Highway Insurance Company

Solvency Financial Condition Report

2021

Introduction

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 PRA has adopted an equivalent approach. Solvency II, which entered into force on January 1, 2016, is a comprehensive updating of the way in which insurance companies in the EU are supervised by their local regulators.

The main Solvency II Directive is supplemented by further texts[2] which set out the required contents and structure[3] of the report. This introduction is intended to fulfil the requirement[4] that the SFCR should contain a clear and concise summary, which highlights material changes over the year.

Section A looks at the business and performance of HICO during 2021. It starts with a section describing the legal structure of the Company and its place in the Group before covering the two main sources of the Company's profit – 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 £26.1m (2020: loss of £1.9m) including the discontinued commercial lines of business, which generated a loss before tax of £3.9m (2020: £1.2m).

As part of LV General Insurance Group's (LVGIG's – see section A.1(e) for relationship to HICO) strategy to diversify and grow its business, on 3 January 2020, LVGIG purchased Legal and General Insurance Limited, ('LGIL') subsequently renamed as Fairmead Insurance Limited ('Fairmead'). Fairmead is a UK non-life insurance business which had been part of the Legal and General Group, focused on Home with a small but growing Pet business.

Prior to being acquired, Fairmead was the 7th largest Home insurance provider in the UK with more than 2 million customers using various distribution channels including Direct, Brokers, Managing General Agents (MGA's) and Independent Financial Advisors (IFA's).

Towards the end of 2020, a small number of former Broker customers of Fairmead migrated to the Company going live with another new Home offering including Home Legal and Home Emergency, with the Company now being well placed to take on and write more Broker Home business. During 2021, the Company completed the migration of all broker customers of Fairmead. Whilst this completes the migration of the Fairmead business for the Company, throughout 2021 and 2022, further Fairmead direct customers and IFA's will be asked to transition to the Companys' intermediate parent company, Liverpool Victoria Insurance Company ('LVIC').

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 HICO 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 the managers take place within the confines of the System of Governance. Further details regarding the Board and its committees is provided in section B.1.

The section confirms that all the required components of the System of Governance are in place. These are:

· Assessment and remuneration policies, to ensure that managers have the skills and capability required to run the Company and that they are paid appropriately;

· Independent safeguarding functions, whose responsibility is to ensure that the managers of the Company understand and manage risks appropriately;

· A process, the Own Risk and Solvency Assessment, by which all risks facing the Company are assessed, managed and reported to the Board.

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

[2] Commission delegated regulation (EU) 2015/35, articles 290 -, Implementing Regulation (EU) 2015/2452

[3] See in particular Annex XX, Commission delegated regulation (EU) 2015/35

[4] 4 Article 292, Commission delegated regulation (EU) 2015/35

Summary continued

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 HICO faces. These are:

· Underwriting Risk

· Market Risk

· Credit Risk

· Liquidity Risk

· Operational Risk

Each kind 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 HICO is exposed to is appropriately understood, managed and mitigated.

Section D reviews the balance sheet of HICO. 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. The Company adopts the same recognition, measurement and valuation policies for IFRS purposes as the Group.

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, and so they represent the most important part of the balance sheet. They are also the most uncertain, as it is difficult to assess the funds required accurately.

Section E confirms that HICO is able to withstand unexpected shocks according to the standards required by Solvency II regulations. Own Funds refers to the capital available within the Company for this purpose, and section E.1 describes how that capital is managed. It also confirms that the Own Funds are of appropriate quality and will be available if required.

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 cannot legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

HICO uses the Standard Formula to calculate its SCR. The capital surplus as at 31 December 2021 under the Standard Formula stood at £42m (2020: £48m), HICO's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is 126% (2020:128%). HICO's MCR at 31 December 2021 amounts to £45m (2020: £69m).

The valuations reported within this report are based on information up to December 31, 2021. Therefore, based on the Company's interpretation of Article 77 (2) of the Solvency II Directive, the valuations and technical provisions including the premium provision reflect the ongoing impact of COVID-19.

Further information relating to the COVID-19 pandemic is included within sections A, B, C, D and E of the report.
Finally, the SFCR contains a Statement of Directors' responsibilities.

Statement of directors' responsibilities

Financial period ended 31 December 2021

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, Highway Insurance Company Limited 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 Solvency and Financial Condition Report was approved by the Board of Directors on 6 April 2022 and signed on its behalf by:

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F K Dyson

Chief Financial Officer

Allianz Holdings and Director, Highway Insurance Company Limited

A. Business and Performance

A.1 Business

a) Name and legal form of undertaking

Highway Insurance Company Limited ('HICO') is a UK-incorporated and domiciled company limited by shares, under company number 03730662.

Registered office
57 Ladymead
Guildford
Surrey
England
GU1 1DB

b) Name and contact detail of the supervisory authority responsible for financial supervision.

Firm's reference number: 202972

The Prudential Regulation Authority ('PRA') and Financial Conduct Authority ('FCA') are responsible for the financial supervision of the company.

PRA
Address: 20 Moorgate
London
EC2R 6DA
Phone: 020 3461 7000

FCA
Address: 12 Endeavour Square
London
E20 1JN
Phone: 020 7066 1000

c) Name and contact details of the external auditor

The independent auditors are PricewaterhouseCoopers LLP

Address: 7 More London Riverside
London
SE1 2RT

d) Description of the holders of qualifying holdings in the undertaking

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

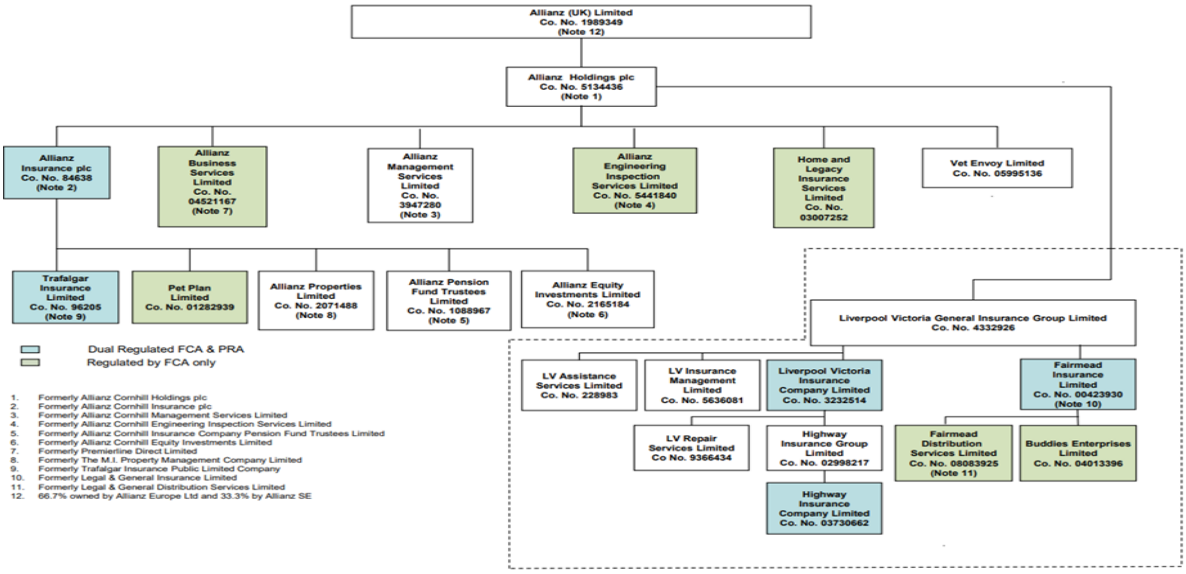
The immediate parent company is Highway Insurance Group Limited ('HIG'), a limited liability company, incorporated in the UK. Liverpool Victoria General Insurance Group ('LVGIG') is the intermediate parent of the LV GI Group.

A. Business and Performance continued

e) Details of the undertakings within the group

The structure chart below shows the Allianz UK Group as at December 2021.

Allianz (UK) Group Companies as at 31 December 2021



f) Material lines of business and material geographic areas.

HICO underwrites non-life insurance contracts within the UK.

HICO conducts general insurance business through broker distribution channels. The primary sources of premium income are from the sale of Motor 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

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

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

Prior to being acquired Fairmead was the 7th largest Home insurance provider in the UK with more than 2 million customers using various distribution channels including Direct, Brokers, Managing General Agents (MGA's) and Independent Financial Advisors (IFA's).

Towards the end of 2020, a small number of former Broker customers of Fairmead migrated to the Company going live with another new Home offering including Home Legal and Home Emergency, with the Company now being well placed to take on and write more Broker Home business. During 2021, the Company completed the migration of all broker customers of

A. Business and Performance continued

Fairmead finishing the work started in 2020, going live with a new home offering including Home Legal and Home Emergency. The Company now being well placed to take on and write more broker home business. Whilst this completes the migration of the Fairmead business for the Company, throughout 2022 further Fairmead direct customers and IFA's will be asked to transition to the Companys' intermediate parent company, Liverpool Victoria Insurance Company ('LVIC').

Business and Performance

All income statement numbers presented in Section A are based on the IFRS Financial Statements adjusted for certain presentational adjustments made in the QRTs. Profit before tax is the same under both presentations.

HICO (£m)	**2021**	2020
Net earned premium	**232**	298
Net claims incurred	**(167)**	(224)
Expenses incurred	**(87)**	(93)
Net underwriting result	**(22)**	(19)
Net investment income	**8**	23
Other income	**3**	5
Other expenses	**(15)**	(11)
(Loss)/Profit before tax	**(26)**	(2)
Tax charge	**6**	0
(Loss)/Profit after tax	**(20)**	(2)
Other comprehensive Income	**(23)**	9
Tax on Other Comprehensive Income	**5**	(2)
Total comprehensive income	**(38)**	6

In the latter part of 2015 the Company entered into a Loss Portfolio Transfer Agreement resulting in reinsurance of 20% of its booked reserves for 2015 and prior reserves and from 1 January 2016 a 20% quota share arrangement on new business. The later arrangement was renewed each subsequent year with a change of reinsurer to the Allianz SE Group of companies, the ultimate parent company for the 2020 renewal onwards. For the 2021 renewal the amount being ceded has been increased to 40%. This has materially impacted the net figures versus 2020.

Net earned premium has decreased by 22% due to the change in the Quota Share arrangement. The Quota Share reinsurance arrangement entered into with Allianz Re has been renewed for 2021 on a 40% basis, up from 20% in 2020. This new contract has changed in nature, whereby the Company has not transferred any consideration in return for the reinsurer assuming the element of ceded reserves passed to them under the quota share arrangement ("Funds Withheld"). Previously, the Company had transferred consideration ("Funds Transferred"). Instead a deposit is retained by the Company, there is no longer a profit share element and the reinsurer bears' a greater share of the expenses.

Excluding the quote share agreement, the underlying net earned premium grew by 4% with growth in the Home book as the Broker business transferred from Fairmead offsetting a fall in Motor premium.

A. Business and Performance continued

A.2 Underwriting performance

All business is underwritten in the UK and the following provides an analysis of the underwriting income and expenses for 2021 in addition to a comparative for 2020.

2021	**Motor vehicle liability insurance**	**Other motor insurance**	**Fire and other damage to property insurance**	**General liability insurance**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Net earned premiums	145	41	45	1	-	**232**
Net claims incurred	(108)	(30)	(28)	(1)	-	**(167)**
Expenses incurred (excluding investment management expenses)	(47)	(14)	(26)	-	-	**(87)**
Net underwriting result	**(10)**	**(3)**	**(9)**	**-**	**-**	**(22)**

Claims ratio	**74%**	**73%**	**62%**	**-**	**-**	**72%**
Expense ratio	**32%**	**34%**	**58%**	**-**	**-**	**38%**
Combined ratio	**107%**	**107%**	**120%**	**-**	**-**	**109%**

2020	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance	Other	Total
	£m	£m	£m	£m	£m	£m
Net earned premiums	204	64	30	-	-	**298**
Net claims incurred	(151)	(49)	(24)	-	-	**(224)**
Expenses incurred (excluding investment management expenses)	(61)	(19)	(13)	-	-	**(93)**
Net total	**(8)**	**(4)**	**(7)**	**-**	**-**	**(19)**

Claims ratio	**74%**	**77%**	**80%**	**-**	**-**	**75%**
Expense ratio	**30%**	**30%**	**43%**	**-**	**-**	**31%**
Combined ratio	**104%**	**107%**	**123%**	**-**	**-**	**106%**

The ratios have been calculated as follows:

- Claims ratio = Net claims incurred ÷ Net earned premiums
- Expense ratio = Expenses incurred ÷ Net earned premiums
- Combined ratio = (Net claims incurred + Expenses incurred) ÷ Net earned premiums

Market conditions have remained highly competitive, particularly in the Motor market. Overall, the Company saw an increase of 1% in premium written on a continuing basis. The Company has continued to write business in the historical channels and the Home products through the Broker channel, taken on from Allianz Fairmead. Throughout 2021, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing profitable growth in the Home lines of business which nearly doubled diversifying its reliance upon Motor.

A. Business and Performance continued

The Company's underwriting result from continuing operations deteriorated during 2021, delivering a combined ratio of 113% (2020: 106%). The motor accounts continue to experience frequency reductions however this was more than offset by increased severity and vehicle repair costs as well as a high number of large claims. Storm Arwen in November had an impact on both Home and Motor.

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

During the year the Company invested in significant restructuring costs in relation to the acquisition of the Fairmead Home business. These costs are reported within other expenses and consisted of:

- building new products, and
- setting up processes for the transfer of Personal Lines customers to the LVGIG underwriters LVIC and HICO. The first transfers started towards the end of 2020 and will continue throughout into 2022.

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

During the year the Company invested in significant restructuring costs in relation to the acquisition of the Fairmead Home business. These costs are reported within other expenses and consisted of:

- redundancy costs for roles that will leave over the course of 2020 through to early 2023,
- building new products, and
- setting up processes for the transfer of Personal Lines customers to the LVGIG underwriters LVIC and HICO.

The first transfers started towards the end of 2020 and plan to continue throughout most of 2021 and into 2022

A.3 Investment performance

The following table summarises the income and expenses with respect to investment activities:

	2021 **£m**	2020 £m
Dividend income	**0**	**1**
Interest income	**6**	**8**
Realised gains/(losses)	**3**	**15**
Investment expenses	**(1)**	**(1)**
Total Investment Performance	**8**	**23**

A. Business and Performance continued

The continued low underlying interest rate environment resulted in lower interest income.

The following tables summarise the undertaking's overall investment performance by relevant asset class:

2021 Asset class (£m)	**Dividends**	**Interest**	**Realised / Unrealised gains / (losses)**	**Total**	**Average investment holding during 2021**	**Average investment return**
Government bonds	**-**	**1.2**	**(14.8)**	**(13.6)**	**240.4**	**-5.7%**
Corporate bonds	**-**	**4.9**	**(4.5)**	**0.4**	**431.5**	**0.1%**
Collective investment undertakings	**0.0**	**-**	**(0.9)**	**(0.9)**	**18.4**	**-5.0%**
Collateralised securities	**-**	**0.3**	**(0.3)**	**0.0**	**14.3**	**-0.1%**
Loans and mortgages	**-**	**0.0**	**0.0**	**0.0**	**34.8**	**0.0%**
Cash and deposits	**-**	**0.0**	**(0.0)**	**(0.0)**	**14.2**	**0.0%**
Total	**0.0**	**6.4**	**(20.5)**	**(14.1)**		
Less investment expenses				**(0.9)**		
Net total				**(15.0)**		

2020 Asset class (£m)	Dividends	Interest	Realised / Unrealised gains / (losses)	Total	Average investment holding during 2020	Average investment return
Government bonds	-	1.0	10.2	11.2	141.9	7.9%
Corporate bonds	-	6.4	7.8	14.2	474.2	3.0%
Collective investment undertakings	1.3	-	3.7	5.0	75.2	6.7%
Collateralised securities	-	0.1	0.1	0.2	9.1	2.2%
Loans and mortgages	-	0.4	-	0.4	14.7	2.7%
Cash and deposits	-	0.2	0.4	0.6	27.4	2.2%
Total	1.3	8.1	22.2	31.6		
Less investment expenses				(0.8)		
Net total				30.8		

A.4 Performance of other activities

The following items have been identified as material income and expenses, other than underwriting or investment income and expenses:

	2021	2020
	£m	£m
Other income	**3**	5
Other expenses	**(15)**	(11)
Tax charge	**6**	(0)
Total	**(6)**	(6)

Other income predominantly represents profit share relating to the quota share arrangement. From 2021 onwards, HICO will cede 40% of the business with Allianz Re under the terms of the new contract explained above any profit share will relate to historic cohorts.

The Company invested in significant restructuring costs in relation to the acquisition of the Fairmead Home business. These costs are reported within other expenses and consisted of:

- building new products, and
- setting up processes for the transfer of Personal Lines customers to the LVGIG underwriters LVIC and HICO.

The tax charge is calculated based on the IFRS Profits and Losses reflecting the underwriting performance, investment performance and charges related to subordinated debt. In addition, deferred tax assets can be recognised relating to capital allowances in excess of depreciation and any tax losses carried forward. Where a tax loss arises, Board Approved Business Plans are required to evidence and support the future recovery of the Deferred Tax Asset by the utilisation of future available taxable profits.

A.5 Any other information

The valuations reported within this report are based on information known up to 31 December 2021. Therefore, the valuations and technical provisions including the premium provision reflect the ongoing impact of COVID-19.

The global pandemic was a continued source of uncertainty for the business for part of 2021. The LVGIG Group continued to monitor the situation with close alignment and interaction within Allianz to ensure the Company benefited from the wider Allianz perspective. Our values guided our decision making as the Company continued to work through this challenging time, with a focus on putting our people first and our customers at the heart of what we do. The key risks remained both operational and financial which the Company still actively monitors and manages on a regular basis, as it has done throughout the last 2 years. Consistent communications have and are continuing to take place across the organisation to keep all colleagues informed. The risks subsided during 2021, as the UK vaccination programme was rolled out and allowed businesses including Allianz to briefly return to partial office working within a Covid-19 secure environment.

LVGIG continues to align its approach to the guidance of the UK Government as well as benefitting from Allianz Group guidance given LVGIG is now a 100% owned subsidiary of Allianz.

The solvency ratio as at 31 December 2021 is 126% (2020: 120%). HICO is expected to continue to have funds available in excess of the regulatory requirements without needing to take contingency action.

B. System of Governance

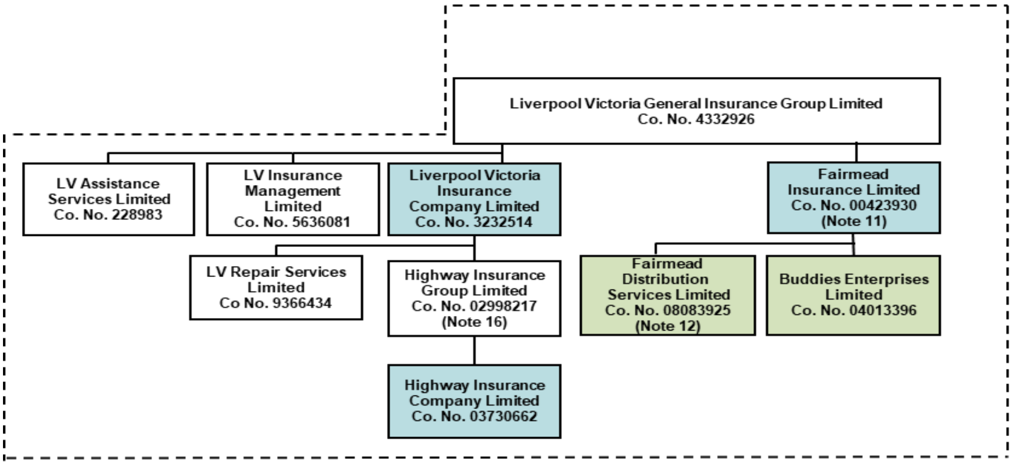
B.1 General information on the system of governance

The following disclosure provides information which addresses Guideline Article 308 (1)

The system of governance for HICO is aligned to the approach applied across Liverpool Victoria General Insurance Group Limited (LVGIG) which is a subsidiary of Allianz Holdings plc ("Allianz"). Therefore, the following section sets out details on the Allianz and LVGIG approach together with how this is applied in the context of HICO.

Extract of LVGIG Corporate Structure Chart

The following illustration shows the LVGIG corporate structure and how HICO fits into LVGIG:



The Allianz Holdings plc Board is the statutory board for LVGIG and therefore HICO.

Liverpool Victoria General Insurance Group Ltd (LVGIG) and all of its subsidiary companies are collectively referred to as the "GI Group". Liverpool Victoria Insurance Company Ltd (LVIC) and Highway Insurance Company Ltd (HICO) are deemed to be the insurance operating entities, with LV Insurance Management and LVGIG as management services companies for the Group.

LVIC and HICO are collectively administered from the Allianz Holdings plc Board. The authority of the Allianz Holdings plc Board is stated in the Allianz Holdings plc Board Terms of Reference. All matters not reserved to the Shareholders, this Board or that have been delegated to an executive management committee or the GI Board sub-committee, are delegated to the GI CEO, who may then elect to delegate this authority, whilst always retaining responsibility and oversight of such delegated authority.

System of Governance

Solvency II legislation requires the System of Governance be subject to regular internal review. 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 was were four material observations in the 2021 System of Governance review that are relevant to report back to Allianz SE Group, these were:

1. Governance Effectiveness Review – Focusing on work arising from a Board Effectiveness Review;
2. Alignment - Integration activity of the Liverpool Victoria General Insurance Group Limited (LVGIG) Group into Allianz UK including, but not limited to, organisational changes as a result of combining the businesses;
3. Group IT changes – Group driven IT changes and impacts on IT governance (e.g. operational resilience due to changes in underlying IT controls), and the potential further outsourcing of IT systems/processes;
4. Delegated Authority – review and alignment of existing Delegated Authority arrangements in different business areas and across the expanded group to ensure consistency.

B. System of Governance continued

1. Boards and Committees

The Company leverages the governance structure of Allianz, and the Allianz Group. The Boards of the Company, LVGIG and Allianz have the same Directors.

As at 31 December, 2021, the Board of the Company consisted of eight directors, made up of an independent non-executive Chair, five non-executive Directors and two executive Directors. Up until 30 November 2021 there were three executive Directors on the Board. However, there are changes in progress, which will result in a change to the number of Directors on the Board of Allianz and the Company. On 30 November 2021, Jon Dye resigned as a Director of the Company and Allianz and CEO of Allianz. Colm Holmes was appointed as on 22nd February 2022, an executive Director of the Company and Allianz and the CEO of Allianz. In addition, in July 2021, there was a strategic restructuring of the operations of Allianz to create distinct Allianz Personal and Allianz Commercial businesses, supported by a number of integrated service functions (the "Restructure"). Following the Restructure, Simon McGinn (the new Allianz Commercial CEO) was appointed as an additional executive Director of the Company and Allianz. Both of these appointments are pending regulatory approval. Once regulatory approval is received and the appointments are made, there will be four executive Directors of the Company. The other executive Directors on the Company's Board are the CEO of the Allianz Personal business (who was previously the CEO of LVGIG Group) and the Chief Financial Officer of Allianz.

The Allianz 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 Board's role is to provide entrepreneurial leadership of the Company within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management performance. The Board sets the Company's purpose, strategy, culture, values and standards and ensures that its obligations to stakeholders and others are met. The Board is responsible for reporting to and maintaining appropriate relationships with the Company's regulators.

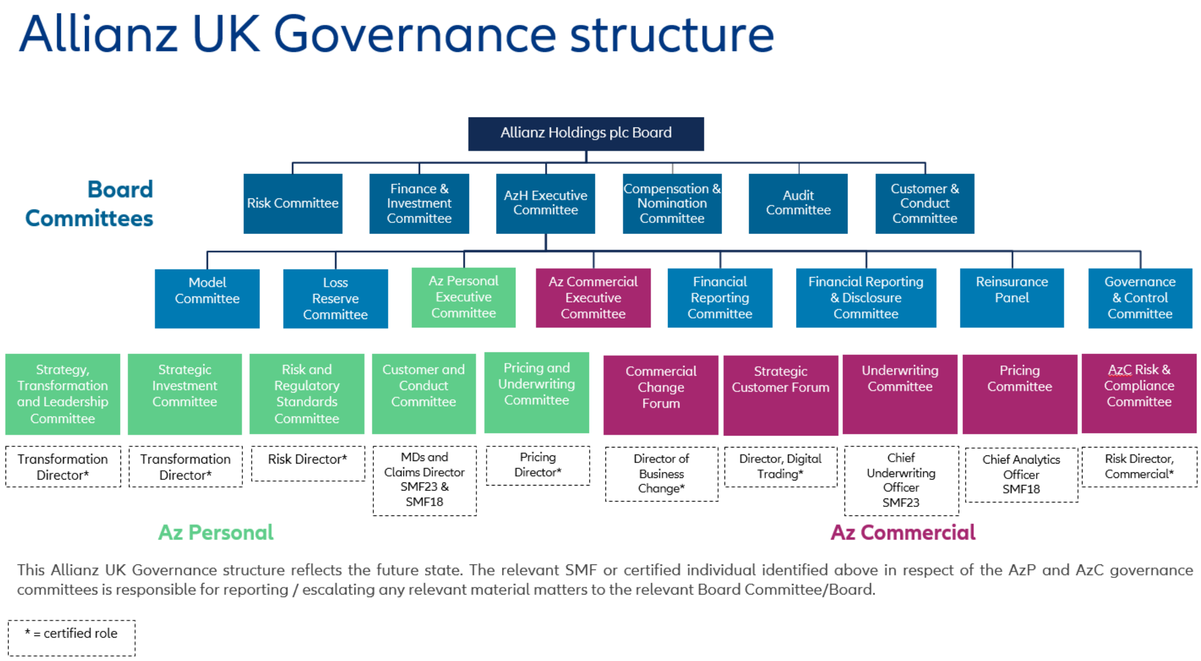
In addition, there are matters specifically reserved for the attention of the Allianz Board which are detailed in the Terms of Reference (and these incorporate Finance & Investment Committee investment transaction limits, above which Allianz Board approval will be required).

In its deliberations, the Board shall have regard to any relevant conduct risk issues/implications.

The Terms of Reference, formal records, meeting packs, minutes and member information for the Company's Board are kept by the Company Secretary.

B. System of Governance continued

<u>Allianz Holdings plc Board Committees</u>



The Allianz Holdings plc Board has established a number of committees (the "Committees") and a system of internal control to ensure the efficient and effective operation of the Group's businesses. The Committees are responsible for oversight of their subject matter on behalf of the Company and other subsidiaries in the Group. The Company's Board is satisfied that the governance structure is appropriate and that the Committees effectively consider matters on behalf of the Company. There is also an Allianz Personal Executive Committee, led by the Allianz Personal CEO, which oversees the day to day leadership and management of the Allianz Personal business including the business of the Company. The Allianz Personal Executive Committee reports into the Allianz Executive Committee.

Audit Committee

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 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.

Compensation and Nomination Committee

The Compensation and Nomination Committee is responsible for oversight of all compensation and nomination matters relating to executives and employees of the Group (whether employed by LVGIG or another Group subsidiary). The Committee's responsibilities include the design, 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 Board or Allianz SE Group. Membership of the Committee comprises an independent non-executive Director who acted as Chair and at least two other members who must be independent non-executive Directors. For part of the year the Chief HR Officer was a member of the Committee, however this role is no longer part of the membership.

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.

Board Risk Committee

The Risk Committee is responsible for oversight of risks, both 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 department. The Committee is also responsible for highlighting any risk issues that may require attention by the Company's

B. System of Governance continued

Board, the Board of Allianz or Allianz SE Group. Membership of the Committee comprises a non-executive director who acts as chair and at least three other independent non-executive Directors.

Finance and Investment Committee
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 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 Allianz CEO as Chair, the Group 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 (previously CFO of LVGIG). The composition of the Committee changed during the year following the Restructure, when the roles of Allianz Commercial CEO was added as an additional member.

Customer and Conduct Committee
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 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 must be independent non-executive Directors and one of whom must be the Risk Committee Chair. In addition, the Chief Executive Officers ("CEO") of Allianz and LVGIG were members of the Committee. During 2021, following the Restructure, the executive members of the Committee comprised the CEO of Allianz, the CEO of Allianz Personal (formerly the CEO of LVGIG) and the CEO of Allianz Commercial.

Allianz Loss Reserving Committee
This committee is a sub-committee of the Allianz Executive Committee and the responsibilities of this Committee are to:

- Consider a presentation on the results of the actuarial reserving analyses. This presentation will include actuarial best estimate reserves. These will be shown by line of business and accident year wherever relevant. Uncertainties will be highlighted and discussed.
- Consider any issues raised or reported on by other committee members which might affect loss reserves.
- Consider whether any further reserve-related investigations are required, either in respect of the current quarter or for future consideration.
- Recommend to the Executive Directors the loss reserves to be included in the company's quarterly financial statements.

<u>Allianz Personal Executive Committees</u>
GI Executive Committee
This Committee is an Advisory, and Information Sharing committee to:

- Assist the GI CEO in the exercise of his general authority to manage the LV= General Insurance Business, including his responsibility for decision making and overseeing performance delivery, with particular reference to the on-going programme of strategic projects and initiatives;
- Keep all members of the Committee up to date on:
    - Current trading performance and financial results
    - Change agenda and progress
- Discuss:
    - Risk, Compliance and conduct
    - Strategic focus
    - Financial and Investment performance

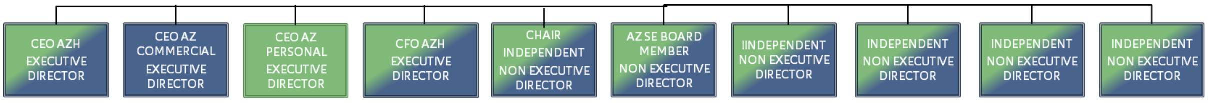
The CEO of Allianz Personal and other executives have approved a number of management committees to assist in the discharge of their accountabilities. The main committees are listed below;

- Strategy, Transformation and Leadership Committee
- Strategic Investment Committee
- Risk & Regulatory Committee
- Customer and Conduct Committee
- Pricing & Underwriting Committee

B. System of Governance continued

2. <u>Defined Roles and Responsibilities</u>

The controlled functions for the Allianz Holdings plc Board are shown in the diagram below.



Members of the Allianz Personal Executive with responsibilities for HICO are listed below:

Chief Executive Officer Allianz Holdings
This person is responsible for developing and delivering the overall vision, strategy and direction of Allianz Holdings, including HICO as part of Allianz Personal and ensuring that the agreed strategic direction is embedded in the current financial year and future year business plans. This person is the Key Function Holder for effectively running the firm and for managing the regulatory, risk and control requirements of HICO.

Chief Executive Officer Allianz Personal
Reporting to the Chief Executive, Allianz Holdings plc this person is responsible for developing and delivering the overall vision, strategy and direction of HICO and ensuring that the agreed strategic direction is embedded in the current financial year and future year business plans. This person is the Key Function Holder for effectively running the firm and for managing the regulatory, risk and control requirements of HICO.

Chief Financial Officer Allianz Holdings
Reports to the Allianz Holdings Chief Executive Officer this person has overall responsibility for financial analysis and planning and recommending strategic plans for Allianz Holdings. This includes applying the Group's framework, standards and policies to actuarial reserving, overseeing and reporting on the relationship with the firm's investment managers, and managing the regulatory, risk and control requirements within the Allianz Holdings Shared Finance service. This person is a Key Function Holder for Finance, Investments and for effectively running the firm.

Standard Formula and Internal Model

The LVGIG regulated entities (LVIC and HICO) remain on a Standard Formula basis. LVGIG has begun the process of adopting the Allianz Group Internal Model, which will require local approval from the PRA before it can be used for regulatory purposes.

The LVGIG Capital Modelling team work closely with the Allianz Capital Modelling team to:

- Ensure that the LVGIG data inputs into the Group SCR calculation are complete and accurate.
- Understand the structure of the Allianz Internal Model, in particular the Insurance Risk components. These are calibrated locally (UK), with other components calibrated at Group level, e.g. Market Risk. LVGIG have developed its calibrations in a consistent manner to Allianz UK.

B. System of Governance continued

B.2 Fit and proper

The approved persons performing key functions as per the financial services register at 31 December 2021 were as follows:

Steve Treloar	Chief Executive
Fernley Dyson	Chief Finance
Mike Crane	Chief Underwriting Officer
Martin Milliner	Other Overall Responsibility
John Berry (Awaiting regulatory approval)	Chief Risk Officer
Philip Singh (Awaiting regulatory approval)	Chief Actuary
Gavin Drescher	Chief Operations
Christian Dinesen	Chair of the Audit Committee
Matthew Cox	Chief Internal Audit Officer
Julie Harrison	Other Overall Responsibility
Paul Evans	Chair
Denise Larnder	Chair of the Risk Committee
Rosanne Murison	Chair of the Remuneration & Nomination Committees, Senior Independent Director
Christopher Townsend	Group Entity Senior Manager
Margo Young	Compliance & Money Laundering
Simon McGinn (Awaiting regulatory approval)	Executive Director
Colm Holmes	Group Entity Senior Manager

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 SM&CR, 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 SM&CR 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 Risk management system

LVGIG Risk Strategy

Principles for LVGIG's Risk Strategy
Taking risk and management of capital is the core business of LVGIG. The goal of Risk Management is to support and improve the business and decision-making process by embedding risk awareness across the organisation.

We integrate strategy, business and risk planning to align strategic and business goals with the Board's risk appetite. A major part of the risk strategy is the definition of risk management objectives that support an appropriate risk and capital balance.

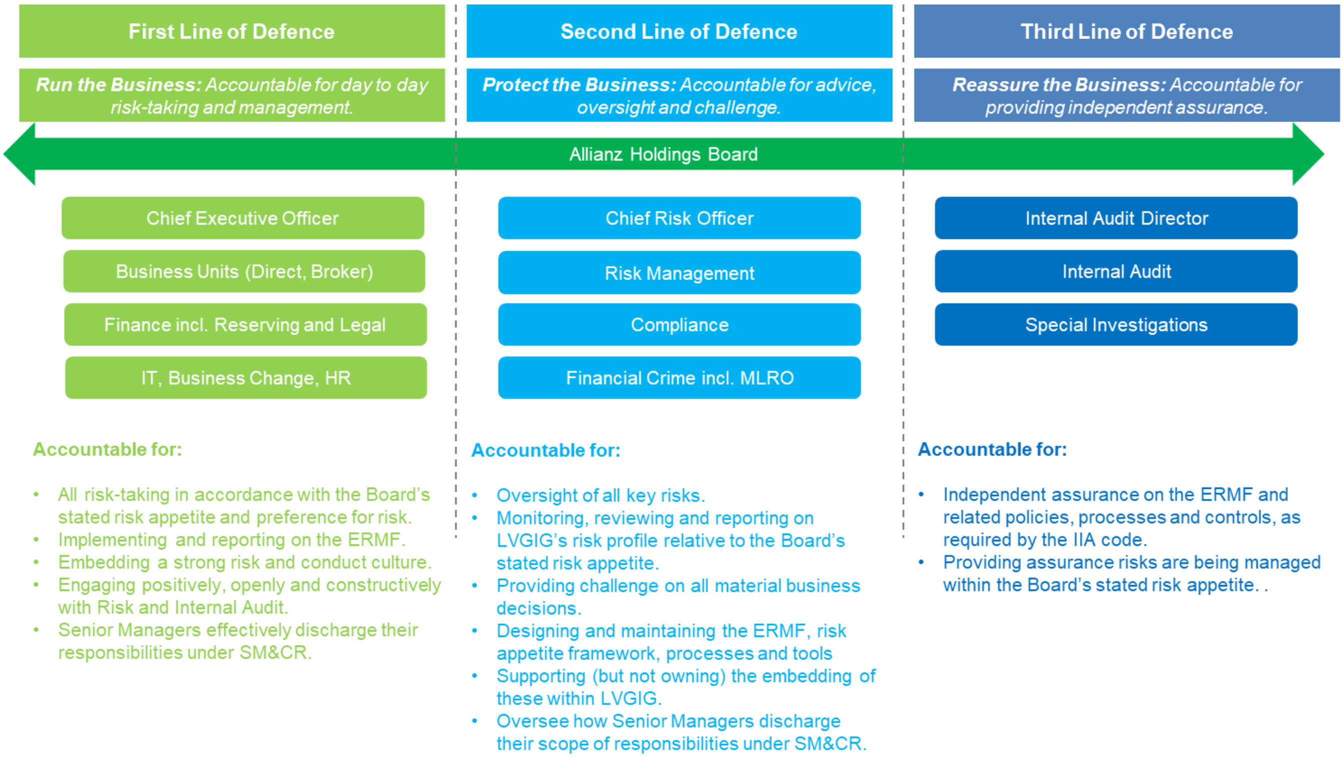
B. System of Governance continued

The Allianz Holdings Chief Risk Officer (CRO) and Allianz Personal Risk Director have defined the following risk principles:

- Risk Management is an integral part of performance management.
- The risk strategy is an integral part of the business strategy.
- The strategic and business planning process is supported by the Own Risk Self Assessment (ORSA) results, e. g. balance sheet projection and risk assessment.
- Available capital, required capital and risk appetite are considered in strategic and business decision-making.
- Solvency Capital Ratio (SCR) and Capital Coverage Ratio (CCR) are the basis to allocate capital to business units risk types and set limits.
- The Risk Function own the risk management framework – the business segments are required to have an effective risk management in place that follows the Risk Functions requirements.
- Requirements from a regulatory perspective must be complied with at all time.
- Management compensation within the business does not set incentives contradictory to the risk strategy.

Approach to Risk Management Risk Governance

Risk Management activity is an enabler for the business achieving its goals. The businesses approach to risk management is based on the Three Lines of Defence Model. The structure and accountabilities within the Three Lines of Defence Model are outlined below:



The Risk Function develops and directs the implementation of the Enterprise Risk Management Framework (ERMF), monitors compliance with this framework and escalates material breaches to the Board. However, accountability for managing risk and implementing the ERMF resides with the First Line.
All material Insurance, Market, Credit, Business, Operational (including Reputational) risks are captured within LVGIG SCR calculations.

Liquidity Risk represents a material risk, albeit this is managed through a robust framework that ensures the business maintains adequate liquid assets to cover its liabilities, including under a stressed scenario. Capital is therefore not held against this risk.

B. System of Governance continued

Emerging and Strategic risks are those that may impact the way the business operates in future, and therefore do not reflect immediate risks to the existing operating model, as per those included in the SCR.

B.4 ORSA process

Following the Allianz UK restructure in the second half of 2021, the Allianz Personal and Commercial Risk Teams have worked to align the ORSA process and output for both businesses. However, as the ORSA are produced by legal entity, they will continue to be LVGIG and Allianz Insurance ORSA reports.

The ORSA is a continuous process by which LVGIG assesses whether its capital appropriately reflects its risk profile. The process culminates in the production of the annual ORSA report by the Risk Management Function.

The ORSA process relies on inputs from various business functions and processes, such as business planning, risk management, finance and capital. The Risk Management Function should be able to rely on the results of such processes. This includes trusting that policies have been followed and exercises have been conducted to a high standard. As such, the success of the ORSA process is a reflection of how embedded the process is within and level of engagement from the business.

The ORSA report will be provided to the Allianz Holdings Board Risk Committee in February 2022 and the Allianz Holdings Board in March 2022 for review and approval, before being sent to the PRA.

The LVGIG ORSA is an ongoing process by which and the Allianz Holdings Board assess the respective risk and solvency positions both now and in the future; in making this assessment the ORSA considers the current and forecast business performance, risk profile and capital surplus. When the ORSA process is referenced, all of the risk management activities (whether BAU or one-off) are included. The ORSA is forward-looking, in that it considers the current LVGIG business and risk profile as well as the outlook for the plan and any anticipated external influences. The ORSA process provides this assessment under different scenarios relative to the company's appetite for risk and considers risk and solvency both from an economic view and by applying the regulatory requirements, should there be a material difference.

The ORSA process is an iterative cycle of activities. Each activity comprises a number of established processes within Allianz Personal. For example, Risk Identification and Assessment activity is supported by: the regular identification and review of the principal risks; regular updates to the capital model and current/projected capital position; and product pricing reviews.

The ORSA Process involves a number of steps where senior management input is necessary. Iterating through these steps ensures that the ORSA features in business decisions.

The output of these processes is reported within regular MI and committee papers. ORSA activity takes place throughout the year, with Quarterly and Annual ORSA Reports considered by the GI Risk & Compliance Committee, the Allianz Holdings Board Risk Committee and Board.

At least annually, a full ORSA is undertaken, providing a current and forward-looking assessment of LVGIG'S risk, capital and solvency position. Outside of the Business Planning cycle, and at the request of the Allianz Holdings Board or Board Risk Committee, an ORSA may be required. This will generally be when specific conditions are triggered, such as a change in risk profile.

The ORSA Report is a mandatory output of the ORSA process and must be produced whenever a full ORSA has been completed. It must consolidate the key outputs of each of the ORSA components into a single report, which provides the Allianz Holdings Board and management with a holistic, current and forward-looking assessment of LVGIG's risks, capital and solvency. It must be drafted and presented to the Allianz Holdings Board Risk Committee and Board so that the key findings, conclusions and recommendations drawn from the ORSA can be understood and acted upon in the consideration of business strategy, planning and implementation. This will include highlighting any specific points which should be brought to the Allianz Holdings Board Risk Committee and Board's attention.

The ORSA is an integral part of LVGIG's risk and capital management system, and encompasses all of the activities that management must perform in considering LVGIG's risk, capital and solvency assessment on both a current and forward-looking basis, over the business planning horizon.

B. System of Governance continued

The Allianz Holdings Board of Management is responsible for ensuring that the principles of the AORSA are met. These are outlined below:

- **The ORSA is a forward-looking assessment of capital adequacy**

The ORSA is a comprehensive assessment of all risks inherent to the business in order to determine whether current and future capital will be sufficient to ensure ongoing solvency against these risks. It goes beyond the determination of capital needs provided solely through application of risk capital models by additionally considering stress scenarios, model limitations and other non-modelled risks and how these risks translate into capital needs or are otherwise mitigated.

- **The ORSA supports business decisions**

The ORSA draws upon the entire risk management system in order to conclude on capital adequacy and ensure consideration of risks and capital needs form an integral part of the business decision making processes of the company. Performance of the ORSA is realized by a regular comprehensive annual assessment of overall solvency needs and preparation of a corresponding report, as well as execution of a non-regular (ad-hoc) assessment following significant changes in the risk profile.

- **The Board of Management is an active participant in the ORSA**

The Board of Management plays an active role in the ORSA. This participation entails not only understanding and approving the outcome of the ORSA, but also steering how the assessment is to be performed, challenging the results and reflecting the results in planned management actions.

The Allianz Personal Risk and Regulatory Standards Committee (APRRSC) meets monthly and is responsible for assisting the Allianz Holdings ExCo in meeting these principles. APRRSC is formed of executives collectively acting as Principle Risk Owners for all risks within the risk taxonomy (each risk is owned by a single accountable PRO). The LVGIG ORSA is an on-going process with quarterly, annual and ad-hoc reporting feeding directly into APRRSC to facilitate integration into executive decision-making and management processes.

B.5 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 of the Group. 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.

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 Executive Committee and the Board. Delivery of this plan, findings from monitoring exercises and remediation of those findings are overseen by the Executive Committee and the

B.6 Internal audit

The Internal Audit function comprises a full-time team of audit professionals led by the UK Chief Audit Officer. It reports to the Audit Committee Chair to ensure independence from first- and second-line functions and to the CEO for administrative purposes; independence and objectivity is supported by a written audit policy and by the oversight of the Audit Committee. The Internal Audit function produces an annual audit plan in consultation with the Management Board, the second-line functions and the Board. Delivery of this plan, findings from audits and remediation of those findings are overseen by the Audit Committee.

The primary responsibilities and activities of the function are to:

- Carry out reviews of major business activities focusing on the areas of greatest risk to the business together with in-depth reviews of corporate functions and provide specialist expertise such as IT audit capability; and
- Assess adherence to and monitor the overall effectiveness of internal systems and controls, risk management, procedures and policies.

B.7 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); and
- Report the results of the reserve valuations to the Board and Group via the Reserve Committee.

The Actuarial function’s independence is supported by written policy. It provides guidance to the CFO on technical provisions through reserve committees. The work of the Actuarial Function and its independence is overseen on behalf of the Board by the Board Risk 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 Practicing Certificate and is the approved SMF20 Chief Actuary Function Holder. The Actuarial function reports on compliance with the above requirements by producing an Actuarial Function Report.

B.8 Outsourcing policy

Following the acquisition of LVGIG by Allianz SE, LVGIG and AZI have reviewed respective policies and standards related to Outsourcing, including Critical or Important arrangements – and the ongoing management of these services.

AZI & LVGIG have a local outsourcing policy ("LOP") that aligns with the key principles of the corresponding document at the Allianz SE group level and the requirements of Solvency II. This local policy provides necessary local further guidance, particularly in the area of underwriting and claims activities. For example, concerning delegated authorities.

The LOP sets out a clear framework for the management of outsourcing (as defined by the Group Outsourcing Policy). 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. Critical or important function suppliers are managed closely by the supplier relationship management team, who support the business in ensuring that the appropriate monitoring and oversight is in place for these suppliers.

In 2021 the approach to oversight included the following controls;

- All outsourcing arrangements must have a signed contract incorporating HICO 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 information security and data protection) are sent to each supplier prior to the commencement of their service and subsequently the risks assessed against HICO appetite.
- Privacy impact assessment
- The Supplier Management Oversight Report (SMOR) is an evidence based annual review completed on Claims Critical or important suppliers. It reviews third parties' internal controls as well as HICO's relationship management and oversight. This includes but not limited to details relating to Policy Compliance, Exit Planning, BCP, Supplier Capability, Performance Reviews, and Conduct Risk etc. Summaries of information are managed by our dedicated supplier relationship management team with the support of Procurement. These are then independently assessed, with many suppliers audited annually. Similar governance is also being rolled out to Critical or important software suppliers.
- Creation of supplier service specific business continuity and exit plans – agreed and signed off by business owners

The table below outlines the critical or important functions or activities that at the end of 2021 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	Germany 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. System of Governance continued

In 2021 certain internal functions were provided under an intragroup Master Services Agreement (MSA). In total, there were 17 functions wholly or part provided which included:

- Legal & Co-Sec
- Internal Audit
- Finance inc. Tax Investments
- IT Ops inc. Infosec & BCP
- Procurement (non-claims)
- Risk inc. DPO
- Compliance
- Human Resources
- Premises inc. Doc solutions & H & S

There was a clear governance structure to manage costs, performance and service changes. MSA effectiveness was reported quarterly to AZI and LVGI executive sponsors with the GI Chief Executive Office being the Accountable Owner.

For 2022 an Intra-Group Framework replaces the MSA. The IGFA is a single contract agreement to which all Allianz UK group companies adhere, it replaces current intra-Allianz UK group resource and service arrangements. This single contractual framework will ensure a consistent approach on how arrangements are governed within the Allianz Holdings group. The IGFA is not itself intended to change in a practical or operational sense any intra-group arrangements, but to provide the standard contractual framework for their continued provision and future changes.

B.9 Additional information

During the COVID-19 pandemic, there has been continued involvement and input from the Board, including from the non-executive directors. The non-executive directors have received updates describing the financial and operational impacts on the Company. Feedback has been provided on these topics to executive management.

Our ability to continue to meet our customers' needs has been supported by a move to home working across all functions, with this now well established.

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 pandemics such as COVID-19 and the conflict between Russia and the Ukraine.

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

Whilst the Company has no direct underwriting exposure to Russia or Ukraine, a minimal level of travel insurance claims are anticipated arising from trip cancellations and repatriations. We are monitoring closely any impacts of the event in Ukraine on claims' supply chains and inflation for our core Motor and Home products. As of today, we believe these are within our normal trading parameters, however long-term effects are uncertain and dependent on the duration of the disruption.

Our investment portfolio is well diversified and high quality. Since the crisis commenced, market values of corporate and emerging market bonds have declined due to rising spreads. Values of developed market bonds initially benefited from a flight to safety but have since declined as yields increased securitised assets, real estate and private debt funds have been relatively unaffected by the crisis and continue to provide stable income. In 2022, we have limited direct investment exposure to Russian, Ukrainian and Belarussian issuers (£2m book value) through emerging market debt investments; however, there wasn't any present in 2021. The emerging market debt is carefully monitored, however overall liquidity remains strong with a sufficient level of cash being retained in the Allianz SE Group cash pool.

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 claims liabilities. The Company also recognises that in response to sanctions, there is a risk of state sponsored cyber-attacks targeted at the UK, resulting in disruption to national infrastructure or third-party organisations in the supply chain. Through monitoring of emerging threats and identification of incidents, our organisational structure enables a coordinated response to cyber events within our local and global Crisis Management framework.

Further information on the monitoring of risks is provided within Section C.

C. Risk Profile

C.1 Overview

C.1.1 Overview of risk exposures

The chart below shows the 2021 Year End split of the Standard Formula Solvency Capital Requirement (SCR) by risk type. The largest exposure, 68% of the SCR, relates to Premium & Reserve Risk followed by Operational Risk with 14% and Spread Risk with 10%.

Post diversification risk capital	**2021 YE**	**2020 YE**	**Change**
Premium and Reserve risk	**68%**	72%	-4%
Operational risk	**14%**	12%	2%
Spread risk	**10%**	11%	-1%
Counterparty Default risk	**4%**	3%	1%
Catastrophe risk	**3%**	1%	2%
Interest Rate risk	**1%**	1%	0%
Other	**0%**	0%	0%
Total	**100%**	**100%**	

The exposure to Premium and Reserve risk has reduced since the 2020 Year End, primarily due to the increase in Quota Share reinsurance (from 20% to 40%) which came into effect from 1st January 2021.

C.1.2 Measurement of risk exposures

HICO measures its risk exposures using a variety of metrics. This 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 HICO's risk appetite.

HICO uses the following metrics:

- Regulatory capital is measured using the Standard Formula approach prescribed by EIOPA, and reported to the PRA on a quarterly basis.
- HICO also maintains its own internal view of capital measurement using the Allianz Group Internal Model framework. This provides a more bespoke view of the risk profile and aides the transition towards regulatory use of the Internal Model.
- 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 using sensitivities and approximations on a regular basis and the results reported to Senior Management.
- Stress and scenario testing is performed quarterly for the Own Risk and Solvency Assessment (ORSA) and business planning exercises.

C.1.3 Prudent person principle

HICO operates within an investment framework which ensures that all assets are invested in accordance with the prudent person principle. The investment framework is suitably flexible to manage the different investment needs of the diverse business areas within LVGIG. All investment and strategic management decisions are set within Board approved risk appetite limits. Working within this risk framework, considerations of commerciality are embedded into the investment strategies for each business as appropriate.

All invested assets are managed by investment managers under an investment management agreement. Within the agreement, there are a number of investment guidelines which reflect the risk appetite limits and investment management parameters. All investment guidelines are approved by the Board or a delegated authority of the Board.

C. Risk Profile continued

C.1.4 Risk concentration

HICO offers a wide range of product options catering to differing policyholder needs and a widely diversified customer base in terms of age, gender and geographical location. As such, HICO has a diverse and balanced mix of business and risk exposures.

In addition, HICO uses a variety of measures to limit any excess concentrations:

- Investing in a range of assets governed by investment mandates and asset counterparty limits
- Managing counterparty risk through risk limits on exposure and concentration; and
- Limiting excess concentrations of underwriting risk through a range of reinsurance strategies.

As HICO writes all new business in the UK, results are sensitive to demographic and economic changes arising in the UK.

C.2 Underwriting risk

In determining the price of its insurance products and when reporting the financial results relating to these products, HICO 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.

C.2.1 Underwriting risk exposure

HICO's Underwriting Risk is dominated by the uncertainty in the amount of claims and expenses it incurs from both expired and unexpired risk obligations and in relation to the level of premiums to be written on future new business. This is captured within the Premium and Reserve Risk.

Underwriting risk	**2021 YE**	2020 YE	**Change**
Premium and Reserve risk	95%	98%	-3%
Catastrophe risk	5%	2%	3%
Lapse Risk	0%	0%	0%
Total	**100%**	100%	

As HICO is predominantly a motor writer, Premium and Reserve risk continues to comprise most of the underwriting risk.

C.2.2 Material changes over the reporting period

Due to the migration of Home policies from Fairmead Insurance Ltd (FIL) into HICO, the mix of business has become slightly less concentrated on Motor products. This has resulted in Catastrophe risk becoming a slightly higher proportion of Underwriting risk in 2021.

C.2.3 Risk mitigation techniques

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 to mitigate the losses arising from individual large losses and catastrophe events.

- Excess of loss programmes are used for motor lines to limit the impact of individual losses. The current programme protects HICO within Premium Risk while the historic programmes protect losses occurring within Reserve Risk.
- Catastrophe reinsurance, which covers total losses stemming from an event across property lines, reduces catastrophe risk.

In addition, HICO entered into a Loss Portfolio Transfer and Whole Account Quota Share programme at the end of 2015. The Quota Share programme has been renewed each year and in 2021 increased from a 20% to a 40% share. These programmes further reduce Premium risk, Reserve Risk and Catastrophe risk.

C.3 Market risk

Market risk arises as part of the general investment performance and impact of discounting on liabilities. The risk to HICO arises from the performance of the investments being different from that assumed in the planning process.

C.3.1 Market risk exposure

Within Market Risk the key exposure is to Spread Risk which comprises 94% of the Market Risk SCR (post-diversification).

Market risk	**2021 YE**	2020 YE	**Change**
Spread risk	94%	95%	-1%
Interest Rate risk	6%	5%	1%
Concentration risk	0%	0%	0%
Equity risk	0%	0%	0%
Currency Risk	0%	0%	0%
Total	**100%**	100%	

The composition of Market Risk did not change materially in 2021.

C.3.2 Material changes over the reporting period

The composition of Market Risk did not change materially in 2021.

C.3.3 Risk mitigation techniques

Risk mitigation is implemented within Interest Rate Risk where the asset strategy aims to match the duration with our liability profile. This ensures lower sensitivity to interest rates than there otherwise would be.

C.3.4 Risk concentrations

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

C.4 Credit counterparty risk

Credit counterparty 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 HICO is that a counterparty defaults on its obligations or fails to meet them in a timely manner.

HICO's largest counterparty exposure is a Quota Share (QS) reinsurance arrangement with Allianz Re (£172m), combined with a further reinsurance arrangement with Allianz SE (£7m). These exposures are considered acceptable as they form part of the same Allianz SE Group as HICO.

HICO's largest non-group counterparty exposure is to Swiss-Re, AA-rated reinsurer (£60m). This amount will continue to reduce over time as Swiss Re are no longer the reinsurer for the Quota Share arrangement (since 2019).

C.5 Liquidity Risk

Liquidity Risk is the risk that HICO, though solvent, either does not have sufficient financial resources available to meet their obligations when they fall due, or can secure them only at excessive cost. This may arise either because of the nature of the investments held or adverse market conditions.

Liquidity within LV= is maintained at a prudent level, with a buffer to cover contingencies. HICO does not hold capital for liquidity risk but has a liquidity risk appetite statement which requires that HICO must be able to meet its BAU and stressed liquidity requirements from high quality liquid assets.

C. Risk Profile continued

There were no material changes to liquidity risk during 2021.

C.6 Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk arises as a natural consequence of business activity and is managed actively within the LVGIG Risk and Compliance function.

Operational risk is monitored in detail on a monthly basis within regular risk reporting. This includes monitoring of all different areas of operational risk across the business.

C.7 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 LVGIG's claims experience as extreme weather events such as flooding, droughts, storms and heat waves become more frequent and more severe. This has the potential to drive up the cost of Home Insurance making it unaffordable for many consumers. Both the physical and investment risks arising from climate change continue to be areas of focus for LVGIG and these are managed through our risk management framework.

C.8 Sensitivities

As Premium, Reserve and Catastrophe risk are the most material insurance risks within the Standard Formula, we show sensitivities for these. The table below shows the impact on the SCR of both increases and decreases.

Sensitivities		**Impact**	
Item	**Size**	**£m**	**%**
Baseline SCR		160	-
Premium Risk	10% increase to next year premium	+1	+0%
Premium Risk	10% decrease to next year premium	-1	-0%
Reserve Risk	10% increase to overall claim provision	+7	+5%
Reserve Risk	10% decrease to overall claim provision	-7	-5%
Catastrophe Risk	25% increase to the 1-in-200 gross loss	+1	+1%
Catastrophe Risk	25% decrease to the 1-in-200 gross loss	-1	-1%

For premium risk, an increase (or decrease) to the next year of premium was considered. This could be caused as a result of the impact of a change in anticipated premium rates or volumes. The Standard Formula methodology considers the maximum of last year's and next year's premium. As a result of the increase in Quota Share reinsurance for 2021, last year's premium is higher than the future premium for HICO Motor products. This means the effect of changes in future premium is currently minimal.

Within Reserve risk, the impact of a shock of 10% which might emerge from an event similar to those which resulted from the Ogden discount rate change and Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) were considered. The impact here is broadly symmetrical, as anticipated.

The impact of a stress to Catastrophe events is mitigated by the catastrophe reinsurance program, which is primarily designed to absorb the Standard Formula gross 1 in 200 loss stresses. In addition to this a further layer of cover is purchased which covers a loss event up to a 1 in 500 stress.

C.9 Additional Information

There is no other additional information.

D. Valuation for Solvency Purposes

D.1 Assets

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.

Reconciliation between IFRS and Solvency II valuation		**2021**				2020
		IFRS	**Presentational adjustment**	**Solvency II valuation adjustment**	**Solvency II**	Solvency II
	Note	**£m**	**£m**	**£m**	**£m**	£m
Deferred acquisition costs	**1**	**26**	**-**	**(26)**	**-**	-
Intangible Assets	**#**	**3**	**-**	**(3)**	**-**	-
Deferred tax assets	**2**	**2**	**-**	**6**	**8**	7
Investments (other than assets held for index-linked and unit-linked funds)	**#**					
- Equities	**3**	**-**	**-**	**-**	**-**	-
- Bonds	**3**	**684**	**6**	**-**	**690**	682
- Collective Investment undertakings	**3**	**-**		**-**	**-**	37
- Deposits other than cash equivalents	**3**	**-**	**-**	**-**	**-**	-
Loans and mortgages	**#**	**40**	**-**	**-**	**40**	29
Reinsurance recoverables	**4**	**392**	**-**	**46**	**438**	282
Insurance and intermediaries receivables	**5**	**50**	**-**	**(50)**	**-**	-
Reinsurance receivables	**6**	**21**	**(5)**	**(16)**	**-**	-
Receivables (trade, not insurance)	**#**	**5**	**-**	**-**	**5**	-
Cash and cash equivalents	**#**	**11**		**-**	**11**	18
Any other assets, not elsewhere shown	**7**	**13**	**(6)**	**(1)**	**6**	3
Total Assets		**1,247**	**(5)**	**(44)**	**1,198**	1,058

Supporting Notes

1. Deferred acquisition costs

For Solvency II valuation purposes, deferred acquisition costs are set to £nil however the cashflows relating to items which are chargeable as deferred acquisition expenses, are included within the Technical Provisions valuation if they fall within the projected timeframes (see D.2. Technical Provisions).

Under IFRS, the proportion of the costs of acquiring new general insurance business which relate to unearned premiums are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues.

Acquisition costs comprise all allowable costs incurred in writing new contracts. Deferred acquisition costs are amortised over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the Statement of Comprehensive Income.

D. Valuation for Solvency Purposes continued

2. Deferred tax

Deferred tax assets

Under IFRS, there is a deferred tax asset resulting from the timing differences relating to Available For Sale and intangible assets less capital allowances in excess of depreciation.

	£m
Deferred tax assets and liabilities – IFRS	**2**
Solvency II Valuation Adjustment	6
Deferred tax assets - Solvency II valuation	**8**

There are a number of changes that are made to the IFRS Balance Sheet in moving to a Solvency II basis which impact the Solvency II profit. A Deferred Tax provision is established to recognise the timing differences arising. These differences relate to the changes in the valuation of deferred acquisition costs, technical provisions, reinsurance recoveries, trade payables and subordinated debt.

As at 31 December 2021 there were total Solvency II taxable losses of £32m, with a consequent £8m taxation impact. The recoverability of the deferred tax asset due to the losses arising from a move to Solvency II has been justified based on future profits per the Board approved business plans. These profits demonstrate that the timing differences arising from IFRS accounting and tax treatment plus the timing differences arising from the move to Solvency II results are fully covered and utilised by future taxable profits at the prevailing corporation tax rates at times of recovery. The future profit projections utilised ensure that profits cannot be inadvertently counted twice. The reversal of the risk margin is not included in the profit projections.

Recoverability of the deferred tax asset arising from the total taxable loss of £32m has been justified based on the Board approved group business plans over the period 2022 to 2024. The deferred tax asset established over this period in the solo entity is based on announced Corporation Tax rates as follows, with the balance of £4.9m being covered by the planned group profit from 2022 to 2024.

Year	Loss Utilised (£m)	CT Rate	DTA (£m)
2022	5.0	19%	1.0
2023	4.6	23.5%	1.1
2024	3.8	25%	1.0
Total	**13.4**		**3.1**

3. Equities, Bonds, Collective Investment Undertakings and Deposits other than cash equivalents

For Solvency II valuation purposes, financial assets are valued consistently with IFRS. However, there are mapping differences between the IFRS and Solvency II hierarchies with certain assets being presented differently under IFRS.

Under IFRS, financial assets are classified as either fair value through profit and loss ('FVTPL') or available for sale ('AFS'). HICO sold all of its FVTPL designated assets in 2019, in order to align its accounting policy with its new parent, Allianz SE.

AFS are held at fair value but with the unrealised gain or loss, held in a revaluation reserve (rather than recognising it as income through FVTI), until it becomes realised.

Available for sale investments include listed and unlisted debt securities and are investments intended to be held for an indefinite period of time, that may be sold in response to liquidity or changes in interest rates, exchange rates or market movements.

AFS investments are initially recognised at fair value plus directly related transaction costs. They are subsequently carried at fair value. Impairment losses and exchange differences resulting from translating the amortised cost of foreign currency monetary AFS financial assets are recognised in the Statement of Other Comprehensive Income, together with interest

D. Valuation for Solvency Purposes continued

calculated using the effective interest rate method. Other changes in the fair value of AFS financial assets are reported in a separate component of shareholders' equity (AFS reserve) until disposal. When securities classified as AFS are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the Statement of Comprehensive Income as 'net realised gains and losses'.

Fair value estimation

For Solvency II valuation purposes, the fair value measurement hierarchy is as follows:

- Quoted market prices in active markets for same assets and liabilities (QMP). This is the default valuation method and is broadly consistent with Level 1 category assets under IFRS.
- Quoted market price in active markets for similar assets (QMPS). Maximum use is made of relevant market inputs such as quoted prices for identical or similar assets in an inactive market, observable inputs other than quoted prices and market corroborated inputs derived from observable market data. This is broadly consistent with Level 2 category assets under IFRS.
- Other alternative valuation method (AVM). Unobservable inputs reflecting the assumptions market participants would use when pricing the asset or liability, including assumptions about the risk inherent in both the inputs and the valuation technique. The undertaking uses various valuation approaches, including market, income and cost approaches. This is broadly consistent with Level 3 category assets under IFRS.
- Adjusted Equity Method (AEM) for Participations.

The following table presents the financial assets measured at fair value at 31 December 2021.

	QMP	**QMPS**	**Total**
	£m	**£m**	**£m**
Bonds	273	417	**690**
Investments	**273**	**417**	**690**

4. Reinsurance recoverables

The undertaking cedes insurance risk in the normal course of business. Reinsurance assets represent balances recoverable from reinsurance companies.

For Solvency II valuation purposes, reinsurance recoverables are valued using the cash-flow projection method and in a consistent manner with the calculation of the best estimate liabilities (see D.2 Technical provisions). In calculating reinsurance recoverables under Solvency II, adjustments are made for the time difference between recoveries and direct payments and also for expected losses due to the default of a counterparty. The adjustment is based on an assessment of the probability of default of the counterparty and the average loss resulting therefrom (loss-given-default).

Under IFRS, recoverable amounts are estimated in a manner consistent with the outstanding claims provision. Reinsurance premiums are recognised in the same period as the underlying contract that they relate to.

	£m
Reinsurers' share of claims liabilities	392
Total Reinsurance recoverables - IFRS	**392**
Best estimate liability adjustments	46
Total Reinsurance recoverables – Solvency II valuation	**438**

D. Valuation for Solvency Purposes continued

5. Insurance and intermediaries receivables

For Solvency II valuation purposes, any future premiums (included in insurance receivables) which fall due after the valuation date and any premium debts (included within intermediaries receivables), are subject to best estimate liability calculation of technical provisions (see D.2 Technical Provisions).

Under IFRS, insurance and intermediaries receivables are recognised when due and include amounts due from policyholders, agents, brokers and intermediaries. Insurance and intermediaries receivables are initially recognised at fair value and then subsequently held at amortised cost. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the Statement of Comprehensive Income.

	£m
Due from agents, brokers and intermediaries	50
Total Insurance and intermediaries receivables - IFRS	**50**
Best estimate liability adjustments	(50)
Total Insurance and intermediaries receivable - Solvency II valuation	-

6. Reinsurance receivables

For Solvency II valuation purposes, reinsurance receivables are included within the BEL calculations.

Under IFRS, reinsurance receivables are recognised when due. Reinsurance payables are initially recognised at fair value and subsequently held at amortised cost.

	£m
Due from reinsurers	21
Total Reinsurance receivables - IFRS	**21**
Reinsurance reclassification - Deposits to reinsurers	(5)
Reinsurance receivables included in BEL calculations	(16)
Total Reinsurance receivables - Solvency II valuation	-

7. 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.

	£m
Accrued interest	6
Other prepayments and accrued income	3
Current tax asset	4
Prepayments and accrued income - IFRS	13
Reclassify accrued interest on bonds to Investments	(6)
Sub-total any other assets, not elsewhere shown - Solvency II valuation	7
Solvency II valuation adjustment	(1)
Total Any other assets, not elsewhere shown - Solvency II valuation	6

D. Valuation for Solvency Purposes continued

D.2 Technical Provisions

The Technical Provisions are calculated as the sum of the Claims Provisions, Premium Provisions and the Risk Margin. The table below summarises the Gross Technical Provision recorded as at year end 2021:

HICO Entity (£ms)	Total	Motor Liability	Motor Other	Property Damage	General Liability	Legal Expenses	Assistance	Medical Expenses	Settled PPOs
Gross Claims Provision	**709**	561	-1	36	2	0	0	0	111
Gross Premium Provision	**121**	59	31	31	0	0	0	0	0
Gross Best Estimate Liability	**830**	**620**	**30**	**67**	**2**	**0**	**0**	**0**	**111**
Risk Margin	**25**	20	0	1	0	0	0	0	4
Gross Technical Provisions	**855**	**640**	**30**	**68**	**2**	**0**	**0**	**0**	**115**

The 'Settled PPOs' Line of Business relates purely to claims that have settled as a Periodic Payment Order (PPO) whereby the claimant is granted, in addition to a lump sum payment on settlement, a regular income for life to pay for future care costs and loss of earnings. Such payments are generally linked to an inflation index representing the expected increases in salaries for care workers.

Methods and main assumptions

The business estimates the Technical Provisions using a range of standard actuarial and statistical techniques. This includes, where appropriate, stochastic models.

For attritional claims, these methods rely primarily on Standard Actuarial Techniques for more developed accident periods, which use historic claim development triangles to attempt to predict the future development of claims which are reported but not settled and claims that are yet to be reported. For more recent periods, trended methods are adopted.

For known non-PPO large claims a separate stochastic method is adopted that assumes claims settle with a severity that is consistent with a standard statistical distribution.

The cashflow used for the IBNR held for large claims is derived from a separate stochastic model and uses a similar methodology as the reported claim model described above, which is again used as part of the Actuarial Best Estimate (ABE) calculation. The model is frequency/severity based and is employed to generate the level of provision required and the reporting delay for these claims. Based on the time of reporting a cashflow is produced from the model for each claim within a simulation. Averaging across all simulations provides the expected net undiscounted cashflow for IBNR claims by considering existing reinsurance structures, including allowing for indexation clauses within the reinsurance contracts. The same methodology is used for the large reported claims, with the extraction and averaging over simulations to produce the cash-flows, which are subsequently discounted. The IBNR amounts are also adjusted to allow for the explicit PPO IBNR.

For PPO claims a cashflow model is used to project cashflows for both claims that have settled on a PPO basis and those identified as having the potential to settle as a PPO in the future. This model projects both gross and reinsurance cashflows separately. The models used for PPOs are deterministic and for settled PPOs the settled amounts are known. The primary assumptions made relate to future wage inflation for care workers, investment returns (by which cashflows are discounted), base mortality of claimants and any expected reduction in life expectancy due to the severity of the injuries suffered by the claimant.

The Premium Provision is the discounted cashflow in respect of premium receivables, claims and expenses arising from incepted unearned and un-incepted business. The calculation of the Premium Provision requires a set of assumptions to be made. The unearned premium and un-incepted premium runs-off over the subsequent twelve months and is adjusted to allow for several factors affecting claims and expenses. The Premium Provision is calculated in a single model. The model projects all relevant cashflows for each line of business and discounts these using the relevant yield curve. The Premium Provision requires cashflow projections for all items associated with in-force business, i.e. premium (net of IPT), claims and expenses (acquisition, administration and claims handling) and other ancillary income. The Premium Provision is calculated separately for each Solvency II Line of Business. The calculations are performed on an aggregated basis as opposed to an individual policy basis.

Expenses and other cashflows associated with the servicing of claims and policies are allowed for, as are events that are not in the data (ENIDs).

Future cashflows used for the calculation of the Solvency II technical provisions are derived from payment patterns consistent with the IFRS ABE. All cashflows under Solvency II are discounted using the risk-free rate as required by the SII regulations.

D. Valuation for Solvency Purposes continued

Risk Margin

The risk margin is calculated using an in-house model that makes a full calculation of all future SCRs without using simplifications, as permissible by the Solvency II regulations.

All methods are supplemented by regular interaction with Claims and Underwriting functions.

Uncertainty

Insurance is a business based around uncertainty. In calculating the Technical Provisions, judgement is used in deciding appropriate models to use and in calibrating the models. As such, there is inherent uncertainty around the value of the technical provisions both in terms of the amount and timing of future cashflows. The ENIDs aim to capture this uncertainty.

ENIDS

The approach used to derive the ENIDs loading has considered a combination of a mean load statistical approach for the attritional claims and a set of stresses and scenarios for large claims, PPOs and weather events. The statistical approach for attritional claims builds on a presentation at the Institute and Faculty of Actuaries Reserving Seminar 2016, which provided an alternative approach to the Lloyd's Truncated Statistical Distribution approach called the mean load approach. The data segmentation is by product and the loadings derived are split by product.

Differences in valuation methodologies

The Solvency II BEL is based upon the IFRS 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 (DAC) 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 Events Not In Data (ENIDs) that is calculated using standard actuarial techniques;
- Under IFRS where liabilities are discounted (only PPOs) the Group 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; and
- The UPR (net of DAC and Premium receivables) under IFRS is inadmissible under Solvency II. However, this is replaced by the premium provision.

Recoverables from reinsurance contracts and special purpose vehicles

The business enters into a number of reinsurance contracts. This includes an excess of loss arrangement to cover liability-related exposure with a retention set in line with the Group risk appetite. At the 2015 year-end the Group also entered into a General Insurance portfolio-wide Loss Portfolio Transfer arrangement for accident years 2015 and prior inclusive. The Group has entered into quota share arrangements on a losses occurring basis with effective date of 1st January 2016, covering each of the calendar years to 31st December 2021. A further quota share has also been entered into with an effective date of 1st January 2022.

At present, there are no special purposes vehicles in place for the Group's reinsurance.

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

The Solvency II BEL relies upon the calculation of the IFRS ABE for many of its assumptions. In addition to those assumptions underlying the IFRS ABE, the following assumptions are updated throughout the year:

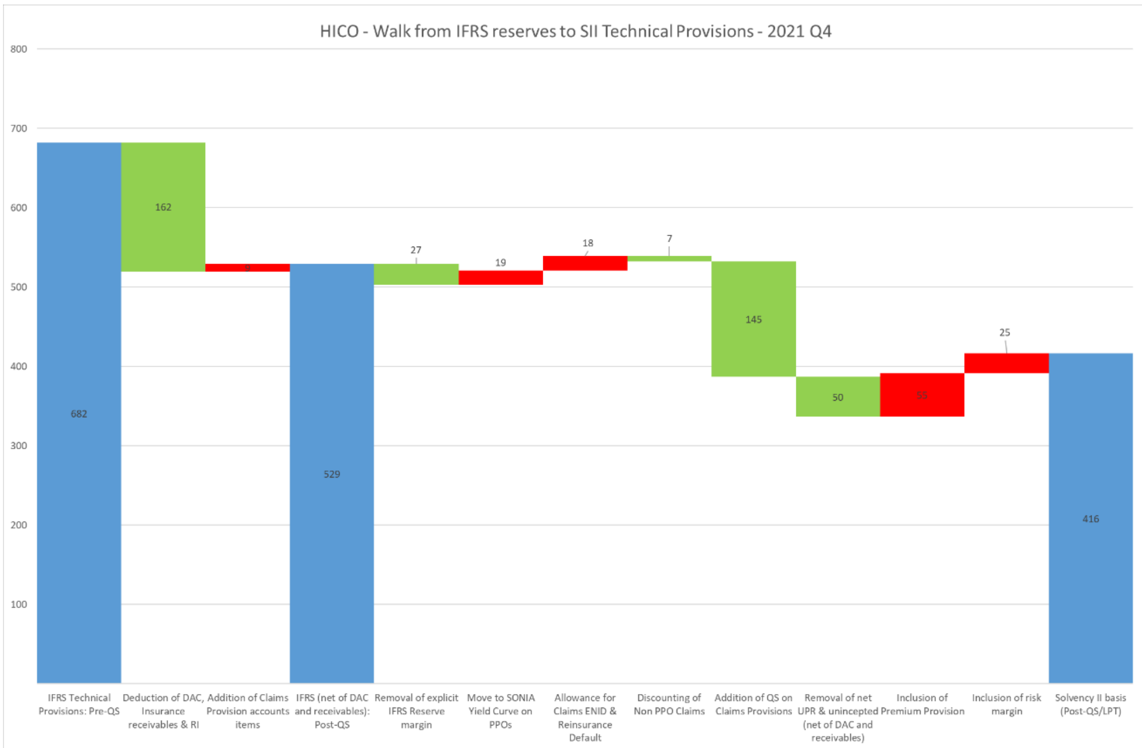
- Premium Provision Loss Ratios are updated whilst taking into account the insights from the IFRS reserve reviews and the developing picture for the forward-looking view;
- Premium Provision expense assumptions and contract boundary rates are updated in line with the reforecasting of the business plan and the latest available MI;
- Cashflow patterns;
- Allowance for reinsurer counterparty default.

HICO does not apply the use of the matching adjustment, volatility adjustment or transitional measures on technical provisions.

D. Valuation for Solvency Purposes continued

IFRS to Solvency II Technical Provisions

The following graph provides a walk between the IFRS Technical Provisions to the equivalent under Solvency II. The figures provided are net of all reinsurance.



The IFRS Technical Provisions net of DAC and receivables is £529m.

The net Technical Provisions restated on a Solvency II basis are £416m. This is a decrease of £113m and consists of;

- Removal of the IFRS Reserve margin, decrease of £27m;
- Move to SII Yield Curve on PPOs only, increase of £19m;
- Allowance for Claims Provision ENIDs and reinsurance default, increase of £18m;
- Discounting of Non-PPO claims, decrease of £7m;
- Addition of QS on Claims Provisions, decrease of £145m;
- Removal of UPR (net of DAC and Insurance Receivables), decrease of £50m;
- Inclusion of Premium Provision, increase of £55m; and
- Inclusion of the Risk Margin, increase of £25m.
- Other movements £1m

D. Valuation for Solvency Purposes continued

D.3 Other liabilities

Reconciliation between IFRS and Solvency II valuation		2021			
		IFRS	Presentational adjustment	Solvency II valuation adjustment	Solvency II
	Note	£m	£m	£m	£m
Reinsurance payables	1	**4**	-	(4)	**-**
Payables (trade, not insurance)	2	**25**	-	(9)	**16**
Deposits from reinsurers	3	**133**	(5)	(3)	**125**
Subordinated liabilities	4	**10**	-	2	**12**
Total Other Liabilities		**172**	**(5)**	**(14)**	**153**

#- Disclosure note not provided as Solvency II value equal to IFRS or the amounts are immaterial.

There are no material off-balance sheet assets or liabilities which fall into the scope of this narrative.

Supporting Notes

1. Reinsurance payables

For Solvency II valuation purposes, reinsurance payables are valued consistently with IFRS.

Under IFRS, reinsurance payables are recognised when due. Reinsurance payables are initially recognised at fair value and subsequently held at amortised cost.

	£m
Due to reinsurers	4
Total Reinsurance payables - IFRS	**4**
Reinsurance payables included in BEL calculations	(4)
Total Reinsurance payables - Solvency II valuation	**-**

The maturity profile of the liability recognised in the IFRS financial statements is summarised in the following table:

	Within 1 year	1 - 3 years	3 - 5 years	Over 5 years	UL	Total
						£m
Reinsurance payables	**4**	**-**	**-**	**-**	**-**	**4**

2. Payables (trade, not insurance)

For Solvency II valuation purpose, trade payables are initially valued consistently with IFRS and then adjusted to remove the MIB levy as part of the Best Estimate Liability (BEL) calculations. Under IFRS, trade payables are recognised when due. Payables are initially recognised at fair value and subsequently held at amortised cost.

Payables (trade, not insurance)	**£m**
Amounts owed to group undertakings	1
Other taxes and social security costs	12
Other payables	1
Accruals and deferred income	11
Total Payables (trade, not insurance) - IFRS	**25**
Reclassification of payables included in BEL calculations	(9)
Total Payables (trade, not insurance) - Solvency II valuation	**16**

D. Valuation for Solvency Purposes continued

3. Deposits from reinsurers

Reinsurance treaties on a funds withheld basis are treated differently due to the distinct features of cash settlement arising from the existence of the cash deposit. The retained deposit on these funds is recorded separately as a liability on the balance sheet under the "Deposit from Reinsurers".

	£m
Deposits from reinsurers	133
Total Deposits from reinsurers - IFRS	**133**
Reinsurance receivable reclassification	(5)
Discounting of Deposit from Reinsurers	(3)
Total Reinsurance payables - Solvency II valuation	**125**

4. Subordinated liabilities

€12m subordinated note is repayable in 2034. Interest is payable on the Notes at the 3-month euro deposit rate plus a margin of 365 basis points.

For solvency II valuation purposes, the subordinated notes have been measured using the risk-free rate at the valuation date, whilst keeping the spread versus risk free rate at point of issue constant, thus eliminating the effect of changes in the Company's own credit standing[5] (and so measurement may deviate from fair value determined in accordance with IFRS). The model uses the discounted cashflow approach with the spread measured against the risk-free rate to equate back to the amount of debt issued. It also allows for accrued interest at point of valuation. The debt is not callable and has a maturity date of 2034.

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

Subordinated liabilities	**£m**
Subordinated notes (€ 12m)	10
Subordinated liabilities - IFRS	**10**
Revaluation of subordinated debt	2
Subordinated liabilities - solvency II valuation	**12**

[5] See EIOPA-BOS-15/113 EN, Guideline 5

D.4 Alternative methods for valuation

Information is provided for material assets and liabilities valued using alternative methods.

Justification for using alternative methods

The Group aims to use quoted market prices or observable inputs to value all assets and liabilities however where there is no external market or readily observable inputs, the Group will use an alternative method such as discounted cash-flow or mark-to-model.

Assumptions used in valuation approach and areas of uncertainty

Alternative methods for valuation include the use of estimates and assumptions that are not market observable but are based on a combination of internally developed models, calibrated to market observable data where possible as well as independent third-party evidence. Valuation uncertainty arises where there is reliance on third-party adherence to expected valuation standards or potential variation in the expected range of the key inputs into models.

The following material assets have been valued using alternative valuation methods in accordance with Article 263 of the Delegated Acts:

1) Deferred tax assets of £8m; this has been valued in line with IFRS, adjusted for the tax impact of temporary differences including goodwill, intangible assets and reserves as valued under Solvency II regulations. The value of the deferred tax asset arising was validated based on Board approved plan future taxable profit projections. The profits used will not include any reversal of the risk margin.

2) Reinsurance recoverables of £438m; this has been valued using the cash flow projection method, in a consistent manner with the calculation of the best estimate liabilities and adjusted for expected losses due to the default of reinsurance counterparties. Further information regarding the best estimate liabilities can be found earlier in Section D.

3) Receivables (trade, not insurance) and Any other assets, not elsewhere shown totalling £11m are valued consistently with IFRS. Management believe this to be representative of the fair value at the reporting date.

The following material liabilities have been valued using alternative valuation methods in accordance with Article 263 of the Delegated Acts:

1) Best Estimate Liability and Risk Margin £855m; this has been valued under Solvency II methodologies and further information can be found in Section D.2 of this report.

2) Payables (trade, not insurance) £16m; trade payables are initially valued consistently with IFRS. The MIB levy is then removed from the payable balance and included within the Best Estimate Liability calculations. Further information on this calculation can be found in Section D.3 of this report.

D.5 Any other information

The ongoing pandemic was a continued source of uncertainty which has been reflected in the global financial markets over the last 2 years.

The financial impact of fewer claims on motor and home products as a consequence of the government instruction for people to stay at home, continued into the first half of 2021. The risks subsided during 2021, as the UK vaccination programme was rolled out and allowed businesses including Allianz to briefly return to partial office working within a Covid-19 secure environment.

However, whilst there is still a significant degree of uncertainty, the Company expects to continue to meet its solvency and capital requirements as required by regulation.

E. Capital Management

E.1 Own funds

The Company seeks to create value for its shareholders by investing in the development of the business while maintaining an appropriate level of capital available. The risk appetite for each type of principal risk is set based on the amount necessary to meet the solvency II capital requirements.

a) Policies and objectives The Company's key capital management objectives are:

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

These objectives are reviewed at least annually, and benchmarks are set by which to judge the adequacy of the Company's capital. The capital position is monitored against those benchmarks to ensure that sufficient capital is available to the Company. The Company is required to hold sufficient capital to meet the Solvency II capital requirements based on the higher of the Solvency Capital Requirement or Minimum Capital Requirement.

The assessment depends on various actuarial and other assumptions about potential changes in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

Management intends to maintain surplus capital in excess of the SCR and MCR to meet the PRA's total requirements and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

b) Measurement and monitoring of capital

The capital position of the Company is monitored on a regular basis and reviewed formally on a monthly basis by the Company's Finance and Investment Forum. The Company's key capital management objectives are reviewed and benchmarks are set by which to judge the adequacy of the Company's capital and ensure that sufficient capital is available.

The Company's capital requirements are forecast at least annually and compared with the projected capital to ensure that the Company will remain adequately capitalised on a forward-looking basis.

In the event that sufficient capital is not available, defined by set triggers, management will refer to the Recovery and Resolution Plan to set out actions that might be taken to improve the position. This might include a capital injection from the Company's parent company or by reducing the amount of risk accepted thereby reducing the capital requirement through, for example, reinsurance, reducing business volumes or a change in investment strategy.

The items reported under Own Funds are classified by the regulations and split into three categories depending on different factors such as quality, liquidity and timeline to availability when liabilities arise. Tier 1 includes ordinary share capital, non-cumulative preference shares and relevant subordinated liabilities. Tier 2 includes cumulative preference shares, and subordinated liabilities with a shorter duration. Tier 3 own funds are those which do not satisfy the Tier 1 or Tier 2 requirements.

Different limit amounts held under the three tiers apply to the MCR and SCR. As Tier 1 comprises the highest quality with the longest redemption period, the majority of the eligible amount of own funds to cover the MCR and SCR is composed of Tier 1 own funds.

E. Capital Management continued

c) Own fund items

The following table details the structure, amount and quality of basic own funds.

	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Ordinary share capital	75	-	-	75
Reconciliation reserve	108	-	-	108
Subordinated liabilities	-	12	-	12
An amount equal to the value of net deferred tax assets specified above	-	-	8	8
Total Basic Own Funds	**183**	**12**	**8**	**203**
Total Basic Own Funds after deductions	**183**	**12**	**8**	**203**

The following tables detail the eligibility of own funds to meet the SCR and MCR.

Total available Own Funds to meet the SCR	183	12	8	203
Total eligible Own Funds to meet the SCR	**183**	**12**	**8**	**203**

Total available Own Funds to meet the MCR	183	12		195
Total eligible Own Funds to meet the MCR	**183**	**9**		**192**

Tier 1 consists of both Ordinary Shares of £75m and the reconciliation reserve, including a capital reserve of £106m (2020: £106m), which carries no requirement for HICO to repay.

Tier 2 consists of subordinated debt issued by HICO for EUR 12m

Tier 3 relates to deferred tax assets of £8m.

E. Capital Management continued

Analysis of significant changes in own funds during the reporting period

	HICO		
	1 January 2021 £m	Movement £m	**31 December 2021 £m**
Eligible own funds			
Tier 1 capital	203	(20)	**183**
Tier 2 capital	14	(2)	**12**
Tier 3 capital	7	1	**8**
Total capital	224	(21)	**203**
Made up by:			
Equity shares	75	-	**75**
Subordinated liabilities	14	(2)	**12**
Deferred tax	7	1	**8**
Reconciliation reserve / surplus	128	(20)	**108**
Total capital	224	(21)	**203**
Total eligible own funds to meet SCR	224	(21)	**203**

- Tier 1 capital includes movements in excess of assets over liabilities, adjusted for the movement in deferred tax. This has reduced by £20m over the reporting period.
- Tier 2 capital represents the subordinated debt as the subordinated debt is a loan in Euros.
- Tier 3 capital represents the deferred tax asset.

Ancillary own funds

At 31 December 2021 there were no ancillary own funds.

Deductions from own funds

At 31 December 2021 there were no deductions from own funds

Explanation of the key elements of the reconciliation reserve

Reconciliation reserve	**£m**
Capital reserve	106
Retained earnings on a Solvency II basis	2
Total	**108**

HICO has not applied any loss absorbency mechanisms as at the end of 2021.

E. Capital Management continued

Material Differences between equity as shown in the undertaking's financial statements and the excess of assets over liabilities as calculated for Solvency II purposes

The following table provides a reconciliation of equity under IFRS to Solvency II excess of assets over liabilities.

	£m
Analysis of Equity - IFRS	
Ordinary shares, allotted and fully paid	75
Capital reserve	106
Available for sale reserve	(6)
Retained Earnings	37
Total Equity - IFRS	**212**
Solvency II Adjustments (excluding reclassifications)	
Assets	
- Reduction in valuation of DAC (Section D.1)	(26)
- Increase in valuation of reinsurance recoverable (Section D.1)	46
- Reduction in valuation of insurance and intermediaries recoverable (Section D.1)	(50)
- Reduction in valuation of reinsurance receivable (Section D.1)	(21)
- Deferred Tax Assets	6
- Other	(5)
	(50)
Technical provisions	
- Reduction in valuation of technical provisions	**7**
Other liabilities	
- Reduction in reinsurance payables (Section D.3)	4
- Reduction in deposits from reinsurers (section D.3)	8
- Reduction in payables (trade, not insurance) (Section D.3)	10
	22
Total Change due to Solvency II adjustments	**(21)**
Total Equity - Solvency II basis	**191**
Add in subordinated liabilities (Tier 2)	12
Total own funds Solvency II basis	**203**

Excess of Assets over Liabilities Solvency II basis	
Total Assets	1198
Total Technical Provisions	(855)
Total Other Liabilities	(152)
Excess of Assets over Liabilities Solvency II basis	**191**

Differences in the asset and liability valuation methodology used for Solvency II purposes and that used under IFRS are set out in Section D.

E. Capital Management continued

Own-fund items that are subject to the transitional arrangements

Tier 2 consists of subordinated debt issued by HICO for EUR 12m in December 2004 which has an original 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 HICO
- 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
- It was free from encumbrances and was not connected with any other transaction

Under the Solvency II transitional rules, the HICO subordinated debt is included in the Tier 2 category of Basic Own Funds for 10 years from 1 January 201

E. Capital Management continued

E.2 SCR and MCR

E.2.1 SCR and MCR

The following table shows the valuation of the HICO SCR and MCR.

	2021 YE	2020 YE
HICO SCR (£m)	**160**	175
HICO MCR (£m)	**45**	69

The HICO SCR reduced by £15m in 2021, this was primarily driven by Non-Life Underwriting risk continuing to reduce as a result of the increase in Quota Share, and also a decrease in Market risk driven by changes in the investment profile over the year.

The Minimum Capital Requirement (MCR) reduced significantly in 2021. This was due to the higher Quota Share reducing Net Written Premiums and Reserves.

E.2.2 Basis of calculation

HICO 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. HICO 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.

E.2.3 SCR split by risk

The following table summarises the risk modules which contribute to the Solvency Capital Requirement applicable under Standard Formula.

HICO Year end 2021 - all figures in £m	
Non-life underwriting risk	119
Market risk	33
Counterparty default risk	12
Life underwriting risk	2
Health underwriting risk	0
Diversification	-28
Basic solvency capital requirement	**138**
Operational risk	22
Loss-absorbing capacity of deferred taxes	0
Solvency capital requirement	**160**

E.2.4 Loss Absorbing Capacity of Deferred Taxes (LACDT)

As above, the allowance for LACDT reduces the SCR by £0 for HICO. LACDT is considered for the HICO SCR, however there was insufficient carry-back profit in the last year to justify an LACDT.

E.3 Use of a duration-based equity risk sub-module
HICO 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 HICO does not currently use an Internal Model to calculate its SCR.

E.5 Non-compliance with the MCR and the SCR
HICO has been compliant with the MCR and SCR throughout the reporting period.

E.6 Any other material information
There is no other additional information.

In view of the Solvency II capital ratio of 126% as at 31 December 2021, and the stress tests performed, HICO does not expect any breach of its Solvency Capital Requirement. We expect HICO to continue to be sufficiently capitalised in compliance with the regulatory Solvency Capital Requirement. HICO is continuing to perform regular stress testing as described in Section C and maintains a catalogue of recovery options in its Recovery and Resolution Plan.

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 2021:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2021, ('**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; and
- 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 2021 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.

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 management's updated going concern assessment and challenging material assumptions made using our knowledge of the Company's business performance and review of regulatory correspondence;
- Considering management's assessment of the regulatory Solvency coverage and liquidity position in management's future forecast; and

- 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 (including the impacts of COVID-19).

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 the Companies Act 2006, 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 the PRA Rulebook applicable to Solvency II firms and the Solvency II regulations. 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;
- 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.

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

8 April 2022

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Solvency II Prepackage Solution

Balance sheet

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021SOL2
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	8,251
Pension benefit surplus	R0050	0
Property, plant & equipment held for own use	R0060	0
contracts)	**R0070**	**689,903**
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*	*689,903*
Government Bonds	R0140	273,083
Corporate Bonds	R0150	400,709
Structured notes	R0160	0
Collateralised securities	R0170	16,111
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**	**40,280**
Loans on policies	R0240	0
Loans and mortgages to individuals	R0250	0
Other loans and mortgages	R0260	40,280
Reinsurance recoverables from:	**R0270**	**438,657**
Non-life and health similar to non-life	R0280	348,996
Non-life excluding health	R0290	348,996
Health similar to non-life	R0300	0
unit-linked	R0310	89,661
Health similar to life	R0320	0
Life excluding health and index-linked and unit-linked	R0330	89,661
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	4,518
Own shares (held directly)	R0390	0
paid in	R0400	0
Cash and cash equivalents	R0410	10,590
Any other assets, not elsewhere shown	R0420	5,914
Total assets	**R0500**	**1,198,111**

Liabilities		
Technical provisions - non-life	**R0510**	**739,906**
Technical provisions - non-life (excluding health)	**R0520**	**739,906**
Technical provisions calculated as a whole	R0530	0
Best Estimate	R0540	718,477
Risk margin	R0550	21,430
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**	**115,209**
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**	**115,209**
Technical provisions calculated as a whole	R0660	0
Best Estimate	R0670	111,592
Risk margin	R0680	3,617
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	124,513
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	330
Reinsurance payables	R0830	0
Payables (trade, not insurance)	R0840	15,570
Subordinated liabilities	**R0850**	**11,784**
Subordinated liabilities not in Basic Own Funds	R0860	0
Subordinated liabilities in Basic Own Funds	R0870	11,784
Any other liabilities, not elsewhere shown	R0880	0
Total liabilities	**R0900**	**1,007,312**

Excess of assets over liabilities	**R1000**	**190,799**

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Solvency II Prepackage Solution

Premiums, claims and expenses by line of business

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021 Solvency II
Period: Annual
Category: Solvency II: Statutory Account
Currency: GBP - Great British Pounds
EIOPA QRT: 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)						
		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
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
Premiums written								
Gross - Direct Business	R0110				223,833	63,348		126,102
Gross - Proportional reinsurance accepted	R0120							
Gross - Non-proportional reinsurance accepted	R0130							
Reinsurers' share	R0140				141,788	40,124		79,752
Net	**R0200**				**82,044**	**23,223**		**46,350**
Premiums earned								
Gross - Direct Business	R0210				254,792	72,224		81,783
Gross - Proportional reinsurance accepted	R0220							
Gross - Non-proportional reinsurance accepted	R0230							
Reinsurers' share	R0240				109,596	31,057		36,405
Net	**R0300**				**145,196**	**41,167**		**45,378**
Claims incurred								
Gross - Direct Business	R0310				224,231	63,809		49,280
Gross - Proportional reinsurance accepted	R0320							
Gross - Non-proportional reinsurance accepted	R0330							
Reinsurers' share	R0340				116,558	33,373		21,098
Net	**R0400**				**107,674**	**30,436**		**28,182**
Changes in other technical provisions								
Gross - Direct Business	R0410							
Gross - Proportional reinsurance accepted	R0420							
Gross - Non-proportional reinsurance accepted	R0430							
Reinsurers' share	R0440							
Net	**R0500**							
Expenses incurred	**R0550**				**47,202**	**13,393**		**25,882**
Other expenses	R1200							
Total expenses	**R1300**							

		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
		General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written											
Gross - Direct Business	R0110	1,185		156	1,056						**415,680**
Gross - Proportional reinsurance accepted	R0120										**0**
Gross - Non-proportional reinsurance accepted	R0130										**0**
Reinsurers' share	R0140	750		133	897						**263,444**
Net	**R0200**	**436**		**24**	**159**						**152,237**
Premiums earned											
Gross - Direct Business	R0210	769		50	370						**409,987**
Gross - Proportional reinsurance accepted	R0220										**0**
Gross - Non-proportional reinsurance accepted	R0230										**0**
Reinsurers' share	R0240	342		38	285						**177,723**
Net	**R0300**	**427**		**12**	**85**						**232,264**
Claims incurred											
Gross - Direct Business	R0310	463		12	98						**337,893**
Gross - Proportional reinsurance accepted	R0320										**0**
Gross - Non-proportional reinsurance accepted	R0330										**0**
Reinsurers' share	R0340	198		12	98						**171,337**
Net	**R0400**	**265**			**0**						**166,557**
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**	**244**		**14**	**99**						**86,834**
Other expenses	R1200										**14,828**
Total expenses	**R1300**										**101,661**

		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**									

Life and Health SLT Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021 Solvency II
Period: Annual
Category: TO CONSOLIDATE
Currency: GBP - Great British Pounds
EIOPA ORT: 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**								111,592		111,592						0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								89,661		89,661						0
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090								21,931		21,931						0
Risk Margin	**R0100**								3,617		3,617						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**								115,209		115,209						0

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Non - life Technical Provisions

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021 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				**59,453**	**30,358**		**30,789**	**289**		**45**	**118**						**121,053**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0140				35,338	9,551		20,507	216		86	505						**66,203**
Net Best Estimate of Premium Provisions	R0150				**24,116**	**20,808**		**10,282**	**73**		**-42**	**-387**						**54,850**
Claims provisions																		
Gross	R0160				**560,952**	**-1,190**		**35,739**	**1,817**		**12**	**93**						**597,423**
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty	R0240				267,278	594		14,273	605		5	37						**282,792**
Net Best Estimate of Claims Provisions	R0250				**293,674**	**-1,784**		**21,466**	**1,212**		**7**	**56**						**314,631**
Total Best estimate - gross	**R0260**				**620,406**	**29,168**		**66,529**	**2,107**		**57**	**211**						**718,477**
Total Best estimate - net	**R0270**				**317,790**	**19,023**		**31,748**	**1,285**		**-34**	**-331**						**369,481**
Risk margin	**R0280**				19,707	251		1,433	36		0	2						**21,430**
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**				**640,113**	**29,419**		**67,962**	**2,143**		**57**	**213**						**739,906**
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**				**302,616**	**10,144**		**34,780**	**821**		**91**	**542**						**348,996**
Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total	**R0340**				**337,497**	**19,275**		**33,181**	**1,321**		**-34**	**-329**						**390,911**

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Non-life Insurance Claims Information

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021 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											12,163
2012	R0160	92,200	68,621	26,704	20,958	15,045	11,755	7,547	1,311	1,667	1,641	
2013	R0170	83,469	55,036	18,517	12,664	9,173	6,416	3,758	7,859	1,442		
2014	R0180	86,780	50,474	16,569	11,149	8,525	6,600	835	488			
2015	R0190	89,959	57,077	21,652	23,933	10,238	6,285	1,797				
2016	R0200	110,817	61,273	21,007	15,050	12,143	5,718					
2017	R0210	110,805	63,126	22,207	24,366	23,867						
2018	R0220	133,168	67,655	21,836	29,209							
2019	R0230	142,468	50,855	18,193								
2020	R0240	117,886	42,121									
2021	R0250	124,204										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	12,163	1,186,263
	R0160	1,641	247,448
	R0170	1,442	198,334
	R0180	488	181,421
	R0190	1,797	210,940
	R0200	5,718	226,008
	R0210	23,867	244,370
	R0220	29,209	251,867
	R0230	18,193	211,516
	R0240	42,121	160,008
	R0250	124,204	124,204
Total	R0260	**260,845**	**3,242,379**

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											16,615
2012	R0160	0	0	0	0	43,674	45,789	29,464	27,486	26,963	24,741	
2013	R0170	0	0	0	49,233	42,665	31,026	27,712	11,757	9,810		
2014	R0180	0	0	43,289	26,720	12,053	5,128	3,876	3,368			
2015	R0190	0	113,649	67,911	26,555	17,963	11,993	9,134				
2016	R0200	176,547	91,252	57,314	21,960	12,862	10,657					
2017	R0210	191,436	105,881	80,289	55,868	31,209						
2018	R0220	192,620	112,696	111,412	85,811							
2019	R0230	158,666	110,627	112,030								
2020	R0240	162,943	91,294									
2021	R0250	230,540										

		Year end (discounted data)
		C0360
	R0100	15,905
	R0160	20,362
	R0170	9,302
	R0180	3,324
	R0190	8,792
	R0200	10,516
	R0210	28,576
	R0220	82,699
	R0230	107,389
	R0240	87,993
	R0250	222,472
Total	R0260	**597,331**

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Own funds

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021 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	**107,548**	107,548			
Subordinated liabilities	R0140	**11,784**			11,784	
An amount equal to the value of net deferred tax assets	R0160	**8,251**				8,251
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**	**202,583**	**182,548**		**11,784**	**8,251**
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**	202,583	182,548		11,784	8,251
Total available own funds to meet the MCR	**R0510**	194,332	182,548		11,784	
Total eligible own funds to meet the SCR	**R0540**	202,583	182,548		11,784	8,251
Total eligible own funds to meet the MCR	**R0550**	191,552	182,548		9,004	
SCR	**R0580**	160,448				
MCR	**R0600**	45,019				
Ratio of Eligible own funds to SCR	**R0620**	126.26%				
Ratio of Eligible own funds to MCR	**R0640**	425.50%				

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	**190,799**
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	**83,251**
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	**R0760**	**107,548**
Expected profits		
Expected profits included in future premiums (EPIFP) - Life Business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	4,295
Total Expected profits included in future premiums (EPIFP)	**R0790**	**4,295**

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Solvency II Prepackage Solution

Solvency Capital Requirement - for undertakings on Standard Formula

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021 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	33,325		
Counterparty default risk	R0020	12,451		
Life underwriting risk	R0030	2,399		
Health underwriting risk	R0040			
Non-life underwriting risk	R0050	118,973		
Diversification	R0060	-28,758		
Intangible asset risk	R0070			
Basic Solvency Capital Requirement	**R0100**	**138,391**		

Calculation of Solvency Capital Requirement

		C0100
Operational risk	R0130	22,056
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	160,448
Capital add-on already set	**R0210**	
Solvency capital requirement	R0220	160,448
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	
LAC DT justified by reference to probable future taxable economic profit	R0660	
LAC DT justified by carry back, current year	R0670	
LAC DT justified by carry back, future years	R0680	
Maximum LAC DT	R0690	-23,891

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

Entity: HICO - Highway Insurance Company Limited
Scenario: 2021 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	317,790	82,044
Other motor insurance and proportional reinsurance	R0060	19,023	23,223
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	31,748	46,350
General liability insurance and proportional reinsurance	R0090	1,285	436
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		24
Assistance and proportional reinsurance	R0120		159
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	21,931	
Total capital at risk for all life (re)insurance obligations	R0250		

		Non-life activities	Life activities
		C0010	C0040
MCRNL Result	R0010	44,558	
MCRL Result	R0200		461

Overall MCR calculation		C0070
Linear MCR	R0300	45,019
SCR	R0310	160,448
MCR cap	R0320	72,201
MCR floor	R0330	40,112
Combined MCR	R0340	45,019
Absolute floor of the MCR	R0350	3,126
		C0070
Minimum Capital Requirement	**R0400**	**45,019**