts, including future premiums, must be included within the technical provisions. Accordingly, the portion of IFRS receivables that is not overdue is transferred to the technical provisions under Solvency II.

The receivables are adjusted for future premium development and future premiums relating to business written but not incepted consistent with the UPR adjustment described above, and are discounted. Reinsurance payables or receivables relating to business that has already been earned are included within the claims provision. Future premiums for the unearned and written but not incepted business are assigned to the premium provision.

On a net basis, there is the impact of the Whole Account Quota Share ceded funds which reduces claims but there is no corresponding Whole Account Quota Share premium as no premium is paid on the Quota Share. Therefore, the net premium provision is lower than the gross premium provision. This is purely presentational from an Own Funds perspective, as there is an equal and opposite adjustment outside of the technical provisions on the Market Value Balance Sheet.

Risk Margin

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the SCR necessary to support the insurance obligations over their lifetime.

Our approach to estimating future SCRs is based on the current SCR as a proportion of best estimate provisions, adjusted to reflect the increased levels of risk inherent in the claims reserves over time. It uses ratios to assess premium risk and reserve risk capital throughout the run-off period, and grossing up factors to scale up for other risks.

D. Valuation for Solvency Purposes continued

This approach is based on the following assumptions:

- The current ratios of reserve risk capital to net reserves by line of business will increase over the run-off of personal lines due to loss of diversification
- The run-off profile of risks such as Lapse, Broker Default, CAT and Health risks assume a one-year run-off pattern
- The risk margin is held to cover run-off of an ongoing entity, which benefits from its existing diversification between reserve risk and premium risk

The cost of capital rate used in the calculation of the risk margin is set by the European Insurance and Occupational Pensions Authority at 6%.

Uncertainty

The Solvency II basis has inherent uncertainty around the discount benefit arising from future movements in the yield curve and payment patterns. Other than discounting, the assumptions that have the greatest effect on the movement of provisions are those that affect the expected level of claims. Uncertainty around the level of claims can come from a number of sources, including, but not limited to:

- Claim reporting patterns being different from those expected
- Claims settlement amounts being different in aggregate to that expected; for example, as a result of different levels of inflation
- The impact of a future change in Ogden discount rate
- Reinsurance recoveries being different to the levels expected
- Claim handling costs being different from those expected

The calculation of the technical provisions requires a number of assumptions in addition to those supporting the IFRS calculations. Key additional assumptions include:

- Future loss ratio assumptions drive the allowance for future claims within the best estimate premium provision
- Future expense assumptions are required for claims management expenses, future policy administrative expenses and future investment management expenses as well as future reinsurance costs (net of future recoveries) and levies
- Future cash-flow assumptions are used for the discounting calculation

Sensitivity analysis has been conducted to understand how the technical provisions react to changes in the key assumptions documented above. The results are shown below:

Sensitivity	Change in net technical provisions (£m)	% change in net technical provisions
Increase future loss ratios by 2%	12	3.8%
Decrease future loss ratios by 2%	(12)	(3.8%)
Increase risk yield by 1%	(9)	(2.9%)
Decrease risk yield by 1%	11	3.5%

Note that the sensitivities increasing and decreasing the risk yield include the impact on settled PPOs and PPO incurred but not enough reported ("IBNER") and incurred but not reported ("IBNR").

A key area of uncertainty is the high inflation environment in 2022, caused by factors including the war in Ukraine, COVID-19 and Brexit-related supply chain disruption. The impact of the high inflation environment on the ultimate cost of claims has been considered and allowed for appropriately in standard actuarial claims projection techniques.

D. Valuation for Solvency Purposes continued

Events Not In Data ("ENIDS")

ENIDs are derived by using a scenario approach, with estimated probabilities and severities for each scenario used to calculate an explicit load for unexpected claims or claim deteriorations. The ENIDs are allocated to line of business and are derived on both a Claims Provisions (i.e. earned) and Premium Provisions (i.e. unearned) basis.

Differences in valuation methodologies

The Solvency II Best Estimate Liabilities ("BEL") is based upon the IFRS Best Estimate ("ABE"). However, elements of the ABE which are required under IFRS are not required under Solvency II and vice versa. Broadly, these can be summarised as follows:

- Past Deferred Acquisition Costs are not included in the cashflow projections. However, the future DAC expenses in the unincepted business are included
- An explicit claims margin is inadmissible under SII. However, this is replaced by an allowance for ENIDs that is calculated using standard actuarial techniques
- Under IFRS where liabilities are discounted (only PPOs) the Company can make an appropriate assumption as to expected asset returns whereas under Solvency II all liabilities (PPOs and non-PPOs) must be discounted using the yield curve specific to the UK
- The UPR (net of DAC and Premium receivables) under IFRS is inadmissible under Solvency II. However, this is replaced by the premium provision

Matching and volatility adjustments

No matching adjustment or volatility adjustment is applied to the risk-free yield curve used to discount the technical provisions.

Reinsurance recoverables

Reinsurance recoverables are calculated separately for the claims provision and premium provision. The following cash flows are considered:

Cash inflows:

- Recoverables from reinsurance contracts for claims payments and related expenses

Cash outflows:

- Future premiums for reinsurance contracts
- Counterparty default adjustment

For the main lines of business the Company purchases excess of loss contracts with sufficiently high retentions for only relatively few large claims to be recoverable. Any difference in timing between expected claims settlement and related reinsurance recoveries is reflected in the timing of the reinsurance cash flows. A new Loss Portfolio Transfer with 40% of reserves on 2020 and prior accident periods ceded to AZ Re has been agreed over December. This replaces an existing 20% LPT on 2015 and prior and a 20% QS on 2016-2020 accident years.

For the claims provision, reinsurance recoveries for outstanding claims are calculated on a case by case basis. Incurred but not reported provisions for outstanding claims are estimated at both gross and net levels separately.

For the premium provision, a reinsurance to gross ratio is applied to future gross claims within the premium provision to derive the reinsurance recoverable. The net UPR is adjusted to ensure that contract boundaries are consistent between the gross liabilities and the reinsurance recoveries on those liabilities. This involves removing any reinsurance exposure related to future new business and including additional reinsurance exposure for current business covered by the reinsurance treaties incepting on 1 January 2023. This is based on an assumed management action to renew the reinsurance programme at the next renewal date under terms and conditions similar to those which currently apply. Correspondingly, a share of the future reinsurance premiums for these contracts relating to current business is also allowed for within the technical provisions.

D. Valuation for Solvency Purposes continued

Reinsurance future premiums are included within the technical provisions based on the payment terms of the individual reinsurance contracts. In respect of the Whole Account Quota Share contract with Allianz Re Dublin, the assumed management action continues to be that this cover remains in place throughout the run-off of the liabilities. Allowance is made for the expected future cash flows arising from this arrangement.

A counterparty default adjustment is held to reflect the expected amount of losses due to default of reinsurance counterparties.

IFRS to Solvency II Technical Provisions

The following table shows a breakdown of the differences between IFRS provisions (net of reinsurance and deferred acquisition costs) and Solvency II technical provisions by Solvency II line of business.

The first column shows the IFRS technical provisions net of reinsurance and deferred acquisition costs. The final column shows the Solvency II net technical provisions including the risk margin.

The most significant adjustments are in respect of future premiums and exposures, which mainly reflects the inclusion of future premiums within the technical provisions, and the impact of discounting under Solvency II.

Sundry adjustments include adjustments in respect of expenses and counterparty defaults, which are not material individually.

The Solvency II risk margin is a material component of the technical provisions that is not required under IFRS. The risk margin for the annuities line is most significant as a proportion of overall provisions, due to the long duration of the PPOs contained within this line and high capital charges that PPOs attract under Solvency II.

SII line of business	IFRS provisions (£m)	Adjustment in respect of future premiums and exposures (£m)	Sundry adjustments (£m)	Discounting adjustment (£m)	Risk margin (£m)	SII technical provisions (£m)
Motor vehicle liability insurance	238	(28)	7	(19)	11	209
Other motor insurance	21	9	(3)	-	1	27
Fire and other damage to property insurance	74	(8)	(4)	(1)	2	63
General liability insurance	1	-	-	-	-	1
Legal expenses insurance	-	-	-	-	-	-
Assistance	-	(1)	-	-	-	-
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	12	-	-	-	1	13
Total	347	(29)	-	(20)	15	314

D. Valuation for Solvency Purposes continued

Material changes in the relevant assumptions made in the calculation of the technical provisions

	Gross (£m)			Net (£m)		
	2022	2021	Change	2022	2021	Change
Best estimate	709	830	(121)	299	391	(92)
Risk Margin	15	25	(10)	15	25	(10)
SII Technical Provisions	724	855	(131)	314	416	(102)

The table above shows the change in the technical provisions from 2021 to 2022, both gross and net of reinsurance.

Overall, the net technical provisions have decreased by £102m over the year.

The decrease in best estimate is driven by a £113m decrease in claims provision. Claims provision has decreased due to significant rise in yields over the year and a change in reinsurance arrangement towards the end of 2022, whereby a 20% LPT on 2015 & prior and a 20% Quota Share on 2016-2020 accident years have been commuted and replaced with a 40% LPT with Allianz Re. There were also various other changes which offset each other: a decrease in premium provisions due to the change in discount benefit, an increase in claim provisions from IFRS4 reserves increasing due to inflationary pressures and settlement delays and an increase in premium provisions due to increasing future loss ratios, reflecting the uncertain inflationary environment.

The risk margin has decreased by £10m in the year, driven by the significant increase in yield curve and change in reinsurance arrangement.

Assumptions are subject to a regular review cycle with the period between reviews chosen to reflect the materiality of the assumption.

Simplifications

The calculation of the technical provisions is carried out using materially appropriate, complete and correct data and using valuation methods which are appropriate to the nature and complexity of the insurance technical risks. The limitations of the calculation methodology are identified and understood. Selection of the appropriate method is based on expert judgement, considering the quality, quantity and reliability of the available data and analysis of all important characteristics of the business. The assumptions and parameters used in each method are clear and explicitly identified. The key drivers and uncertainties associated with the best estimate are explored and described.

For some elements of the technical provisions, simplified methods are applied that are appropriate to the nature and complexity of the risks. These are outlined below.

For the premium provision, the recoverables on motor excess of loss reinsurance are estimated by applying a reinsurance to gross ratio to the future gross claim cashflows. The stochastic IBNR model used in the claims provision calculation produces a gross and reinsurance provision from which the reinsurance to gross ratio used in the premium provision is derived. This is defined as a simplified method under Solvency II.

The risk margin is estimated using an adjusted proportional proxy method to project future SCRs. It uses ratios to assess premium risk and reserve risk capital throughout the run-off period allowing for the changing nature of the liabilities through the run-off period and grossing up to allow for other risks, adjusted to reflect the changing levels of riskiness of the claims reserves over time. This method is defined by Solvency II regulation as a simplification.

D. Valuation for Solvency Purposes continued

D.3 Other liabilities

Differences between IFRS and Solvency II balance sheet relating to the valuations of deposits from reinsurers and other liabilities arise from the reclassification of interest on funds withheld under the quota share contract from other liabilities and reinsurance recoverables from non-life and health similar to non-life to deposits from reinsurers. Reinsurance payables are also reclassified to technical provisions. Provisions other than technical provisions have been reclassified to other liabilities, derivatives and receivables.

For all other classes of liability there is no difference between the IFRS valuation and the Solvency II balance sheet valuation. Full details on valuation methodologies can be found in the Highway Insurance Company Limited Annual Report and Financial Statements.

D.4 Alternative methods for valuation

The Company does not apply any alternative methods for valuation.

D.5 Any other information

There is no other material information on the valuation of assets or liabilities.

E. Capital Management

E.1 Own funds

One of the core objectives of the Company strategy is to maintain its financial strength. Capital is a resource that supports the risk bearing capacity of the Company, forming a foundation for the Company's long-term viability and the trust of its customers.

The Company maintains a formal capital management policy, and capital management planning is embedded within the main planning process, with a time horizon of three years.

The Company applies an integrated risk capital framework, taking into account appetite and capital allocation across the Company. Capital management protects the Company's Own Funds in line with the Allianz Risk Strategy and Appetite. Both risk considerations and Own Funds needs are integrated into management processes through the attribution of risk and allocation of Own Funds to the various lines of business.

A core element of the approach to capital management is the approval by the Board of any dividends or requests for additional capital. This approval is subject to maintaining an adequate local buffer over the SCR.

The current liquidity plan and solvency projections reflect all planned changes in Own Funds for the next three years.

There were no material changes over the reporting period with regard to objectives, policies and processes employed by the Company for managing its Own Funds.

The table below shows the breakdown of the Own Funds by tier, and the SCR solvency ratio.

	2022 (£m)	2021 (£m)	Movement (£m)
Ordinary shares	75	75	-
Reconciliation reserve	78	108	(29)
Total tier 1	153	183	(29)
Subordinated liabilities	12	12	-
Total tier 2	12	12	-
Net deferred tax assets	19	8	11
Total tier 3	19	8	11
Total eligible own funds to meet the SCR	184	203	(18)
SCR	132	160	(29)
SCR solvency ratio*	140%	126%	14%
Total eligible own funds to meet the MCR	162	192	(29)
MCR	45	45	-
MCR solvency ratio	364%	425%	(62%)

*There is no allowance for a foreseeable dividend.

E. Capital Management continued

Only tier 1 and tier 2 Own Funds (subject to restriction of tier 2 capital being less than 20% of the MCR) are eligible to meet the MCR so tier 3 Own Funds have been excluded from the MCR solvency ratio. No Own Fund items for the Company are subject to transitional measures for their inclusion in tier 1. There are no restrictions on the eligibility of available Own Funds to support the SCR and MCR, and no matching adjustment portfolio exists. The Company has no ancillary Own Fund items. No Own Fund items were issued or redeemed during the year. The reconciliation reserve is made up of retained earnings and reconciliation adjustments from IFRS to Solvency II balance sheet only.

Tier 2 consists of subordinated debt issued by the Company for €12m in December 2004 which has a maturity date of November 2034 and has the following terms and conditions;

- Ranks after the claims of all policyholders and beneficiaries and non-subordinated creditors
- Does not include features to cause insolvency
- Is only repayable at the option of the Company
- Includes no incentives to repay or redeem
- Allows the suspension of repayment or redemption of the debt if it would otherwise fail to meet SCR/MCR
- Provides for the distribution to be mandatorily deferred where there was non-compliance with SCR/MCR or where the distribution would lead to such non-compliance

The sensitivity of the Own Funds to both market and non-market risks is provided in the table in section C.7. The significant changes in Own Funds over the reporting period are provided in the table below. The changes in tier 1 capital over the reporting period are all within the reconciliation reserve.

	£m
Loss after tax earned by the Company in the year	(17)
Net unrealised gains after tax on the investment portfolio	(54)
Movement in technical provisions	26
Deferred tax and other valuation differences	2
Capital Injection	25
Total movement over the year	(18)

E. Capital Management continued

Reconciliation between IFRS and Solvency II excess of assets over liabilities

The Solvency II excess of assets over liabilities amounts to £173m, whereas the IFRS excess of assets over liabilities amounts to £166m. The difference of £7m is largely attributable to key drivers, previously analysed in section D and summarised in the table below.

	£m
IFRS excess of assets over liabilities	166
Goodwill and intangible assets (IFRS Statement of Financial Position items that are not recognised in the MVBS)	(2)
Differences in the valuation of trade payables (other than insurance)	8
Risk margin (an MVBS balance sheet item that is not recognised in IFRS Statement of Financial Position)	(15)
Differences in recognition and valuation of technical provisions and reinsurance recoverables (including associated receivable/payable and DAC)	21
Deferred taxes on the above mentioned balance sheet valuation differences	(1)
Other adjustments	(4)
Solvency II excess of assets over liabilities	173

The difference between the excess of assets over liabilities and Own Funds is due to the subordinated debt (£12m).

E.2 SCR and MCR

The SCR at 31 December 2022 amounts to £132m, and the MCR amounts to £45m.

The Company uses a Standard Formula basis to calculate the SCR. The approach to calculating the SCR and MCR is in accordance with the Solvency II Directive. The Company is not using any material simplifications or undertaking specific parameters in the calculation of the SCR and does not have any regulatory capital add-ons.

A split of the SCR by the risk modules and sub-modules modelled by the standard formula model is shown in the following table. The comparative figures for 2021 and the movement over the reporting period are also shown.

E. Capital Management continued

Category of risk	Capital (£m)		
	2022	2021	Movement
Non-life underwriting risk	108	130	(22)
Premium and reserve risk	83	114	(31)
Catastrophe risk	25	15	10
Market risk	46	39	6
Interest rate risk	16	7	9
Spread risk	30	33	(3)
Counterparty default risk	11	12	(1)
Life underwriting risk	1	2	(1)
Operational risk	19	22	(3)
Sum of standalone risks	185	206	(21)
Diversification benefit	(54)	(46)	(8)
SCR	132	160	(29)

The total diversified SCR for the Company decreased by £29m over the year from £160m to £132m. The movement is predominately driven by a reduction of premium and reserve risk by £31m due to:

- lower net claims provision driven a reduction in the undiscounted position on motor liability as well as increased discounting benefit
- and the commutation of the prior year Quota Share arrangement

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The Company has not applied the duration-based equity risk sub-module in the calculation of the SCR.

E.4 Differences between Standard Formula and any Internal Model used

This does not apply as the Company does not currently use an Internal Model to calculate its SCR.

E.5 Non-compliance with the MCR and SCR

The Company has complied continuously with the MCR and the SCR.

E.6 Any other material information

In view of the Solvency II solvency ratio of 140% as at 31 December 2022 and the stress tests performed, the Company does not expect any breach of its Solvency Capital Requirement and anticipates that it will remain suitably capitalised going forward.

Statement of Directors' Responsibilities

Financial period ended 31 December 2022

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

The SFCR was 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

Report of the external independent auditors to the Directors of Highway Insurance Company Limited (‘the Company’) pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Company as at 31 December 2022:

- The ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the Solvency and Financial Condition Report of the Company as at 31 December 2022, (‘**the Narrative Disclosures subject to audit**’); and

- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 (‘**the Templates subject to audit’**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the ‘**relevant elements of the Solvency and Financial Condition Report’**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- The ‘Summary’, ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02, and S.19.01.21;

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (‘**the Responsibility Statement**’).

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2022 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors’ Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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;
- Evaluating management's solvency scenario analysis and challenging management's key assumptions;
- 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 the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report 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.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report 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 in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use the PRA Rulebook Group Supervision 17.2(3) Version

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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/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 and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as Solvency II Regulations 2015. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls),and determined that the principal risks were related to inappropriate adjustments to derive the Solvency II Balance Sheet, such as increasing the value of Own Funds of the Company, management bias in estimates and judgemental areas of the Solvency II Balance Sheet and Solvency Capital Requirement such as the Solvency II valuation of Non-Life Technical Provisions . Audit procedures performed included:

- Discussions with the Board, 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 relevant to the SFCR;
- Evaluating management's controls designed to prevent and detect irregularities;
- Reading key correspondence with and reports to the Prudential Regulation Authority and/or the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee, the Risk Committee, and the Reserving Committee;
- Procedures relating to the valuation of Non-Life Technical Provisions. In addition, we consider whether there are indications of management bias in the Solvency II valuation; and;
- Identifying material adjustments to derive the Solvency II financial information from the statutory financial statements and assessing for indicators of material non-compliance with Solvency II regulations.

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 Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company’s statutory financial statements. 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 in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

London

SE1 2RT

6 April 2023

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Balance sheet

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022SOL2
Period: Annual
Currency: GBP - Great British Pounds
EIOPA QRT: S.02.01

Balance Sheet

		Solvency II value
		C0010
Assets		
Goodwill	R0010	
Deferred acquisition costs	R0020	
Intangible assets	R0030	0
Deferred tax assets	R0040	19,438
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
contracts)	**R0070**	**654,081**
Property (other than for own use)	R0080	0
Holdings in related undertakings, including participations	R0090	0
Equities	*R0100*	
Equities - listed	R0110	0
Equities - unlisted	R0120	0
Bonds	*R0130*	*654,081*
Government Bonds	R0140	240,915
Corporate Bonds	R0150	395,063
Structured notes	R0160	0
Collateralised securities	R0170	18,103
Collective Investments Undertakings	R0180	0
Derivatives	R0190	0
Deposits other than cash equivalents	R0200	0
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	0
Loans and mortgages	**R0230**	**50,234**
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	50,234
Reinsurance recoverables from:	**R0270**	**409,694**
Non-life and health similar to non-life	R0280	343,522
Non-life excluding health	R0290	343,522
Health similar to non-life	R0300	0
unit-linked	R0310	66,173
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	66,173
Life index-linked and unit-linked	R0340	0
Deposits to cedants	R0350	0
Insurance and intermediaries receivables	R0360	0
Reinsurance receivables	R0370	0
Receivables (trade, not insurance)	R0380	798
Own shares (held directly)	R0390	0
paid in	R0400	0
Cash and cash equivalents	R0410	5,907
Any other assets, not elsewhere shown	R0420	3,562
Total assets	**R0500**	**1,143,714**
Liabilities		
Technical provisions - non-life	**R0510**	**644,376**
Technical provisions - non-life (excluding health)	**R0520**	**644,376**
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	630,557
Risk margin	R0550	13,819
Technical provisions - health (similar to non-life)	**R0560**	
Technical provisions calculated as a whole	R0570	0
Best Estimate	R0580	0
Risk margin	R0590	0
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	**78,923**
Technical provisions - health (similar to life)	**R0610**	
Technical provisions calculated as a whole	R0620	0
Best estimate	R0630	0
Risk margin	R0640	0
linked)	**R0650**	**78,923**
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	77,711
Risk margin	R0680	1,212
Technical provisions - index-linked and unit-linked	**R0690**	
Technical provisions calculated as a whole	R0700	0
Best Estimate	R0710	0
Risk margin	R0720	0
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	0
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	212,167
Deferred tax liabilities	R0780	0
Derivatives	R0790	0
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	478
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	23,593
Subordinated liabilities	**R0850**	**11,570**
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	11,570
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	**R0900**	**971,107**
Excess of assets over liabilities	**R1000**	**172,607**

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Premiums, claims and expenses by line of business

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Category: Solvency II: Statutory Account
Currency: GBP - Great British Pounds
EIOPA ORT: S.05.01

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110				209,484	68,861		130,014	1,185		240	1,337						411,120
Gross - Proportional reinsurance accepted	R0120																	0
Gross - Non-proportional reinsurance accepted	R0130																	0
Reinsurers' share	R0140				90,619	29,721		58,711	535		184	1,026						180,796
Net	**R0200**				**118,865**	**39,140**		**71,303**	**650**		**55**	**311**						**230,324**
Premiums earned																		
Gross - Direct Business	R0210				212,627	69,688		136,813	1,247		224	1,343						421,941
Gross - Proportional reinsurance accepted	R0220																	0
Gross - Non-proportional reinsurance accepted	R0230																	0
Reinsurers' share	R0240				91,876	30,052		61,486	560		172	1,030						185,177
Net	**R0300**				**120,751**	**39,636**		**75,327**	**686**		**52**	**312**						**236,764**
Claims incurred																		
Gross - Direct Business	R0310				124,603	38,841		107,336	968		21	226						271,995
Gross - Proportional reinsurance accepted	R0320																	0
Gross - Non-proportional reinsurance accepted	R0330																	0
Reinsurers' share	R0340				52,979	16,104		44,301	400		21	226						114,032
Net	**R0400**				**71,624**	**22,737**		**63,035**	**568**		**0**	**0**						**157,963**
Changes in other technical provisions																		
Gross - Direct Business	R0410																	0
Gross - Proportional reinsurance accepted	R0420																	0
Gross - Non-proportional reinsurance accepted	R0430																	0
Reinsurers' share	R0440																	0
Net	**R0500**																	**0**
Expenses incurred	**R0550**				**41,780**	**13,824**		**33,852**	**311**		**39**	**224**						**90,029**
Other expenses	R1200																	**10,145**
Total expenses	**R1300**																	**100,174**

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									0
Reinsurers' share	R1420									0
Net	**R1500**									**0**
Premiums earned										
Gross	R1510									0
Reinsurers' share	R1520									0
Net	**R1600**									**0**
Claims incurred										
Gross	R1610									0
Reinsurers' share	R1620									0
Net	**R1700**									**0**
Changes in other technical provisions										
Gross	R1710									0
Reinsurers' share	R1720									0
Net	**R1800**									**0**
Expenses incurred	**R1900**									**0**
Other expenses	**R2500**									
Total expenses	**R2600**									

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Life and Health SLT Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Category: TO CONSOLIDATE
Currency: GBP - Great British Pounds
EIOPA QRT: S.12.01

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	**R0010**										0						0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020										0						0
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	**R0030**								77,711		77,711						0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								66,173		66,173						0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090								11,539		11,539						0
Risk Margin	**R0100**								1,212		1,212						0
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110										0						0
Best estimate	R0120										0						0
Risk margin	R0130										0						0
Technical provisions - total	**R0200**								78,923		78,923						0

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Non - life Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Category: TO CONSOLIDATE
Currency: GBP - Great British Pounds
EIOPA QRT: S.17.01

Non - life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance:				Total Non-Life obligations
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	**R0010**																	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**																	0
Technical Provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060				52,831	35,797		41,955	382		57	149						131,170
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0140				28,336	9,645		16,903	169		78	502						55,634
Net Best Estimate of Premium Provisions	R0150				24,495	26,152		25,052	214		-22	-354						75,536
Claims provisions																		
Gross	R0160				432,072	625		64,299	1,689		32	672						499,387
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0240				258,256	250		28,273	675		32	402						287,888
Net Best Estimate of Claims Provisions	R0250				173,816	375		36,025	1,013		0	270						211,499
Total Best estimate - gross	**R0260**				484,902	36,422		106,254	2,071		88	820						630,557
Total Best estimate - net	**R0270**				198,310	26,527		61,077	1,227		-22	-84						287,035
Risk margin	**R0280**				11,033	500		2,240	33		1	13						13,819
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290																	0
Best estimate	R0300																	0
Risk margin	R0310																	0
Technical provisions - total																		
Technical provisions - total	**R0320**				495,936	36,921		108,493	2,104		89	833						644,376
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**				286,592	9,895		45,176	844		111	904						343,522
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**				209,344	27,027		63,317	1,260		-22	-72						300,854

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Solvency II Prepackage Solution

Non-life Insurance Claims Information

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
Category: TO CONSOLIDATE
1 - Accident year
EIOPA QRT: S.19.01

Non-life Insurance Claims Information

Gross Claims Paid (non-cumulative)

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											2,447
2013	R0160	232,396	179,521	62,108	51,871	32,915	19,914	10,859	13,488	8,577	2,823	
2014	R0170	231,489	162,621	59,877	51,396	47,442	24,042	4,656	2,830	3,119		
2015	R0180	227,521	170,006	64,475	57,867	32,865	21,872	13,170	1,105			
2016	R0190	255,711	188,110	62,759	45,575	36,264	23,842	3,182				
2017	R0200	244,576	166,212	63,204	52,685	56,288	10,148					
2018	R0210	281,357	186,149	58,275	57,158	21,618						
2019	R0220	305,901	154,677	61,579	19,564							
2020	R0230	222,670	112,522	15,636								
2021	R0240	238,279	60,396									
2022	R0250	149,423										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	2,447	2,573,847
	R0160	2,823	614,472
	R0170	3,119	587,473
	R0180	1,105	588,880
	R0190	3,182	615,441
	R0200	10,148	593,114
	R0210	21,618	604,556
	R0220	19,564	541,721
	R0230	15,636	350,829
	R0240	60,396	298,675
	R0250	149,423	149,423
Total	R0260	**289,461**	**7,518,431**

Gross undiscounted Best Estimate Claims Provisions

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											56,198
2013	R0160	0	0	0	49,233	42,665	31,026	27,712	11,757	9,811	1,201	
2014	R0170	0	0	43,289	26,720	12,053	5,128	3,876	3,368	2,595		
2015	R0180	0	113,649	67,911	26,555	17,963	11,993	9,134	13,213			
2016	R0190	176,547	91,252	57,314	21,960	12,862	10,658	6,143				
2017	R0200	191,436	105,881	80,289	55,868	31,214	16,100					
2018	R0210	192,620	112,696	111,412	85,825	54,800						
2019	R0220	158,666	110,627	112,056	66,536							
2020	R0230	162,944	91,335	61,604								
2021	R0240	230,706	141,776									
2022	R0250	168,680										

		Year end (discounted data)
		C0360
	R0100	38,464
	R0160	1,071
	R0170	2,417
	R0180	9,992
	R0190	5,634
	R0200	12,669
	R0210	47,079
	R0220	56,708
	R0230	53,870
	R0240	115,424
	R0250	156,060
Total	R0260	**499,387**

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Solvency II Prepackage Solution

Non-life Insurance Claims Information

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Currency: GBP - Great British Pounds
Category: TO CONSOLIDATE
2 - Underwriting year
EIOPA QRT: S.19.01

Non-life Insurance Claims Information

Gross Claims Paid (non-cumulative)

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											
2013	R0160											
2014	R0170											
2015	R0180											
2016	R0190											
2017	R0200											
2018	R0210											
2019	R0220											
2020	R0230											
2021	R0240											
2022	R0250											

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100		
	R0160		
	R0170		
	R0180		
	R0190		
	R0200		
	R0210		
	R0220		
	R0230		
	R0240		
	R0250		
Total	R0260		

Gross undiscounted Best Estimate Claims Provisions

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											0
2013	R0160											
2014	R0170											
2015	R0180											
2016	R0190											
2017	R0200											
2018	R0210											
2019	R0220											
2020	R0230											
2021	R0240											
2022	R0250											

		Year end (discounted data)
		C0360
	R0100	
	R0160	
	R0170	
	R0180	
	R0190	
	R0200	
	R0210	
	R0220	
	R0230	
	R0240	
	R0250	
Total	R0260	

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Solvency II Prepackage Solution

Own funds

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Category: Default Original Amount
Currency: GBP - Great British Pounds
EIOPA QRT: S.23.01

Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	75,000	75,000			
Share premium account related to ordinary share capital	R0030					
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	78,170	78,170			
Subordinated liabilities	R0140	11,570			11,570	
An amount equal to the value of net deferred tax assets	R0160	19,438				19,438
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	**R0290**	184,177	153,170		11,570	19,438
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	**R0400**					
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	**184,177**	**153,170**		**11,570**	**19,438**
Total available own funds to meet the MCR	**R0510**	**164,740**	**153,170**		**11,570**	
Total eligible own funds to meet the SCR	**R0540**	**184,177**	**153,170**		**11,570**	**19,438**
Total eligible own funds to meet the MCR	**R0550**	**162,075**	**153,170**		**8,906**	
SCR	**R0580**	**131,598**				
MCR	**R0600**	**44,528**				
Ratio of Eligible own funds to SCR	**R0620**	**139.95%**				
Ratio of Eligible own funds to MCR	**R0640**	**363.99%**				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	172,607	
Own shares (held directly and indirectly)	R0710		
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	94,438	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	**R0760**	78,170	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life Business	R0770		
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	1,811	
Total Expected profits included in future premiums (EPIFP)	**R0790**	1,811	

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Solvency II Prepackage Solution

Solvency Capital Requirement - for undertakings on Standard Formula

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Category: Solvency II: Solo Purpose
Currency: GBP - Great British Pounds
EIOPA QRT: S.25.01

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
Market risk	R0010	33,646		
Counterparty default risk	R0020	11,288		
Life underwriting risk	R0030	1,006		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	92,447		
Diversification	R0060	-26,056		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**112,331**		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	19,266
Loss-absorbing capacity of technical provisions	R0140	
Loss-absorbing capacity of deferred taxes	R0150	
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	
Solvency capital requirement excluding capital add-on	R0200	131,598
Capital add-on already set	**R0210**	
Solvency capital requirement	R0220	131,598
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	
Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

Approach to tax rate

		Yes/No
		C0109
Approach based on average tax rate	R0590	2 - No

Calculation of loss absorbing capacity of deferred taxes

		LAC DT
		C0130
LAC DT	R0640	
LAC DT justified by reversion of deferred tax liabilities	R0650	0
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	0
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	-18,736

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Solvency II Prepackage Solution

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Entity: HICO - Highway Insurance Company Limited
Scenario: 2022 Solvency II
Period: Annual
Category: Solvency II: Solo Purpose
Currency: GBP - Great British Pounds
EIOPA QRT: S.28.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations

MCR calculation Non Life		Non-life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Non-life activities: Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	198,310	118,865
Other motor insurance and proportional reinsurance	R0060	26,527	39,140
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	61,077	71,303
General liability insurance and proportional reinsurance	R0090	1,227	650
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		55
Assistance and proportional reinsurance	R0120		311
Miscellaneous financial loss insurance and proportional reinsurance	R0130		
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160		
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

MCR calculation Life		Life activities: Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Life activities: Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240	11,539	
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	44,285	
MCRL Result	R0200		242

Overall MCR calculation

		C0070
Linear MCR	R0300	44,528
SCR	R0310	131,598
MCR cap	R0320	59,219
MCR floor	R0330	32,899
Combined MCR	R0340	44,528
Absolute floor of the MCR	R0350	3,445

		C0070
Minimum Capital Requirement	**R0400**	**44,528**