

Registered number: 03730662

Annual Report and Financial Statements 2025
Highway Insurance Company Limited

Highway Insurance Company Limited

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Highway Insurance Company Limited

Company Information

Directors: O R P Corbett
P J Evans
C A Guthrie
C J Holmes
T Robson-Capps
M F Ruf
C G Townsend
J R Vazquez

Company Secretary: C M Twemlow

Registered office: 57 Ladymead
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Surrey
England
GU1 1DB

Registered number: 03730662

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

Highway Insurance Company Limited

Strategic Report for the Year Ended 31 December 2025

The Directors present their Strategic Report for the year ended 31 December 2025.

Highway Insurance Company Limited ("the Company") is, via intermediate companies, a wholly owned subsidiary of Allianz Holdings plc ("AzH"), which is itself owned by Allianz (UK) Limited ("AZ(UK)"). AZ(UK) and its subsidiaries are collectively referred to in this document as "Allianz UK". The Company's ultimate shareholder is Allianz Societas Europaea ("Allianz SE"), which is headquartered in Germany.

Allianz UK operates a combined board for AzH, the Company, Allianz Insurance plc ("AZI"), Liverpool Victoria Insurance Company Limited ("LVIC") (the "Combined Board").

Principal activities

The Company's principal activity is the undertaking of general insurance business through broker distribution channels. The Company offers a wide range of products focused predominantly in motor ("Motor") and household ("Household") insurance. The Company distributes its products almost entirely in the UK.

The Company is regulated by the Financial Conduct Authority ("FCA") and is authorised and regulated by the Prudential Regulation Authority ("PRA").

Business review

Gross written premium ("GWP") fell by 7.9% to £365.1m (2024: £396.4m). GWP is an alternative performance measure used by the Company reconciled to insurance service revenue in the Key Performance Indicators ("KPIs") section. The reduction in GWP was primarily a result of the soft market environment. A shift of customers to direct and price comparison website channels impacted the Company, resulting in lower new business volumes.

Inflationary pressure and macroeconomic factors continue to impact all aspects of the UK insurance industry, from pricing and claims to repairs and procurement. Personal lines showed signs of recovery in the last quarter of 2025, with targeted pricing actions and initiatives driving strong retention in the second half of the year.

The Company delivered a profit with a Combined Operating Ratio ("COR") of 95.0% (2024: 99.4%), with a focus on maintaining profitable margins. Claims were affected by ongoing inflation, while weather losses stayed within expectations, large Motor claims offset some gains. Strong expense control led to an improved expense ratio for 2025. Operational changes driven by increased digital customer support and a continued reduction in Motor insurance claims are expected to enhance productivity, with the full impact on the Company's expense ratio taking effect from 2026.

Investment income continued to benefit from high reinvestment yields and floating rate income in 2025, as well as strong business cashflow. There were large unrealised gains in the portfolio resulted from falling interest rates and reducing credit spreads on corporate and emerging market debt.

Allianz UK ranked in the top 50 best UK workplaces, earning us Great Place to Work certification. Allianz UK achieved the EcoVadis Silver rating in November 2025, reflecting a strong performance against environmental, social, and governance ("ESG") criteria. Commitment to continuous improvement in sustainability practices was also recognised by the business being shortlisted at the Insurance Times Awards Sustainability Initiative of the Year.

Allianz UK's car and home insurance policies have earned a 5-star Defacto rating, the highest possible. Allianz UK was the winner of The General Insurance Provider of the Year 2025 at the Financial Reporter Awards, as well as being named Best General Insurer Provider at both the Your Mortgage Awards and The Right Mortgage Network Awards.

KPIs

The financial KPIs monitored by the Company are outlined below.

	2025	2024
	£m	£m
GWP	365.1	396.4
Insurance service revenue	388.1	395.0
Insurance service result	19.6	2.2
Loss ratio ⁽¹⁾	56.9%	65.9%
Reinsurance ratio ⁽²⁾	13.0%	7.9%
Expense ratio ⁽³⁾	25.1%	25.6%
Expense ratio (including non-attributable costs) ⁽⁴⁾	27.6%	28.4%
COR ⁽⁵⁾	95.0%	99.4%
COR (adjusted) ⁽⁶⁾	97.5%	102.2%
Solvency capital requirement ("SCR") coverage ratio ⁽⁷⁾	172.7%	191.7%

(1) Loss ratio is defined as total claims and benefits (including loss component) as a percentage of insurance service revenue.

(2) Reinsurance ratio is defined as net expenses from reinsurance contracts held as a percentage of insurance service revenue.

(3) Expense ratio is defined as insurance service expenses less claims and benefits (including loss component) as a percentage of insurance service revenue.

(4) Expense ratio (including non-attributable costs) is defined as insurance service expenses plus non-attributable costs less claims and benefits (including loss component) as a percentage of insurance service revenue.

(5) COR is defined as the sum of the loss ratio, reinsurance ratio and the expense ratio.

(6) COR (adjusted) is defined as sum of the loss ratio, reinsurance ratio and the expense ratio (including non-attributable costs).

(7) SCR coverage ratio is defined as the Company's eligible own funds as a percentage of the SCR as required by Solvency II as it applies in the UK ("Solvency UK").

The GWP can be reconciled to the insurance service revenue reported in the Statement of Profit and Loss and Other Comprehensive Income on page 20 as follows:

	2025	2024
	£m	£m
GWP	365.1	396.4
Unearned premium reserve adjustment	23.0	(1.4)
Insurance service revenue	388.1	395.0

The Company also monitors non-financial KPIs, including digital Net Promoter Score ("dNPS"). dNPS is an important indicator of our customer service which captures customers and brokers' willingness to recommend us and is benchmarked against our competitors. We ask our customers, and those of our competitors, for honest and anonymous feedback, and then benchmark the results.

The Company maintained Loyalty Leader status in Personal lines in 2025.

Risk appetite

The Combined Board has a written statement confirming the degree of uncertainty (or risk) that it is willing to accept in the pursuit of its goals, that it reconsiders and approves annually.

Allianz UK has risk appetite statements in place for insurance, market, credit, liquidity, operational, information security, strategic, reputational and climate risks. Each of these includes a risk appetite statement expressing the Company's preference for each risk type and where appropriate risk metrics and associated limits and thresholds that are used to define the tolerance for each risk.

In relation to the objectives in the annual corporate plan, Allianz UK aims to ensure that the extent of a possible variance to the planned result caused by an event or combination of events is kept within the stated risk appetite.

The risk management framework is designed to deal with the various risks Allianz UK may encounter, as well as how they are reported and monitored.

Principal risks and uncertainties

The Company assesses the principal risks and uncertainties facing the business, continually monitoring potential impacts and where necessary implementing mitigation actions. For details of the Company's principal risks and uncertainties, refer below and to note 17:

- **Information security/cyber security** – risks relating to exposure to cyber security incidents or internal issues that lead to data loss, corruption or compromise and/or Cyber incidents that impact upon servers and systems, employees, partners and customers.
- **Macroeconomic and operational impacts of rising geopolitical uncertainty** – risk of political, economic and/or social instability arising from shifts in global or regional power dynamics, government policies, conflicts, or international relations, which can impact markets, supply chains, and business operations.
- **UK insurance market cycle** – the risk that changes in the market cycle could impact rating and growth opportunities.
- **Governmental and regulatory policy** – the uncertainty and impact of changes in government and regulatory policies require timely responses to new directives. Failure to act within expected timeframes may result in regulatory actions.

- **Speed of transformation and/or execution risks to the delivery of change** – to stay relevant with customers, market and technological advances, particularly artificial intelligence (“AI”), businesses need to pivot to meet new demands, risks and potential implementation challenges.
- **Brand risk** – as a significant global financial services brand, the Company is exposed to the risk of negative media coverage and stakeholder perception, either as a result of external events, or as a result of its own activities.
- **Operational resilience** – operational resilience pertains to the risk of business disruption to the most important business services that breach predefined impact tolerances. The risk includes service resilience, business continuity management and disaster recovery processes and impacts on customers, firm viability and financial system stability.
- **UK weather events** – the risk of financial and operational impacts from UK Weather Events, driven by changes in the frequency and severity of natural catastrophe events.

Future outlook

The insurance market experienced sustained downward pressure on prices and heightened competition through most of 2025, with early signs of stabilisation emerging in the fourth quarter. Conditions in 2026 are expected to stay challenging as rate pressure persists. Technological progress, particularly in automation and AI, is expected to support efficiency gains and improve underwriting and service capabilities across the sector.

The Directors view 2026 with cautious optimism, despite the competitive market environment, elevated inflation and ongoing geopolitical volatility. The Company remains well equipped through its product portfolio, customer relationships and robust financial position to manage these challenges and continue to deliver for customers and brokers. The Company will navigate a challenging market in 2026 by maintaining discipline, prioritising retention, strengthening marketing and distribution, and continuing to invest in the digital customer journey. It will also enhance overall business quality by exiting underperforming segments and upholding strong underwriting and pricing discipline while remaining vigilant against claims fraud.

The intention is that the Board will apply for a Part VII transfer as part of the programme to rationalise the insurance entities in Allianz UK during 2026. The Part VII transfers all insurance related liabilities and assets from the Company to AZI. While detailed plans have been developed for the rationalisation programme, completion remains subject to regulatory and Court approvals outside the Company’s control. At the date the Financial Statements are approved for issue, court dates to obtain legal and regulatory approval are May and October 2026. Whilst management remain confident that the Part VII transfer will complete on 1 January 2027, the timing of regulatory deauthorisation and subsequent liquidation remains uncertain. Should the Part VII transfer not complete as anticipated, the Company will continue to carry out its principal activity.

Going concern

These Financial Statements have been prepared on a going concern basis. The Company has capital in excess of the minimum regulatory requirements. In addition, the Board has reviewed the Company’s forecasts for the next 12 months and beyond. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the reporting date of the Financial Statements.

Section 172(1) Companies Act 2006 Statement

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

The Board is responsible for setting the Company’s strategic aims and ensuring that the necessary resources are in place to meet its objectives. The Board receives information from across the business in the form of Board reports and presentations when making decisions, and these include information about how stakeholder interests have been considered.

The Combined Board governance framework ensures that the Company’s Board also has regard to the overall strategy, interests and direction of Allianz UK as a whole when taking decisions and in its discussions. This includes considering the impact on the broader stakeholders of Allianz UK, the environment in which the Company and Allianz UK operate and the long-term success of the Company and Allianz UK.

Stakeholder engagement

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

Customers

The Board is committed to delivering good outcomes for customers. Customer centricity is fundamental to the Company's strategy.

Following Consumer Duty implementation in July 2023, the delivery of good customer outcomes is monitored and assessed on a regular basis. An annual assessment of customer outcomes was submitted to the Board in July 2025. This provided assurance to the Board that positive customer outcomes were being delivered and identified any areas where additional action had been or needed to be taken.

Engagement takes place on a day-to-day basis between Allianz UK's customer-facing staff, its customers and distribution partners. Direct and indirect feedback received from customers and partners is collated and reviewed, together with other data such as complaints received and the number of complaints referred to, and upheld by, the Financial Ombudsman Service ("FOS"). This information is fed back to the Combined Board's Customer & Conduct Committee, which is responsible for overseeing customer conduct matters for the key regulated entities of Allianz UK. The Customer & Conduct Committee reports into the Combined Board, ensuring that the Directors have sight of customer engagement and experience metrics to factor into decision making. dNPS surveys are a key method of engaging with customers across Allianz UK's businesses and helping to embed a customer-centric culture. For further details on the dNPS, refer to the KPIs section on page 3.

Employees

The Company does not have any employees. Allianz Management Services Limited ("AMS"), a company within Allianz UK, provides administration services and staff resources to the Company and to other Allianz UK companies.

Senior executives engage with staff through regular townhalls to discuss important topics and answer questions raised by employees. A number of leadership conference meetings are held each year to share important messages and facilitate discussion and debate which are then cascaded throughout the organisation. Employee engagement is facilitated in a variety of ways, including the Allianz Engagement Survey ("AES"), "pulse" surveys, virtual townhall presentations and newsletters via the employee intranet. AES results are collated for an Allianz UK-wide result and disaggregated to enable targeted action plans which are developed based on specific feedback from divisions and teams. Delivery against these actions is linked to performance objectives of the Allianz UK Executive Committee members, ensuring that employees' views are carefully considered by leadership in decision making. A work well index is used to measure the quality of the work environment, practices and opportunities. The Combined Board receives regular updates on employee matters, including culture and AES.

In 2025, Allianz UK continued several initiatives in support of its aim to foster an inclusive environment, including investing in young people in underprivileged economic areas by continuing the Career Ready partnership launched in 2023, with a mentoring programme to support a focus on social mobility and assist young people facing barriers to education and employment.

Regular pay reviews ensure that employees are competitively rewarded. All of Allianz UK's people are paid at least the Living Wage Foundation rates of pay. Allianz UK is committed to reducing the gender pay gap which the Compensation & Nomination Committee of the Combined Board oversees.

Suppliers

Material supplier contracts are considered by the Combined Board on behalf of Allianz UK. In accordance with the Allianz Outsourcing and Third-Party Management Policy, the Combined Board is responsible for approving and overseeing procedures related to material contracts, as well as their ongoing monitoring and performance.

Suppliers are required to comply with the Allianz UK Vendor Code of Conduct, which sets standards in relation to ethics, labour and environmental sustainability.

In 2025, work was undertaken to support greater oversight and resilience of Allianz UK's third-party suppliers in compliance with UK legal and regulatory requirements.

Regulators

The Company is regulated by the FCA and authorised and regulated by the PRA. Maintaining a transparent relationship with the Company's regulators is a priority for the Board, and careful consideration is given to regulatory impact when making decisions.

The Board carefully considers key regulatory developments and requirements as well as any letters received by the Company from the regulators and oversees implementation of necessary changes. In 2025, the Board considered the Periodic Summary Meeting letter from the PRA and the Firm Evaluation Letter from the FCA. This informed the planned focus areas of the supervisory engagement throughout the year.

The Board's executive and non-executive Directors have regular direct contact and dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions which are then brought into Board discussions.

Shareholder

The Company has regard to the interests of its immediate shareholder, Highway Insurance Group Limited ("HIG"), as well as to Allianz UK and Allianz SE when making decisions. The Company's strategy is closely aligned with Allianz UK's strategy and the Allianz SE strategy. Allianz SE nominates a non-executive director to the Board of the Company.

Community and the Environment

Allianz UK aims to be a leader in sustainability and a committed corporate citizen. The focus is on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of sustainability into all aspects of its businesses.

During the year, the Combined Board considered the progress made delivering Allianz UK's sustainability strategy and reviewed performance against sustainability commitments and targets. The strategy aligns with the Allianz SE Sustainability strategy and net-zero transition plan.

Allianz UK strives to support communities they operate in through various initiatives including grassroots sports, partnering with the Olympic and Paralympic movements, the Rugby Football Union and Barnardo's children's charity. In addition, regional offices raise donations in funds, time and skills to support local charities and communities across the country.

Board decision-making

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

Operational Resilience Self-Assessment

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

Stakeholders: customers, regulators

During the year, the Board considered and approved the annual Operational Resilience Self-Assessment. Achieving operational resilience maturity and ensuring the continued operation in stressed circumstances of important business services which are relied on by customers has remained a significant Board priority. The Operational Resilience Self-Assessment involved reviewing important business services and impact tolerances to identify any vulnerabilities which needed to be addressed, as well as reviewing critical suppliers and ensuring that supplier failure response plans are in place and incorporated in the scenario-based testing plans. In taking the decision to approve the Operational Resilience Self-Assessment, the Board considered its importance to customers, suppliers and the regulators in Allianz UK's ongoing capability to deliver its critical operations in the face of disruption

Strategic Dialogue

Section 172 considerations: promoting the success of the Company for the benefit of the Company's members and consequences of decisions in the long term

Stakeholders: shareholder, customers, employees

During the year, the Board considered and approved the Strategic Dialogue for submission to its ultimate shareholder Allianz SE. The Strategic Dialogue articulates the strategy for Allianz UK over the next three years across all key business divisions. In setting the strategic direction for Allianz UK, the Board considered a set of defined KPIs which measure success across key stakeholder groups. The Strategic Dialogue process involved Board discussion around how growth can be delivered against market conditions and macro-economic factors, taking into account the interests of key stakeholders including customers, employees, shareholder and regulators.

On behalf of the Board



M F Ruf
Director
1 April 2026

The Directors present their Annual Report and Financial Statements for the year ended 31 December 2025.

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

- Customers, suppliers and other key stakeholders statement;
- Results for the year;
- Principal activities of the Company; and
- Business review and future prospects.

Directors

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

O R P Corbett
P J Evans
C A Guthrie (appointed 19 November 2025)
C J Holmes
U Lange (resigned 30 November 2025)
D J Larnder (resigned 14 November 2025)
T Robson-Capps
M F Ruf (appointed 1 December 2025)
C G Townsend
J R Vazquez

Directors' liabilities

A qualifying third-party indemnity was in force during the financial year and at the date of approval of the Financial Statements.

Dividends

No dividends were paid during the year ended 31 December 2025 (2024: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2025 (2024: £nil).

Financial instruments

For the Company's policies in respect of financial instruments, refer to note 17.

Going concern

The Directors, having undertaken an assessment, are confident in the Company's ability to continue as a going concern. Refer to the Strategic Report on page 4.

Internal audit

The Audit Committee has reviewed and confirmed that the internal audit function had sufficient resources to enable it to act in an independent and effective manner.

Streamlined Energy and Carbon Reporting ("SECR")

Under the Act and SECR Regulations, 'Large' companies are required to report their annual emissions in their Directors' Report. It should be noted that the information disclosed relates to several entities within Allianz UK as this is the lowest level of granularity for which the data is collected.

The SECR statement has been prepared in line with the requirements of the SECR regulations and the relevant areas of the Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard.

A "Dual Reporting" methodology has been used to indicate emissions using UK electricity grid average emission factors (known as the "Location based" method), and also emissions using supplier specific generation emission factors (the "Market based" method). Under SECR guidelines, a similar dual reporting methodology has also been used to account for the purchase of biogas, using the natural gas emission factor for the location based method and the biogas emission factor for the relevant consumption under the market based method.

During the year, Allianz UK undertook a Transfer of Undertakings (Protection of Employment) ("TUPE") of employees and assignment of office leases from Liverpool Victoria General Insurance Group Limited ("LVGIG") to AMS. As a result, and to ensure a fair comparison, the 2024 SECR figures have been restated.

This restatement is to enhance comparability and does not represent the correction of an error in the 2024 Annual Report and Financial Statements.

"Location based" method

The total energy consumption for 2025 was 7,344,404 kWh (2024: 14,118,527 kWh) equating to 3,674 tCO₂e (2024: 3,128

tCO₂e).

	2025	2024
Emissions from combustion of gas (Scope 1)	217 tCO ₂ e	492 tCO ₂ e
Emissions from combustion of fuel for transport purposes (Scope 1)	1,793 tCO ₂ e	1,716 tCO ₂ e
Emissions from purchased electricity (Scope 2)	263 tCO ₂ e	616 tCO ₂ e
Emissions from vehicle electricity (Scope 2)	586 tCO ₂ e	109 tCO ₂ e
Emissions from Transmission and Distribution (Scope 3)	574 tCO ₂ e	64 tCO ₂ e
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	241 tCO ₂ e	131 tCO ₂ e

Carbon intensity: Emissions of tCO₂e/full-time equivalent during 2025 was 0.521 tCO₂e (2024: 0.734 tCO₂e).

Allianz UK's strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin ("REGO") certificates and Renewable Gas Guarantees of Origin ("RGGOs"). Through this strategy, within the above 2025 total energy consumption, AMS has sourced a total of 4,817,753 kWh (2024: 4,221,961 kWh) of REGO backed (zero emission) electricity equating to 100.0% of total electricity use and 446,616 kWh of RGGO backed biogas equating to 37.6% of total gas use.

"Market based" method

The total energy consumption for 2025 was 7,344,404 kWh (2024: 14,118,527 kWh) equating to 2,729 tCO₂e (2024: 2,230 tCO₂e).

	2025	2024
Emissions from combustion of gas (Scope 1)	136 tCO ₂ e	264 tCO ₂ e
Emissions from combustion of fuel for transport purposes (Scope 1)	1,793 tCO ₂ e	1,716 tCO ₂ e
Emissions from purchased electricity (Scope 2)	-	-
Emissions from vehicle electricity (Scope 2)	-	109 tCO ₂ e
Emissions from Transmission and Distribution (Scope 3)	560 tCO ₂ e	10 tCO ₂ e
Emissions from business travel in rental cars or employee-owned vehicles where company is responsible for purchasing the fuel (Scope 3)	241 tCO ₂ e	131 tCO ₂ e

Carbon intensity: Emissions of tCO₂e/full-time equivalent during 2025 was 0.387 tCO₂e (2024: 0.523 tCO₂e).

Energy Efficiency actions taken during 2025:

Allianz UK has implemented measures across its Property and Travel functions to enhance energy efficiency in its operations. In 2025, the TUPE transfer of employees and assignment of office leases between the respective management service companies within Allianz UK, enabled improved management of operational emissions attributable to all Allianz UK employees.

Across Allianz UK's office portfolio, the Allianz Building Standards Catalogue has been applied to assess energy performance and prioritise areas for targeted energy efficiency improvements. This strategy includes installing electric vehicle charging points, donating excess office furniture to local charities and schools, and integrating new software to report consumption through utility meters. Energy-efficient LED light fittings, passive infrared controls, and individual electrical metering have been installed across office consolidations, refurbishments, and new fit outs.

At the new Bishopsgate London office, air-source heat pumps have been installed to maximise energy efficiency and eliminate gas consumption.

Allianz UK has continued to transition its corporate fleet to battery-electric vehicles and improve reporting accuracy, enabling the purchase of renewable electricity for its electric vehicle fleet and continued alignment to RE100.

Allianz UK is committed to an intermediate target to reduce GHG emissions per employee by 70% as of year-end 2030, against a 2019 baseline across Scope 1, Scope 2, and selected Scope 3 emissions. Key levers for GHG emission reduction will be the areas of renewable electricity, buildings, as well as fleet, business travel, and procurement. In the area of renewable electricity, Allianz SE Group is a member of RE100, a global initiative bringing together companies committed to using 100% renewable electricity. Allianz UK has sourced 100% renewable electricity since 2023 and continues to implement energy efficiency measures.

Within Allianz UK's supply chain, the Company is actively engaging with global framework vendors that provide global services to set their own net-zero commitments and to identify opportunities to reduce emissions.

Highway Insurance Company Limited

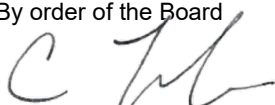
Directors' Report for the Year Ended 31 December 2025

Independent auditors

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

During the year, the Board initiated a competitive tender process for the external audit of the Company. Following this process, in December the Board confirmed its intention to appoint Ernst & Young LLP as statutory auditor, subject to the expected cessation of PricewaterhouseCoopers LLP holding office as statutory auditor after the conclusion of the audit for the financial year ending 31 December 2026, and subject to shareholder approval.

By order of the Board



C Twemlow
Company Secretary
1 April 2026

Statement of Directors' responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with UK-adopted international accounting standards.

Under company law, Directors must not approve the Financial Statements, unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Act.

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

Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

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

On behalf of the Board



M F Ruf
Director
1 April 2026

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2025 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2025 (the "Annual Report"), which comprise:

- the Statement of Financial Position as at 31 December 2025;
- the Statement of Profit and Loss and Other Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee of Allianz Holdings plc.

Basis for opinion

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

Independence

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

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

Other than those disclosed in Note 23 to the financial statements, we have provided no non-audit services to the company in the period under audit.

Our audit approach

Context

The company is a UK general insurer which writes primarily broker distributed business, principally for the sale of motor and household insurance products.

Overview

Audit scope

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

Key audit matters

- Valuation of the liability for incurred claims within insurance contract liabilities and the associated reinsurance contract assets – assumptions and judgements

Materiality

- Overall materiality: £3.9m (FY24: £3.9m) based on 1% of insurance service revenue.
- Performance materiality: £2.9m (FY24: £2.9m).

The scope of our audit

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of the liability for incurred claims within insurance contract liabilities and the associated reinsurance contract assets – assumptions and judgements</p> <p>Refer to notes 1.4 (c), 2, 3 and 4 to the financial statements for disclosures of related accounting policies and balances including the 'liability for incurred claims' ('LIC') within the insurance contract liabilities and the associated 'assets for incurred claims' ('AIC') within the reinsurance contract assets and liabilities.</p> <p>The most subjective element of the LIC and AIC is in the adjustment of case reserve estimates for notified claims to calculate the total 'best estimate of the ultimate cost of settlement of all unpaid claims incurred ('undiscounted BEL'). This includes claims which have been 'incurred but not reported' ('IBNR'). Due to their inherent uncertainty and complexities, the following judgements and assumptions were a focus area for the audit:</p> <ul style="list-style-type: none"> • The underlying volatility attached to estimates for the more significant classes of business — for these lines of business, small changes in assumptions can lead to large changes in the level of estimate held; • The methodology and assumptions used by management to allow for the ongoing impact of inflation on claims experience; • The risk of inappropriate assumptions used in determining current year estimates for large losses or events and 'Periodic Payment Orders' ('PPOs') and for 'long-tailed' classes of business, such as those relating to the impact of changing claims patterns and 'events not in data' ('ENIDs'); and • The approach applied in valuing the AIC, which includes consideration for the underlying insurance contracts that have been reinsured and the application and coverage of the reinsurance programme. <p>To arrive at the LIC and AIC, the undiscounted BEL is then risk-adjusted for management's view of the compensation which it requires for bearing uncertainty about the amount and timing of cash flows from non-financial risks and discounted to present value.</p>	<p>In performing our work over the LIC and AIC, our actuarial specialists were engaged where appropriate. Audit procedures over the methods and assumptions in relation to the valuation of the undiscounted BEL, included the following:</p> <ul style="list-style-type: none"> • We understood and evaluated management's processes and controls in place in relation to the methods and assumptions linked to the valuation of the undiscounted BEL; • We developed independent point estimates of the undiscounted BEL for certain classes of business, particularly focusing on the classes that in our professional judgement represented higher risk; • For other classes of business considered to be of higher risk, we evaluated the methodology, assumptions and management's models used to calculate the undiscounted BEL of those classes; • For the remaining classes not considered to be of higher risk, we performed diagnostic checks, applying our industry knowledge and experience to identify and investigate any anomalies in the valuation of the undiscounted BEL for those classes; • For PPOs, we evaluated the undiscounted best estimates in the context of the information available. This included consideration of management's assumptions around future levels of social inflation; and • We also evaluated management's net of reinsurance undiscounted BEL by testing the implied net to gross ratios, leveraging the results of our work over the gross liability and our understanding of the reinsurance programme. <p>Furthermore:</p> <ul style="list-style-type: none"> • We assessed the appropriateness of the policy and assumptions applied to determine the adjustment for non-financial risk in respect of the LIC and the AIC accordingly; and • We assessed the reasonableness of the yield curves used to discount the LIC and the AIC (inclusive of the risk adjustment) and conducted testing to ensure that the yield curves had been applied accurately. <p>Based on the work performed, the valuation of the undiscounted BEL within the LIC and AIC were consistent with the evidence obtained.</p>

How we tailored the audit scope

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

We considered quantitative and qualitative factors to ensure that we had obtained sufficient coverage across all financial statement line items at a total company level. We applied our performance materiality threshold across each financial statement line item to identify which items were material to the audit of the company, as well as considering their nature to designate not significant but material financial statement line items.

Where we relied on work performed over centralised functions by the auditor of the Allianz SE group, we determined the level of involvement we needed with the group auditor to be able to conclude on whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We maintained regular and timely communication with the group auditor, including video calls and written communication as appropriate.

The impact of climate risk on our audit

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

Materiality

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

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

Overall company materiality	£3.9m (FY24: £3.9m).
How we determined it	1% of insurance service revenue
Rationale for benchmark applied	The materiality amount selected is appropriate to the size and nature of the business. Expressing materiality in terms of insurance service revenue, one of the key metrics relevant to users of the financial statements, provides a good representation relative to the size and complexity of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (FY24: 75%) of overall materiality, amounting to £2.9m (FY24: £2.9m) for the company financial statements.

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

We agreed with the Audit Committee of Allianz Holdings plc that we would report to them misstatements identified during our audit above £0.2m (FY24: £0.2m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining the Directors' going concern assessment, considering the company's capital, solvency and liquidity positions, challenging the material assumptions made using our knowledge of the business and review of regulatory correspondence and obtaining further corroborative evidence;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict the assessment of going concern; and
- Assessing the disclosures made in respect of going concern.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of

accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals. Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Directors, the Combined Board, Audit Committee, Reserving Committee and Risk Committee;
- Testing and challenging, where appropriate, the assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries identified as having potential indicators of fraud; and
- Designing audit procedures to incorporate unpredictability into our testing.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were first appointed by the company for the financial year ended 31 December 2009. Our uninterrupted engagement covers 17 financial years.



Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 April 2026

Highway Insurance Company Limited

Statement of Profit and Loss and Other Comprehensive Income for the Year Ended 31 December 2025

		2025	2024
	Note	£m	£m
Insurance service revenue	3(a)	388.1	395.0
Insurance service expenses	3(a), 5	(318.0)	(361.4)
Net expenses from reinsurance contracts	3(b)	<u>(50.5)</u>	<u>(31.4)</u>
Insurance service result		<u>19.6</u>	<u>2.2</u>
Interest income	6(a)	24.3	18.0
Other investment expenses	6(b)	(1.2)	(6.7)
Net impairment gains/(losses) on financial assets	6(c)	0.7	(0.7)
Investment expenses	6(d)	<u>(0.6)</u>	<u>(0.7)</u>
Net investment income		<u>23.2</u>	<u>9.9</u>
Finance expenses from insurance contracts	7(a)	(16.4)	(15.9)
Finance income from reinsurance contracts	7(b)	<u>3.2</u>	<u>3.5</u>
Net insurance finance expenses		<u>(13.2)</u>	<u>(12.4)</u>
Net insurance and investment result		<u>29.6</u>	<u>(0.3)</u>
Other operating and administrative expenses	5	(13.6)	(14.0)
Profit/(loss) before tax		<u>16.0</u>	<u>(14.3)</u>
Income tax (expense)/credit	8(a)	<u>(3.6)</u>	<u>3.6</u>
Profit/(loss) for the year wholly attributable to the equity holder		<u>12.4</u>	<u>(10.7)</u>
Other comprehensive income ("OCI")			
Items that will be reclassified subsequently to profit and loss when specific conditions are met			
Net gains on investments in debt securities measured at fair value through other comprehensive income ("FVOCI")		17.2	5.6
Net gains on investments in debt securities measured at FVOCI reclassified to profit and loss on disposal		1.3	6.6
Finance (expenses)/income from insurance contracts	7(a)	(19.3)	19.3
Finance income/(expenses) from reinsurance contracts	7(b)	10.4	(14.7)
Income tax expense relating to these items	8(b)	<u>(3.4)</u>	<u>(3.1)</u>
OCI for the year		<u>6.2</u>	<u>13.7</u>
Total comprehensive income wholly attributable to the equity holder		<u>18.6</u>	<u>3.0</u>

The accounting policies and notes on pages 24 to 66 are an integral part of these Financial Statements.

Highway Insurance Company Limited

Statement of Changes in Equity for the Year Ended 31 December 2025

	Share capital	Capital contribution reserve	Fair value reserve	Insurance finance reserve	Retained earnings	Total equity
	£m	£m	£m	£m	£m	£m
Balance as at 1 January 2024	120.0	131.4	(37.7)	16.0	7.1	236.8
Loss for the year	-	-	-	-	(10.7)	(10.7)
OCI	-	-	9.3	4.4	-	13.7
Total comprehensive income for the year	-	-	9.3	4.4	(10.7)	3.0
Balance as at 31 December 2024	120.0	131.4	(28.4)	20.4	(3.6)	239.8
Profit for the year	-	-	-	-	12.4	12.4
OCI	-	-	13.9	(7.7)	-	6.2
Total comprehensive income/(expense) for the year	-	-	13.9	(7.7)	12.4	18.6
Balance as at 31 December 2025	120.0	131.4	(14.5)	12.7	8.8	258.4

The accounting policies and notes on pages 24 to 66 are an integral part of these Financial Statements.

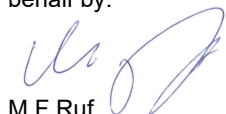
Highway Insurance Company Limited

Statement of Financial Position as at 31 December 2025

	Note	2025 £m	2024 £m
Assets			
Intangible assets	10	0.7	1.3
Deferred tax assets	8(d)(i)	4.9	9.6
Reinsurance contract assets	3(b)	113.3	131.6
Financial assets	11	748.8	681.8
Other receivables	12	26.4	29.1
Current tax assets	8(c)	-	3.6
Cash and cash equivalents	13	4.6	9.8
Total assets		898.7	866.8
Equity and liabilities			
Equity attributable to equity holder of the parent			
Share capital	14	(120.0)	(120.0)
Capital contribution reserve	14	(131.4)	(131.4)
Fair value reserve		14.5	28.4
Insurance finance reserve		(12.7)	(20.4)
Retained earnings		(8.8)	3.6
Total equity		(258.4)	(239.8)
Liabilities			
Insurance contract liabilities	3(a)	(607.7)	(605.0)
Reinsurance contract liabilities	3(b)	(6.4)	(2.1)
Deferred tax liabilities	8(d)(ii)	(4.2)	(5.5)
Accruals and other payables	15	(20.7)	(1.2)
Provisions for other liabilities and charges	16	(0.3)	-
Loans and borrowings	13	-	(13.2)
Current tax liabilities	8(c)	(1.0)	-
Total liabilities		(640.3)	(627.0)
Total equity and liabilities		(898.7)	(866.8)

The accounting policies and notes on pages 24 to 66 are an integral part of these Financial Statements.

These Financial Statements on pages 20 to 66 were approved by the Board of Directors on 1 April 2026 and signed on its behalf by:



M F Ruf
Director

1 April 2026

Highway Insurance Company Limited
Registered Number: 03730662

Highway Insurance Company Limited

Statement of Cash Flows for the Year Ended 31 December 2025

		2025	2024
	Note	£m	£m
Cash flows from operating activities			
Profit/(loss) before tax		16.0	(14.3)
<i>Adjusted for</i>			
Interest income	6(a)	(24.3)	(18.8)
Finance costs	6(a)	-	0.8
Net realised losses on other investments measured at FVOCI	6(b)	1.2	6.7
Net impairment (gains)/losses on financial assets	6(c)	(0.7)	0.7
Investment expenses	6(d)	0.6	0.7
Amortisation of intangible assets	10	0.6	0.5
Amortisation of financial assets measured at FVTPL and FVOCI		2.3	4.8
		(4.3)	(18.9)
<i>Changes in working capital</i>			
Decrease in insurance contract liabilities	3(a)	(16.6)	(46.1)
Decrease in reinsurance contract assets	3(b)	28.7	28.0
Increase in reinsurance contract liabilities	3(b)	4.3	2.1
Decrease in other receivables	12	3.2	2.4
Increase in accruals and other payables	15	19.5	-
Increase in provisions for other liabilities and charges	16	0.3	-
Cash flows generated from/(used in) operating activities		35.1	(32.5)
Income tax received	8(c)	1.0	8.3
Net cash flows generated from/(used in) operating activities		36.1	(24.2)
Cash flows (used in)/generated from investing activities			
Purchase of financial assets		(331.6)	(316.9)
Proceeds from sale of financial assets		262.4	329.9
Net investment income ⁽¹⁾		41.2	17.5
Net cash flows (used in)/generated from investing activities		(28.0)	30.5
Cash flows used in financing activities			
Interest paid on subordinated debt		(0.1)	(0.8)
Decrease in loans and borrowings	13	(9.9)	-
Net cash flows used in financing activities		(10.0)	(0.8)
Net (decrease)/increase in cash and cash equivalents		(1.9)	5.5
Cash and cash equivalents at the beginning of the year	13	6.5	1.0
Cash and cash equivalents at the end of the year	13	4.6	6.5

⁽¹⁾Net investment income includes interest received from financial assets and cash and cash equivalents. Interest received from financial assets totalled £26.5m (2024: £22.5m) and interest received from cash and cash equivalents totalled £0.4m (2024: £0.4m).

The accounting policies and notes on pages 24 to 66 are an integral part of these Financial Statements.

1. ACCOUNTING POLICIES

1.1 Company and its operations

Highway Insurance Company Limited is a private limited company incorporated in England and Wales and domiciled in the United Kingdom. The Company transacts most classes of general insurance business. The Company offers a wide range of products focused predominantly in Motor and Household insurance.

The Company's registered office is shown in the Company Information section on page 1. The principal place of business is:

15 Bishopsgate
London
England
EC2N 3AR

The intention is that the Board will apply for a Part VII transfer as part of the programme to rationalise the insurance entities in Allianz UK during 2026. The Part VII transfers all insurance related liabilities and assets from the Company to AZI. While detailed plans have been developed for the rationalisation programme, completion remains subject to regulatory and Court approvals outside the Company's control. At the date the Financial Statements are approved for issue, court dates to obtain legal and regulatory approval are May and October 2026. Whilst management remain confident that the Part VII transfer will complete on 1 January 2027, the timing of regulatory deauthorisation and subsequent liquidation remains uncertain. Should the Part VII transfer not complete as anticipated, the Company will continue to carry out its principal activity.

1.2 Statement of compliance

The Financial Statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Act as applicable to companies reporting under those standards.

1.3 Basis of preparation

The Financial Statements have been prepared on the historical cost basis except for the following items, which are measured on the following alternative basis on each reporting date:

Item	Measurement basis
Financial instruments at FVTPL	Fair value
Financial instruments at FVOCI	Fair value
Insurance and reinsurance contracts	Fulfilment cash flows ("FCF")

The functional and presentational currency is British Pounds.

Going concern

These Financial Statements have been prepared on a going concern basis. Refer to the Strategic Report on page 4.

New standards and interpretations adopted by the Company

There are no new standards and interpretations affecting the Company that are mandatorily effective from 1 January 2025. The accounting policies have been consistently applied, unless a new policy has been implemented.

New standards and interpretations not yet adopted by the Company

New standards and interpretations which are not mandatorily effective have not been applied in preparing these Financial Statements. The Company does not plan to adopt these standards early; instead it will apply them from the effective date as determined by the UK Endorsement Board.

International Financial Reporting Standards ("IFRS") 18 'Presentation and Disclosure in Financial Statements'

In April 2024, the International Accounting Standards Board ("IASB") issued IFRS 18, which aims to improve comparability and transparency. IFRS 18 is effective for annual periods beginning on or after 1 January 2027. IFRS 18 supersedes IAS 1 'Presentation of Financial Statements' and will result in major consequential amendments to IFRS Accounting Standards. IFRS 18 will not have any effect on the recognition and measurement used for the Financial Statements, however it is expected to have a significant effect on presentation and disclosure. These changes include specified categories and defined subtotals in the Statement of Profit and Loss and Other Comprehensive Income, aggregation/disaggregation and labelling of information, and disclosure of management-defined performance measures in the notes to the Financial Statements.

IFRS 18 requires retrospective application with specific transition reconciliations between restated profit and loss amounts and those previously presented under IAS 1. The Company intends to adopt IFRS 18 from 1 January 2027 and is assessing the implications of this new standard. No significant change is expected in the scope of disclosures, though the grouping and presentation of information may change.

New amendments to existing standards adopted by the Company

Amendments to IAS 21 'The Effects of Changes in Foreign Exchange Rates'

The amendments are mandatorily effective from 1 January 2025 and impact an entity when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. The Company has adopted the amendments to IAS 21 for the first time in the current year. These amendments have not had any impact on the Company.

New amendments to existing standards not yet adopted by the Company

Amendments to IFRS 7 'Financial Instruments: Disclosures' and IFRS 9 'Financial Instruments'

In May 2024, the IASB issued amendments to IFRS 9 and IFRS 7, effective for annual periods beginning on or after 1 January 2026, that refine derecognition and classification rules and add targeted disclosures. Entities may deem liabilities settled via electronic payment to be discharged (and derecognised) before the settlement date when specified criteria are met.

The amendments add further guidance for assessing whether a financial asset meets the solely payments of principal and interest ("SPPI") criterion and clarify "basic lending" cash flows (including instruments with ESG-linked features), the definition of non-recourse, and the features of contractually linked instruments with waterfall structures and tranche-level credit risk concentration. For FVOCI equity investments, entities must disclose OCI fair value gains or losses split between derecognised and retained holdings. Entities must also disclose, by class of assets or liabilities, contractual terms that could change cash-flow timing or amounts upon contingent events not directly related to basic lending. These amendments are not expected to have a material impact on the Company.

Annual Improvements to IFRS Accounting Standards — Volume 11

In July 2024, the IASB issued nine narrow-scope amendments as part of its periodic maintenance, effective for annual reporting periods beginning on or after 1 January 2026. These amendments provide clarifications, simplifications, corrections and consistency improvements to IFRS 1 'First-time Adoption of International Financial Reporting Standards', IFRS 7 'Financial Instruments: Disclosure' and its Guidance on implementing IFRS 7, IFRS 9 'Financial Instruments', IFRS 10 'Consolidated Financial Statements', and IAS 7 'Statements of Cash Flows'. These amendments are not expected to have a material impact on the Company.

1.4 Summary of material accounting policy information

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

The material accounting policies adopted in the preparation of the Financial Statements are set out in the following paragraphs.

(a) Intangible assets

The Company applies the cost model to account for intangible assets.

The cost of acquiring renewal rights to portfolios of insurance business is amortised on a straight-line basis over the expected life of the intangible asset. This useful life has been assessed as either five, ten or twenty years. Intangible assets with an indefinite useful life are not amortised. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

(b) Income taxes

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

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

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

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

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

(c) Insurance and reinsurance contracts

Definition and classification

Insurance contracts are contracts under which the Company accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. The Company uses judgement to assess whether a contract transfers insurance risk (i.e. if there is a scenario with commercial substance in which the Company has the possibility of a loss on a present value basis) and whether the accepted insurance risk is significant.

In the normal course of business, the Company uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the reinsured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

All references to insurance contracts in these Financial Statements apply to insurance contracts issued and reinsurance contracts held, unless specifically stated otherwise.

Level of aggregation

Insurance contracts are aggregated into groups and portfolios for measurement purposes. Initially, the Company divides insurance contracts written into portfolios which are comprised of groups of contracts with similar risks, and which are managed together. Each portfolio is further disaggregated into groups of contracts that are recognised within a calendar year (annual cohorts) and are: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts. These groups represent the level of aggregation at which insurance contracts are initially recognised and measured. The groups are not subsequently reconsidered.

For each portfolio of contracts, the Company determines the appropriate level at which reasonable and supportable information is available, to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous.

This level of granularity determines sets of contracts. The Company uses significant judgement to determine at what level of granularity the Company has reasonable and supportable information, that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

For contracts measured using the premium allocation approach ("PAA"), the Company assumes that no such contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts are onerous, an additional assessment is performed to distinguish onerous contracts from non-onerous ones.

For non-onerous contracts, the Company assesses the likelihood of changes in the applicable facts and circumstances in the subsequent periods in determining whether contracts have a significant possibility of becoming onerous. To identify whether a group of contracts is onerous, the Company uses available data that reflects facts and circumstances such as pricing information, environmental factors and other factors that could affect the profitability of a group of contracts.

Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Company aggregates reinsurance contracts held recognised within a calendar year (annual cohorts) into groups of: (i) contracts for which there is a net gain at initial recognition, if any; (ii) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and (iii) remaining contracts in the portfolio.

Reinsurance contracts held are assessed for aggregation requirements on an individual contract basis. The Company tracks internal management information reflecting historical experiences of such contracts' performance. This information is used for setting pricing of these contracts such that they result in reinsurance contracts held in a net cost position without a significant possibility of a net gain arising subsequently.

Recognition and derecognition

Groups of insurance contracts issued are initially recognised from the earliest of the following:

- the beginning of the coverage period;
- the date when the first payment from the policyholder is due or actually received, if there is no due date; and
- when the Company determines that a group of contracts becomes onerous.

Reinsurance contracts held are recognised as follows:

- a group of reinsurance contracts held that provide proportionate coverage is recognised at the later of
 - i. the beginning of the coverage period of the group; and
 - ii. the initial recognition of any underlying insurance contract;
- all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held; unless the Company entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the reinsurance contract held is recognised at the same time as the group of underlying insurance contracts is recognised.

Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria, subject to the annual cohorts restriction. Composition of the groups is not reassessed in subsequent periods.

Accounting for contract modification and derecognition

An insurance contract is derecognised when it is:

- extinguished (that is, when the obligation specified in the insurance contract expires or is discharged or cancelled); or
- the contract is modified and additional criteria discussed below are met.

When an insurance contract is modified by the Company as a result of an agreement with the counterparties or due to a change in regulations, the Company treats changes in cash flows caused by the modification as changes in estimates of the FCF, unless the conditions for the derecognition of the original contract are met. The Company derecognises the original contract and recognises the modified contract as a new contract if any of the following conditions are present:

- if the modified terms had been included at contract inception and the Company would have concluded that the modified contract:
 - i. is not within the scope of IFRS 17;
 - ii. results in different separable components;
 - iii. results in a different contract boundary; or
 - iv. belongs to a different group of contracts;
- the original contract represents an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or
- the original contract was accounted for under the PAA, but the modification means that the contract no longer meets the eligibility criteria for that approach.

When a new contract is required to be recognised as a result of modification and it is within the scope of IFRS 17, the new contract is recognised from the date of modification and is assessed for, amongst other things, contract classification, including the component separation requirements and contract aggregation requirements.

When an insurance contract accounted for under the PAA is derecognised, adjustments to remove related rights and obligations to account for the effect of the derecognition result in the following amounts being charged immediately to profit and loss:

- if the contract is extinguished, any net difference between the derecognised part of the liability for remaining coverage ("LRC") of the original contract and any other cash flows arising from extinguishment;
- if the contract is transferred to the third party, any net difference between the derecognised part of the LRC of the original contract and the premium charged by the third party; or
- if the original contract is modified resulting in its derecognition, any net difference between the derecognised part of the LRC and the hypothetical premium that the entity would have charged if it had entered into a contract with equivalent terms as the new contract at the date of the contract modification, less any additional premium charged for the modification.

FCF within contract boundary

The FCF are the current estimates of the future cash flows within the contract boundary of a group of contracts that the Company expects to collect from premiums and pay out for claims, benefits and expenses, adjusted to reflect the timing and the uncertainty of those amounts.

The estimates of future cash flows:

- are based on a probability-weighted mean of the full range of possible outcomes;
- are determined from the perspective of the Company, provided that the estimates are consistent with observable market prices for market variables; and

- reflect conditions existing at the measurement date.

An explicit risk adjustment for non-financial risk is estimated separately from the other estimates. For contracts measured under the PAA, unless the contracts are onerous, the explicit risk adjustment for non-financial risk is only estimated for the measurement of the liability for incurred claims (“LIC”).

The estimates of future cash flows are adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgement and estimation. Refer to note 2.2.

Risk of the Company’s non-performance is not included in the measurement of groups of insurance contracts issued. In the measurement of reinsurance contracts held, the probability-weighted estimates of the present value of future cash flows include the potential credit losses and other disputes of the reinsurer to reflect the non-performance risk of the reinsurer.

The Company estimates certain FCF at the portfolio level or higher and then allocates such estimates to groups of contracts.

The Company uses consistent assumptions to measure the estimates of the present value of future cash flows for the group of reinsurance contracts held and such estimates for the groups of underlying insurance contracts.

Contract boundary

The Company uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts.

Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Company has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:

- the Company has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or
- both of the following criteria are satisfied:
 - i. the Company has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and
 - ii. the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the Company, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included.

Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

For groups of reinsurance contracts held, cash flows are within the contract boundary if they arise from substantive rights and obligations of the Company that exist during the reporting period in which the Company is compelled to pay amounts to the reinsurer or in which the Company has a substantive right to receive insurance contract services from the reinsurer.

The Company’s whole account quota share (“WAQS”) reinsurance agreements held have a duration of 12 months based upon the accident year, but are automatically renewed unless cancelled by either party for new underlying business with effect at the renewal date with a three month notice period by either party. Thus, the Company treats such reinsurance contracts as a series of annual contracts that cover underlying business issued within a year. Estimates of future cash flows arising from all underlying contracts issued and expected to be issued within the reinsurance contracts’ one-year boundary are included in the measurement of the reinsurance contracts.

The excess of loss (“XoL”) reinsurance contracts held provides coverage for claims incurred during an accident year. Thus, all cash flows arising from claims incurred and expected to be incurred in the accident year are included in the measurement of the reinsurance contracts held. Some of these contracts might include mandatory or voluntary reinstatement reinsurance premiums, which are guaranteed per the contractual arrangements and are thus within the respective reinsurance contracts’ boundaries.

Cash flows that are not directly attributable to a portfolio of insurance contracts, such as some product development and training costs, are recognised in other operating and administrative expenses as incurred.

Insurance acquisition costs

The Company defines acquisition cash flows as cash flows that arise from costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued), and that are directly attributable to the portfolio of insurance contracts to which the group belongs.

Insurance acquisition cash flows are allocated to groups of insurance contracts on a systematic and rational basis.

Insurance acquisition cash flows that are directly attributable to a group of insurance contracts are allocated:

- to that group; and
- to groups that will include insurance contracts that are expected to arise from renewals of the insurance contracts in that group.

Insurance acquisition cash flows not directly attributable to a group of contracts but directly attributable to a portfolio of contracts are allocated to groups of contracts in the portfolio or expected to be in the portfolio.

Before a group of insurance contracts is recognised, the Company could pay (or recognise a liability, applying a standard other than IFRS 17) for directly attributable acquisition costs to originate them. Such balances are recognised as insurance acquisition cash flows assets within the carrying amount of insurance contracts issued and are subsequently derecognised (in full or to the extent that insurance contracts expected to be in the group have been recognised at that date) when respective groups of insurance contracts are recognised and the insurance acquisition cash flows are included in the group's measurement. The amounts allocated to groups of insurance contracts yet to be recognised are revised at each reporting date, to reflect any changes in assumptions that determine the inputs to the method of allocation used.

Insurance acquisition cash flows assets not yet allocated to a group are assessed for recoverability if facts and circumstances indicate that the assets might be impaired. Impairment losses reduce the carrying amount of these assets and are recognised in insurance service expenses. Previously recognised impairment losses are reversed to the extent that the impairment conditions no longer exist or have improved.

The recoverability assessment is performed in two steps, as follows:

- an impairment loss is recognised to the extent that the carrying amount of each asset for insurance acquisition cash flows exceeds the expected net cash inflow as determined by the FCF as at initial recognition for the related group of insurance contracts;
- in addition, when insurance acquisition cash flows directly attributable to a group of contracts are allocated to groups that include expected contract renewals, such insurance acquisition cash flows should not exceed the expected net cash inflow from the expected renewals as determined by the FCF as at initial recognition for the expected renewals; an impairment loss is recognised for the excess to the extent not recognised in step (1) above.

Other pre-recognition cash flows within the contract boundary

Before a group of insurance contracts is recognised, the Company recognises assets or liabilities for cash flows related to a group of insurance contracts other than insurance acquisition cash flows, either because of the occurrence of the cash flows or because of the requirements of another IFRS standard. Cash flows are related to the group of insurance contracts if they would have been included in the FCF at initial recognition of the group if they had been paid or received after that date. Such assets or liabilities (referred to as 'other pre-recognition cash flows') are included in the carrying amount of the related portfolios of insurance contracts issued or in the carrying amount of the portfolios of reinsurance contracts held.

Risk adjustment for non-financial risk

The risk adjustment for non-financial risk is applied to the present value of the estimated future cash flows, and it reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

For methods and assumptions used to determine the risk adjustment for non-financial risk, refer to note 2 and note 4.

Initial and subsequent measurement – Groups of contracts measured under the PAA

With the exception of the reinsurance loss portfolio transfer ("LPT") arrangements, the Company applies PAA to all insurance contracts that it issues and all the other reinsurance contracts that it holds, as the coverage period of each contract in the group is one year or less, including insurance contract services arising from all premiums within the contract boundary.

For insurance contracts issued, insurance acquisition cash flows allocated to a group are deferred and recognised over the coverage period or estimated lifetime of the customer in a group. For reinsurance contracts held, broker fees are recognised over the coverage period of contracts in a group.

Highway Insurance Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2025

For insurance contracts issued, on initial recognition, the Company measures the LRC at the amount of premiums received, less any acquisition cash flows paid and any amounts arising from the derecognition of the insurance acquisition cash flows asset and the derecognition of any other relevant pre-recognition cash flows.

For reinsurance contracts held, on initial recognition, the Company measures the remaining coverage at the amount of ceding premiums paid, plus broker fees paid to a party other than the reinsurer and any amounts arising from the derecognition of any other relevant pre-recognition cash flows.

The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

- the LRC; and
- the LIC, comprising the FCF related to past service allocated to the group at the reporting date.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

- the remaining coverage; and
- the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:

- increased for premiums received in the period;
- decreased for insurance acquisition cash flows paid in the period;
- decreased for the amounts of expected premium receipts recognised as insurance service revenue for the services provided in the period; and
- increased for the amortisation of insurance acquisition cash flows in the period recognised as insurance service expenses.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

- increased for ceding premiums paid in the period;
- increased for broker fees paid in the period; and
- decreased for the expected amounts of ceding premiums and broker fees recognised as reinsurance expenses for the services received in the period.

The Company does not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money, because insurance premiums are due within the coverage period of contracts, which is one year or less.

The Company adjusts the remaining coverage for reinsurance contracts held for the effect of the risk of reinsurer's non-performance.

There are no investment components within insurance contracts issued and reinsurance contracts held that are measured under the PAA.

For contracts measured under the PAA, the future cash flows measured under LIC are adjusted for the time value of money, since insurance contracts issued by the Company and measured under the PAA typically have a settlement period of over one year.

Onerous contracts – Loss component for Groups of contracts measured under the PAA

If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or becomes onerous subsequently, the Company increases the carrying amount of the LRC to the amounts of the FCF determined under the general measurement model ("GMM"), with the amount of such an increase recognised in insurance service expenses, and a loss component is established for the amount of the loss recognised. Subsequently, the loss component is remeasured at each reporting date as the difference between the amounts of the FCF determined under the GMM relating to the future service and the carrying amount of the LRC without the loss component.

When a loss is recognised on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group, the carrying amount of the asset for remaining coverage for reinsurance contracts held measured under the PAA is increased by the amount of income recognised in profit and loss, and a loss recovery component is established or adjusted for the amount of income recognised. The deferred income is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Company expects to recover from the reinsurance contract held that are entered into before, or at the same time as the loss is recognised on the underlying insurance contracts.

When underlying insurance contracts are included in the same group with insurance contracts issued that are not reinsured, the Company applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

Initial and subsequent measurement – Groups of contracts not measured under the PAA

The Company applies the GMM to the LPT reinsurance contracts which covers the 2020 and prior accident years. This model measures a group of insurance contracts as the sum of FCF. If there is a net gain at initial recognition, a contractual service margin (“CSM”) is established, representing the unearned profit that the Company will recognise as it delivers service under the reinsurance contracts within that group. If there is a net cost associated with purchasing reinsurance that pertains to past events, the Company immediately recognises this net cost in profit and loss.

The carrying amount at the end of each reporting period of a group of reinsurance contracts held is the sum of:

- the remaining coverage, comprising:
 - i. the FCF related to future service allocated to the group at that date; and
 - ii. the CSM of the group at that date; the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

Reinsurance contracts held – Loss recovery component

A loss recovery component is established or adjusted within the asset for remaining coverage for reinsurance contracts held for the amount of income recognised in the Statement of Profit and Loss and Other Comprehensive Income when the Company recognises a loss on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group.

Subsequently, the loss recovery component is adjusted to reflect changes in the loss component of an onerous group of underlying insurance contracts discussed in the “Onerous contracts – Loss component” section above. The loss recovery component is further adjusted, if required, to ensure that it does not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the Company expects to recover from the group of reinsurance contracts held.

The loss recovery component determines the amounts that are presented as a reduction of incurred claims recovery from reinsurance contracts held and are consequently excluded from the reinsurance expenses determination.

Insurance service revenue

As the Company provides insurance contract services under the group of insurance contracts, it reduces the LRC and recognises insurance service revenue. The amount of insurance service revenue recognised in the reporting period depicts the transfer of promised services at an amount that reflects the portion of consideration that the Company expects to be entitled to in exchange for those services.

For groups of insurance contracts measured under the PAA, the insurance service revenue for each year is the amount of expected premium for providing services in the year. The Company allocates the expected premium to each year on the following basis:

- the passage of time; or
- the expected timing of incurred insurance service expenses, if the expected pattern of release of risk during the coverage period differs significantly from the passage of time.

For LPT arrangements, insurance service revenue is recognised based on the expected timing of incurred insurance service expenses. For other groups of insurance contracts measured under PAA, the Company recognises insurance service revenue based on the passage of time over the coverage period of a group of contracts.

Insurance service expenses

Insurance service expenses include the following:

- incurred claims and benefits, excluding investment components reduced by loss component allocations;
- other incurred directly attributable expenses, including amounts of any other pre-recognition cash flows assets (other than insurance acquisition cash flows) derecognised at the date of initial recognition;
- insurance acquisition cash flows amortisation;
- changes that relate to past service – changes in the FCF relating to the LIC;
- changes that relate to future service – changes in the FCF that result in onerous contract losses or reversals of those losses; and
- insurance acquisition cash flows assets impairment, net of reversals.

For contracts measured under the PAA, amortisation of insurance acquisition cash flows is based on the passage of time.

Other expenses not meeting the above categories are included in other operating and administrative expenses in the Statement of Profit and Loss and Other Comprehensive Income.

Notes to the Financial Statements for the Year Ended 31 December 2025

Balances payable related to recharged insurance service expenses are initially recognised within the insurance contract liabilities under IFRS 17. These balances are deemed to be settled under IFRS 17, derecognised from the insurance contract liability and recognised under IFRS 9 at the point they are recharged.

Net expenses from reinsurance contracts

The Company presents financial performance of net expenses from reinsurance contracts, comprising the following amounts:

- reinsurance expenses;
- for groups of reinsurance contracts measured under the PAA, broker fees are included within reinsurance expenses;
- incurred claims reinsurance recovery;
- other incurred directly attributable expenses;
- changes relating to past service – (i.e. adjustments to incurred claims);
- the effect of changes in the risk of reinsurers' non-performance; and
- amounts relating to accounting for onerous groups of underlying insurance contracts issued:
 - i. income on initial recognition of onerous underlying contracts; reinsurance contracts held under the GMM: reversals of a loss recovery component other than changes in the FCF that adjust the loss component of the underlying insurance contracts.
 - ii. FCF of reinsurance contracts held; and reinsurance contracts held under the GMM: changes in the FCF of reinsurance contracts held from onerous underlying contracts.

Net expenses from reinsurance contracts are recognised similarly to insurance service revenue. The amount of net expenses from reinsurance contracts recognised in the reporting period depicts the transfer of received insurance contract services at an amount that reflects the portion of ceding premiums that the Company expects to pay in exchange for those services.

For contracts measured under the GMM, net expenses from reinsurance contracts comprise the following amounts relating to the changes in the remaining coverage:

- claims and other directly attributable expenses recovery in the period, measured at the amounts expected to be incurred at the beginning of the period, excluding:
 - i. amounts allocated to the loss recovery component;
 - ii. repayments of investment components; and
 - iii. amounts related to the risk adjustment for non-financial risk (see (b));
- changes in the risk adjustment for non-financial risk, excluding:
 - i. changes included in finance income/(expenses) from reinsurance contracts held;
 - ii. changes that relate to future coverage (which adjust the CSM); and
 - iii. amounts allocated to the loss recovery component;
- amounts of the CSM recognised for the services received in the period; and
- experience adjustments – arising from premiums paid in the period other than those that relate to future service.

For contracts measured under the PAA, the main amount within net expenses from reinsurance contracts is interest accreted on the LIC.

For groups of reinsurance contracts held measured under the PAA, the Company recognises net expenses from reinsurance contracts based on the passage of time over the coverage period of a group of contracts.

Finance income/(expenses) from insurance and reinsurance contracts

Finance income/(expenses) from insurance and reinsurance contracts comprise the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money; and
- the effect of financial risk and changes in financial risk;

The Company disaggregates finance income/(expenses) from insurance contracts and finance income/(expenses) from reinsurance contracts held between profit and loss and OCI. The impact of changes in market interest rates on the value of the insurance assets and liabilities are reflected in OCI, to minimise accounting mismatches between the accounting for financial assets and insurance assets and liabilities. The Company's financial assets backing the insurance portfolios are predominantly measured at FVOCI. Amounts presented in OCI are accumulated in the insurance finance reserve. The Company disaggregates changes in the risk adjustment for non-financial risk between insurance service result and finance income/(expenses) from insurance and reinsurance contracts.

(d) Financial assets

Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either FVOCI or FVTPL).

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit and loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Company reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial assets. Transaction costs of financial assets carried at FVTPL are expensed in the Statement of Profit and Loss and Other Comprehensive Income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Debt instruments

Substantial measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **AC:** Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVTPL, are measured at AC. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss on derecognition is recognised directly in profit and loss and presented in other gains/(losses), together with foreign exchange gain/(losses). Impairment losses are presented as separate line item in the Statement of Profit and Loss and Other Comprehensive Income.
- **FVOCI:** Assets that are held for collection of contractual cash flows, where the cash flows represent SPPI, and that are not designated as FVTPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains and losses, interest income and foreign exchange gains/(losses) which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain/(loss) on the instrument's AC previously recognised in OCI is reclassified from equity to profit and loss. Interest from these financial assets is included in interest income using the effective interest rate method.
- **FVTPL:** Assets that do not meet the criteria for AC or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit and loss and presented net within other gains and losses in the period in which it arises. Assets can also be designated to FVTPL if in doing so it eliminates, or significantly reduces, an accounting mismatch. The gains and losses arising from fair value changes on assets measured at FVTPL are recognised in the Statement of Profit and Loss and Other Comprehensive Income and presented within the investment result in the period in which it arises. The Company's investment assets in this category include government bonds, corporate bonds and other fixed income holdings. All of these assets are at FVTPL because of the business model test.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit and loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit and loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in the Statement of Profit and Loss and Other Comprehensive Income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The expected credit loss ("ECL") model is applied for all assets measured at AC and FVOCI. The assessment of credit risk and the estimation of an ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. The forward-looking aspect requires judgement as to how changes in economic factors affect ECLs. Impairment charges are recognised in the Statement of Profit and Loss and Other

Comprehensive Income within net impairment gains/(losses) on financial instruments.

Credit-impaired financial assets

Financial assets, other than those at FVTPL, are assessed for impairment regularly. This requires the exercise of management judgement. The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is credit-impaired.

A financial asset that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

The ECL is a three-stage model based on forward-looking information regarding changes in credit quality since inception. Credit risk is measured using a probability of default ("PD"); exposure at default ("EAD"); and loss given default ("LGD") as follows:

- PD is an estimate of the likelihood of default of the asset.
- EAD is an estimate of the exposure at that future default date, taking into account expected changes in the exposure after the reporting date.
- LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Company would expect to receive. It is usually expressed as a percentage of the exposure at default.

The three stages of ECL are defined and assessed as follows:

Stage 1 – no significant increase in credit risk since inception, ECL is calculated using a 12-month PD.

Stage 2 – a significant increase in credit risk since inception, ECL is calculated using a lifetime PD.

Stage 3 – credit impaired, ECL is calculated using a lifetime PD.

A significant increase in credit risk is considered to have occurred when payments are 30 days past due, or earlier if other factors indicate the risk has increased significantly since inception. Financial assets are written off when there is no reasonable expectation of recovery on a case-by-case basis.

Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from the financial assets have expired; or they have been transferred and the Company transfers substantially all the risks and rewards of ownership; or they have been transferred and the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control. Any gain or loss arising from derecognition is recognised directly in profit and loss.

Investment income

The total gain/(loss) from financial assets carried at FVTPL is recognised in the Statement of Profit and Loss and Other Comprehensive Income and disclosed in the notes as investment income comprising interest and dividends received, realised gains/(losses) and unrealised gains/(losses).

Interest income is calculated by applying effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Securities lending

The Company is party to various securities lending agreements under which securities are loaned to third parties. The loaned securities are not derecognised to the extent that the Company retains the risks and rewards associated with ownership of these securities, they continue to be recognised within the appropriate investment classification. The Company's policy is that collateral in excess of 100.0% of the fair value of securities loaned is required from all securities' borrowers.

Fair value reserve

The fair value reserve relates to the changes in the fair value of investments classified as FVOCI.

(e) Other receivables

Other receivables are initially recognised and subsequently re-measured at AC after taking into account any impairment losses. Other receivables shall be derecognised when the contractual right to receive cash flows expires or when the asset is transferred.

An ECL provision is assessed as at the SOFP date and the carrying amount of the receivables balance is reported after deduction of any ECL.

The Company has adopted the “simplified approach” in determining the ECL. Under this approach, the ECL is calculated as the AC of the receivables multiplied by a 1 year PD, an appropriate LGD and the number of days to maturity as a fraction of a year (“tenor”).

(f) Cash and cash equivalents

Cash and cash equivalents are initially recognised and subsequently re-measured at AC. Cash and cash equivalents have an original maturity of three months or less at the date of placement.

An ECL provision is assessed as at the SOFP date and the carrying amount of the cash and cash equivalents balance is reported after deduction of any ECL.

The ECL is calculated as the AC of the cash and cash equivalents multiplied by a 1 year PD, an appropriate LGD and tenor.

(g) Accruals and other payables

Accruals and other payables are initially recognised and subsequently measured at AC because they are expected to be settled within 12 months and their carrying value is a reasonable approximation of fair value.

(h) Provisions for other liabilities and charges

A provision is recognised when the Company has a present legal or constructive obligation, as a result of a past event, which it is probable, will result in an outflow of resources and when a reliable estimate of the amount of the obligation can be made. If the effect is significant, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment for the time value of money and, where appropriate, the risk is specific to the liability.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from contracts are less than the unavoidable costs of meeting the obligations under the contracts.

(i) Loans and borrowings

At initial recognition, the Company classifies loans and borrowings at fair value and subsequently at AC using the effective interest rate method.

(j) Levies

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

(k) Foreign currency translation

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

(l) Dividends

Interim dividends on ordinary shares are recognised in retained earnings in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

2. USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

The critical judgements, estimations and assumptions that the Directors have made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements are discussed below.

2.1 Significant accounting judgements

(a) Measurement of insurance and reinsurance contracts

The Company applies judgement in selecting the appropriate measurement model for insurance contracts.

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Notes to the Financial Statements for the Year Ended 31 December 2025

The Company utilises the PAA to simplify the measurement of insurance contracts where possible. This is possible when the coverage period of each contract in the group of insurance contracts is one year or less or the PAA provides a measurement which is not materially different from that under GMM.

All insurance and reinsurance contracts are calculated using the PAA with the exception of the LPT reinsurance contract, where the LPT contract covers 2020 and prior accident years. This contract is calculated using the GMM approach.

Using the PAA, the LRC is calculated as: the premiums received at initial recognition; minus any insurance acquisition cash flows at that date; and plus or minus any amount arising from the derecognition at that date of any assets for insurance acquisition cash flows; and any other asset or liability previously recognised for cash flows related to the governance of change. Additionally, for loss making contracts, the liability is increased by the value of the loss component. However, when measuring LIC, the Company applies discounting and includes an explicit risk adjustment for non-financial risk.

For groups of contracts measured under GMM, IFRS 17 introduces a model that measures groups of contracts based on the Company's estimates of the present value of future cash flows that are expected to arise as the Company fulfils the contracts, an explicit risk adjustment for non-financial risk and a CSM. For the 2015 and 2016 contract years of the WAQS arrangement, the reinsurance contract is in a net cost position therefore it does not require a CSM.

For the accounting policy on measurement of groups of contracts measured under the PAA and those not measured under the PAA, refer to note 1.4(e). For the methodology and process of determining the present value of future cash flows, refer to note 4.

The judgement exercised in the valuation of insurance contracts and reinsurance contracts held affect the amounts recognised in the SOFP as assets or liabilities of insurance and reinsurance.

(b) Assessment of eligibility for PAA

The majority of the Company's insurance and reinsurance contracts have a duration of one year or less and are automatically eligible for the PAA measurement model, with the exception of the LPT reinsurance contract covering 2020 and prior accident years.

(c) Modified retrospective approach

After making reasonable efforts to gather necessary historical information, the Company has determined that, for certain groups of contracts, such information was not available or was not available in a form that would enable it to be used without undue cost and effort. It was therefore impracticable to apply the full retrospective approach and the Company applied judgements in determining the transition amounts under these approaches.

At the point of transition to IFRS 17, the Company has applied the fully retrospective approach for the LRC, however a modified retrospective approach is applied to the calculation of the LIC due to the following key information not being readily available without undue cost and effort:

- The Company's reserving processes only maintains individual accident year data for the previous 21 years, prior to these reserves are grouped together. Therefore, at transition, claims reserves on an accident year basis were only available for the previous 21 years.
- Data to determine the "locked-in" discount rates by annual cohort was not readily available for 2014 and prior years, therefore the "locked-in" discount rate used for 2014 and prior years was the "locked-in" discount rate at 1 January 2022.
- Data to determine the "locked-in" Periodic Payment Order ("PPO") inflation assumptions was not readily available for PPOs settled on 2013 and prior years, therefore the "locked-in" PPO inflation assumption used for PPOs settled on 2013 and prior years was the "locked-in" PPO inflation assumption at 1 January 2022.

(d) Level of aggregation and recognition of group of insurance contracts

For insurance contracts measured under the PAA, judgement has been applied on initial recognition to distinguish between (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts.

The Company performs a quantitative assessment each quarter to determine whether the group of contracts has become onerous and whether a loss component is required. For details of accounting policy on measurement of loss recovery component, refer to note 1.4(c).

(e) Classification of financial assets

Assessing the business model within which the assets are held and whether cash flows generated by an asset constitute SPPI is sometimes complex and may require significant judgement. For details of accounting policy on classification of financial assets, refer to note 1.4(d).

2.2 Assumptions and estimation uncertainties

(a) Insurance and reinsurance contracts

The present value of future cash flow is estimated using deterministic scenarios. The assumptions used in the deterministic scenarios are derived to approximate the probability-weighted mean of a full range of scenarios. For information about methodology and assumptions made in measuring insurance and reinsurance contracts, refer to note 4. For the sensitivities with regard to the assumptions made that have the most significant impact on the insurance and reinsurance contracts, refer to note 17 risk management policies.

The key assumptions and sources of uncertainty are:

Discount rates: Insurance contract liabilities are calculated by discounting expected future cash flows. The bottom-up approach has been adopted to derive the discount rate for all contracts within the scope of IFRS 17. Under this approach, the discount rate is determined as the risk free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk free yield and the relevant liability cash flows (known as an "illiquidity premium"). For further details on the methodology and assumptions used to derive the discount rate, refer to note 4.

The Company adopts the OCI approach in relation to insurance finance income and expenses, and the impact of changes in discount rates are recognised through the OCI, rather than through profit and loss. This reduces the volatility in the insurance service result that arises from changes in the interest rates and also ensures any accounting mismatch between the valuation of the Company's financial assets and insurance liabilities are minimised. "Locked-in" interest rate assumptions are required to disaggregate the effect of discounting and changes in the discount rate between profit and loss and OCI. For further details on the methodology and assumptions used to derive the "locked-in" rates, refer to note 4.

Cash flow payment patterns: The claim payment pattern is a key assumption to calculate the present value of future cash flows. These are derived mainly from historical experience. Where limited historical experience is available, expert judgement is applied. For further details, refer to note 4.

Risk adjustment: The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The cost of capital ("CoC") method was used to derive the overall risk adjustment for non-financial risk. To highlight the significance of the CoC input, a sensitivity has been run on the impact of changing this figure. For this sensitivity, further details on the methods and assumptions used to measure the risk adjustment for non-financial risk and the corresponding confidence level, refer to note 4.

Inflation: During 2025, geopolitical risks and macro trends have evolved significantly and the interconnectedness of global trade and the UK's reliance on affected supply chains increases the volatility around inflation assumptions. Therefore, inflationary pressure continues to be an area of uncertainty as the ultimate cost of claims is very sensitive to the inflation assumptions made. Close monitoring on the economic and social inflationary environment continues and an allowance is made in the provisions for the impact of inflation on the ultimate cost of claims.

PPO claims: PPO claims also continue to be a significant uncertainty owing to the annuity-type structure of claim payments, i.e. they are typically paid annually over the claimant's life. PPO claims have to be projected over a longer-term period, and are therefore sensitive to the assumed PPO inflation and discount rate. Refer to note 4 for further details on other assumptions made for PPO claims.

PPOs are court ordered regular payments linked to an index. This is usually the Annual Survey of Hours and Earnings ("ASHE") index. The valuation of PPO includes a long-term assumption of inflation linked to the ASHE index. As PPO inflation is linked to the ASHE index, it is considered a financial risk.

Similar to the discount rate, the impact of changes in PPO inflation are recognised through the OCI rather than through profit and loss. Similarly, "locked-in" PPO inflation assumptions are required to disaggregate the changes in liabilities between the profit and loss and OCI. For further details on PPO inflation, refer to note 4.

There is also an allowance for large bodily injury claims potentially settling as PPO claims. Given the recent change in Ogden discount rates to +0.5%, there will be uncertainty on the expected propensity of these large bodily injury claims settling as PPOs under the new Ogden Discount Rate.

3. INSURANCE AND REINSURANCE CONTRACTS

	Note	2025 £m	2024 £m
Insurance contract liabilities			
- Insurance contract balances	3(a)	(607.7)	(605.0)
		(607.7)	(605.0)
Reinsurance contracts			
- Reinsurance contract assets ⁽¹⁾	3(b)	113.3	131.6
- Reinsurance contract liabilities ⁽¹⁾	3(b)	(6.4)	(2.1)

⁽¹⁾The reinsurance contract assets and liabilities includes £42.2m which relates to balances with related parties (2024: £37.3m).

The following table sets out the presentation of current and non-current portion of the balances.

	2025			2024		
	Current portion	Non-current portion	Total	Current portion	Non-current portion	Total
	£m	£m	£m	£m	£m	£m
Insurance contract liabilities	(268.2)	(339.5)	(607.7)	(279.9)	(325.1)	(605.0)
Reinsurance contract assets ⁽¹⁾	25.3	88.0	113.3	77.9	53.8	131.7
Reinsurance contract liabilities	(8.2)	1.8	(6.4)	(2.0)	-	(2.0)

⁽¹⁾The current portion of the reinsurance contract assets has moved from -£59.4m as disclosed in the prior year Financial Statements to £77.9m, and the non-current portion has moved from £188.9m in the prior year Financial Statements to £53.8m. This has been updated as it was incorrectly classified in the prior year Financial Statements.

Between 2009 and 2025, courts have ordered eight separate PPOs relating to accidents resulting in claims against policies underwritten by the Company, with LVIC named as the defendant insurer. Consequently, LVIC is legally obligated to fulfil the requirements of these PPOs. The Company has managed the financial and operational liabilities associated with these eight PPOs. On 1 April 2025, the Company and LVIC executed a Deed of Indemnity ("Deed"), which formally outlines the roles and responsibilities each party has undertaken since the issuance of the PPOs. This Deed does not alter the existing arrangement or accounting treatment but rather documents the practices already in place. The Company remains responsible for indemnifying LVIC against any liabilities arising from the PPOs, and the Deed now formally records this commitment.

(a) Reconciliation of the LRC and the LIC

The following reconciliations show how the net carrying amounts of insurance and reinsurance contracts in each segment changed during the year as a result of cash flows and amounts recognised in the Statement of Profit and Loss and Other Comprehensive Income.

	Note	2025				Total £m
		LRC		LIC		
		Excluding loss component £m	Loss component £m	Present value of future cash flows £m	Risk adjustment for non- financial risk £m	
Opening liabilities		(94.8)	-	(497.3)	(12.9)	(605.0)
Net opening balance		(94.8)	-	(497.3)	(12.9)	(605.0)
Insurance service revenue		388.1	-	-	-	388.1
Insurance service expenses						
Incurred claims and other directly attributable expenses		-	-	(287.1)	(3.6)	(290.7)
Changes that relate to past service – changes in the FCF relating to the LIC		-	-	41.8	4.1	45.9
Insurance acquisition cash flows amortisation	5	(73.1)	-	-	-	(73.1)
Insurance service expenses		(73.1)	-	(245.3)	0.5	(317.9)
Finance expenses from insurance contracts	7(a)	-	-	(34.9)	(0.8)	(35.7)
Total amounts recognised in comprehensive income		315.0	-	(280.2)	(0.3)	34.5
Cash flows						
Premiums received		(370.1)	-	-	-	(370.1)
Claims and other directly attributable expenses paid		-	-	263.0	-	263.0
Insurance acquisition cash flows		69.9	-	-	-	69.9
Total cash flows		(300.2)	-	263.0	-	(37.2)
Closing liabilities		(80.0)	-	(514.5)	(13.2)	(607.7)
Net closing balance		(80.0)	-	(514.5)	(13.2)	(607.7)

	Note	2024				Total £m
		LRC		LIC		
		Excluding loss component £m	Loss component £m	Present value of future cash flows £m	Risk adjustment for non- financial risk £m	
Opening liabilities		(101.1)	(2.8)	(551.7)	(14.8)	(670.4)
Net opening balance		(101.1)	(2.8)	(551.7)	(14.8)	(670.4)
Insurance service revenue		395.0	-	-	-	395.0
Insurance service expenses						
Incurring claims and other directly attributable expenses		-	2.7	(296.0)	(2.7)	(296.0)
Changes that relate to past service – changes in the FCF relating to the LIC		-	-	1.9	5.4	7.3
Losses on onerous contracts and reversals of those losses	5	-	0.1	-	-	0.1
Insurance acquisition cash flows amortisation	5	(72.8)	-	-	-	(72.8)
Insurance service expenses		(72.8)	2.8	(294.1)	2.7	(361.4)
Finance expenses from insurance contracts	7(a)	-	-	4.2	(0.8)	3.4
Total amounts recognised in comprehensive income		322.2	2.8	(289.9)	1.9	37.0
Cash flows						
Premiums received		(389.8)	-	-	-	(389.8)
Claims and other directly attributable expenses paid		-	-	344.3	-	344.3
Insurance acquisition cash flows		73.9	-	-	-	73.9
Total cash flows		(315.9)	-	344.3	-	28.4
Closing liabilities		(94.8)	-	(497.3)	(12.9)	(605.0)
Net closing balance		(94.8)	-	(497.3)	(12.9)	(605.0)

(b) Reconciliation of the remaining coverage and incurred claims components – reinsurance contracts

	Note	2025					Total £m
		Remaining coverage		Incurred claims for contracts not measured under the PAA £m	Incurred claims for contracts under the PAA		
		Excluding loss recovery component £m	Loss recovery component £m		Present value of future cash flows £m	Risk adjustment for non- financial risk £m	
Opening assets		3.4	-	-	121.4	6.8	131.6
Opening liabilities		(30.2)	-	-	28.1	-	(2.1)
Net opening balance		(26.8)	-	-	149.5	6.8	129.5
Net expenses from reinsurance contracts							
Reinsurance expenses		(127.5)	-	-	-	-	(127.5)
Incurred claims recovery		-	-	-	120.2	1.9	122.1
Changes that relate to past service – changes in the FCF relating to incurred claims recovery		(2.3)	-	9.3	(50.0)	(2.1)	(45.1)
Net expenses from reinsurance contracts		(129.8)	-	9.3	70.2	(0.2)	(50.5)
Finance expenses from reinsurance contracts	7(b)	-	-	-	13.2	0.4	13.6
Total amounts recognised in comprehensive income		(129.8)	-	9.3	83.4	0.2	(36.9)
Cash Flows							
Premiums paid net of ceding commissions and other directly attributable expenses paid		128.5	-	-	-	-	128.5
Recoveries from reinsurance		-	-	(6.8)	(107.4)	-	(114.2)
Total cash flows		128.5	-	(6.8)	(107.4)	-	14.3
Closing assets		(0.4)	-	-	106.7	7.0	113.3
Closing liabilities		(27.7)	-	2.5	18.8	-	(6.4)
Net closing balance		(28.1)	-	2.5	125.5	7.0	106.9

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Notes to the Financial Statements for the Year Ended 31 December 2025

	Note	2024				Total	
		Remaining coverage		Incurred claims for contracts not measured under the PAA	Incurred claims for contracts under the PAA		
		Excluding loss recovery component	Loss recovery component		Present value of future cash flows		Risk adjustment for non-financial risk
	£m	£m	£m	£m	£m	£m	
Opening assets		-	1.2	-	192.3	8.2	201.7
Opening liabilities		(27.4)	-	-	-	-	(27.4)
Net opening balance		(27.4)	1.2	-	192.3	8.2	174.3
Net expenses from reinsurance contracts							
Reinsurance expenses		(144.1)	-	-	-	-	(144.1)
Incurred claims and other incurred directly attributable expenses		-	(1.2)	12.8	115.6	1.1	128.3
Changes that relate to past service – changes in the FCF relating to incurred claims recovery		-	-	-	(12.0)	(3.6)	(15.6)
Net expenses from reinsurance contracts		(144.1)	(1.2)	12.8	103.6	(2.5)	(31.4)
Finance expenses from reinsurance contracts	7(b)	0.1	-	-	(12.3)	1.0	(11.2)
Total amounts recognised in comprehensive income		(144.0)	(1.2)	12.8	91.3	(1.5)	(42.6)
Cash Flows							
Premiums paid net of ceding commissions and other directly attributable expenses paid		144.6	-	-	-	-	144.6
Recoveries from reinsurance		-	-	(12.8)	(134.1)	0.1	(146.8)
Total cash flows		144.6	-	(12.8)	(134.1)	0.1	(2.2)
Closing assets		3.4	-	-	121.4	6.8	131.6
Closing liabilities		(30.2)	-	-	28.1	-	(2.1)
Net closing balance		(26.8)	-	-	149.5	6.8	129.5

(c) Reconciliation of the measurement components of reinsurance contract balances measured under GMM

	2025		Total
	Present value of future cash flows	Risk adjustment for non- financial risk	
	£m	£m	
Opening assets	5.7	0.8	6.5
Net opening balance	5.7	0.8	6.5
Changes that relate to current service			
Change in the risk adjustment for non-financial risk for the risk expired	-	(0.2)	(0.2)
Experience adjustments – relating to incurred claims and other directly attributable expenses recovery	(2.1)	-	(2.1)
Net expense from reinsurance contracts	(2.1)	(0.2)	(2.3)
Total amounts recognised in comprehensive income	(2.1)	(0.2)	(2.3)
Cash flows			
Recoveries from reinsurance	2.6	-	2.6
Total cash flows	2.6	-	2.6
Closing assets	6.2	0.6	6.8
Net closing balance	6.2	0.6	6.8
	2024		Total
	Present value of future cash flows	Risk adjustment for non- financial risk	
	£m	£m	
Opening assets	4.8	1.0	5.8
Net opening balance	4.8	1.0	5.8
Changes that relate to current service			
Change in the risk adjustment for non-financial risk for the risk expired	-	(0.2)	(0.2)
Experience adjustments – relating to incurred claims and other directly attributable expenses recovery	1.9	-	1.9
Net income from reinsurance contracts	1.9	(0.2)	1.7
Total amounts recognised in comprehensive income	1.9	(0.2)	1.7
Cash flows			
Premiums paid net of ceding commissions and other directly attributable expenses paid	11.8	-	11.8
Recoveries from reinsurance	(12.8)	-	(12.8)
Total cash flows	(1.0)	-	(1.0)
Closing assets	5.7	0.8	6.5
Net closing balance	5.7	0.8	6.5

4. INSURANCE AND REINSURANCE CONTRACTS – TERMS, ASSUMPTIONS AND SENSITIVITIES

The major classes of general insurance written by the Company include Motor and Household. Risks under these policies usually cover a 12-month duration. For the groups of contracts which cover these types of risks, these contracts are automatically eligible to be measured under the PAA. For all the ceded groups of contracts except on the LPT reinsurance contracts, the PAA measurement approach is automatically eligible. The LPT reinsurance contract covers 2020 and prior years and the GMM measurement approach is adopted. For further details, refer to note 2.1(b).

4.1 Methodology and assumptions

For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the SOFP date and the cost of claims incurred but not yet reported (“IBNR”) to the Company. In addition, assumptions of how these claims are expected to pay out over time are made. It can take a significant period of time before the ultimate cost of claims and payment cash flow can be established with certainty, and the final outcome may be better or worse than that provided.

To the extent that the ultimate cost and payment cash flow is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Profit and Loss and Other Comprehensive Income in future years.

(a) Best estimate of future cash flows

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

Within the LIC, the best estimate of future cash flows comprises of the estimated present value of the ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This is estimated based on known facts at the SOFP date. Allowance for one-off occurrences or changes in policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims and the payment cash flow patterns, so that the estimate of outstanding claims represents the most likely outcome, taking account of all the uncertainties involved. There is also an allowance in the best estimate for Events Not In Data (“ENID”) – refer to note 4(a)(iii). This best estimate claims provision is revised quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported.

The calculation of the best estimate of future cash flows is reviewed via a formal governed process which includes close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when setting and validating the assumptions.

(i) Insurance contract liabilities

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. For large personal injury claims, the Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. Since December 2024, the Ogden discount rate is set at +0.5% across all UK jurisdictions. Ultimate claims costs for large personal injury claims have been estimated using the latest Ogden discount rates at +0.5%, with past development used to guide the ultimate cost.

The estimation of claims IBNR is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available.

Standard actuarial claims projection techniques, such as the Chain Ladder method, are used to estimate the majority of outstanding claims. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are analysed separately from damage provisions. In addition, for Motor classes, third party liability damage is analysed separately from own damage claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios.

The main assumption underlying these techniques is that a Company’s past claims development experience can be used to project ultimate claims costs and the payment cash flow patterns. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

Examples of where deviations from the standard actuarial claims projection techniques are applied to the following type of liabilities:

- the impact of large losses and weather events.

Notes to the Financial Statements for the Year Ended 31 December 2025

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

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

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

For the main classes of business, the Company purchases XoL contracts with sufficiently high retentions for only relatively few large claims to be recoverable. IBNR provisions for outstanding claims are initially estimated at a gross level, and a separate calculation is carried out to estimate the size of reinsurance recoveries. Impairment of the reinsurance asset is considered separately.

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

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

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

Inflationary pressure continues to be the most significant area of uncertainty within the reserves, in particular on long-tailed claims, and is closely monitored as part of the setting of reserves, which is very sensitive to the assumptions made. During 2025, geopolitical risks and macro trends have evolved significantly and the interconnectedness of global trade and the UK's reliance on affected supply chains increases the volatility around inflation assumptions. The impact of the changing inflation environment on the ultimate cost of claims has been considered and an explicit allowance has been held in the provisions for geopolitical uncertainty.

(ii) Annuity type liabilities

The Company's outstanding claims provisions include provisions associated with the settlement of high value personal injury claims by way of PPOs established under the Courts Act 2003. Under IFRS 17, future cashflows for PPOs are discounted using the IFRS 17 yield curves consistent with other insurance liabilities. During 2025, one PPO expired, and there were no new settlements agreed on this basis, making the total number of outstanding settled PPOs as at the end of the year to be 15. Total discounted PPO reserves are £55.6m (2024: £74.0m) gross and £7.7m (2024: £16.8m) net of reinsurance. The corresponding undiscounted amounts are £146.0m (2024: £185.0m) gross and £18.0m (2024: £40.6m) net of reinsurance.

For PPOs, the annuity type structure of the claim payments mean that these have to be projected over a longer-term period. The key assumptions affecting the undiscounted claims provisions held for PPOs are PPO inflation and the life expectancy of the claimant.

PPOs are court ordered regular payments linked to an index. This is usually the ASHE index. The valuation of PPOs includes a long-term assumption of inflation linked to the ASHE index. As PPO inflation is linked to the ASHE index, it is considered a financial risk. The Company has adopted the OCI approach, therefore impact of changes relating to the PPO inflation assumption are recognised within the OCI rather than through profit and loss. This reduces the volatility in the insurance service result that arises from changes in the PPO inflation assumption.

To enable the disaggregation of changes in liabilities between the profit and loss and OCI requires the use of "locked-in" PPO inflation assumptions used in the valuation of the PPOs when the PPO was settled at the date of the court order. Changes between the "locked-in" PPO inflation assumption and current PPO inflation assumption is recognised within OCI. Where the "locked-in" PPO inflation assumption is not available, the modified retrospective approach is adopted, and the PPO inflation assumption assumed at transition is used for these years. For further details, refer to note 2.

(iii) ENID

An ENID reserve is included in the Company's best estimate outstanding claims provision. The ENID reserve considers events not included within the historical data and is selected using a scenario-based approach.

(iv) Impact of changes in assumptions to undiscounted best estimate of future cash flows

Overall, changes in assumptions and claims experience have caused a gross decrease of £34.2m (2024: £1.0m decrease) in insurance provisions in respect of the prior period, driven by releases on Motor damage perils and favourable large claims experience on Motor. The net effect after reinsurance is a £5.3m decrease (2024: £4.8m increase)

(b) Discounting

Insurance contract liabilities are discounted to reflect the time value of money and their associated illiquidity characteristics. The key assumptions that affect the movement of discounted claims provision are the claims payment pattern and the discount rate.

Assumptions on claim payment patterns are derived in the main from those historically observed, similar to the claims reporting patterns. Where limited historical experience is available, expert judgement is applied. The claims payment patterns used to discount liabilities are updated annually.

The discount rate for all insurance contract liabilities is derived using the bottom-up approach. Under this approach, the discount rate is determined as the risk free yield, adjusted for illiquidity premium.

Risk free rates are determined by reference to the yields of overnight GBP swap rates (Sterling Overnight Index Average – (“SONIA”)) which are highly liquid. For the illiquidity premium, there are no observable market rates for illiquidity of insurance liability cash flows. Therefore, the Company has determined the illiquidity premium using a top-down approach considering a reference portfolio of assets (mixture of fixed rate bonds) by term as a proxy to determine the implied illiquidity premium for insurance liabilities. The implied illiquidity premium is the difference between the market spread over the risk free rates of these assets and the risk premium for ECL and volatility around the ECL. It is assumed that the risk free rate and illiquidity premium converges to the Ultimate Forward Rate assumption which represents the real average long-term risk free rate including inflation.

The yield curves that were used to discount the estimates of future cash flows that do not vary based on the returns of the underlying items in the SOFP are as follows:

Insurance liabilities and assets	1 year	3 years	5 years	10 years	20 years	30 years
2025	3.7%	3.8%	4.1%	4.7%	5.3%	5.4%
2024	4.5%	4.4%	4.4%	4.7%	5.1%	5.1%

The Company has adopted the OCI approach, therefore impact of changes in discount rates are recognised within OCI rather than through profit and loss, similar to PPO inflation. This reduces the volatility in the insurance service result that arises from changes in the interest rates.

To enable the disaggregation of changes in liabilities between the profit and loss and OCI requires the use of “locked-in” interest rates. Locked-in spot rate curves are derived for each annual cohort, the impact of the unwind of the discount derived from these locked-in rates is recognised within profit and loss. Where the data is not available, the modified retrospective approach is adopted, and the discount rate assumptions as at the transition date is assumed for these years. For further details, refer to note 2.

Liabilities are discounted at current observable rates on the SOFP and the impact of changes between the locked-in rates and current rates is recognised within OCI.

The disaggregation approach described above is applied to both the best estimate of future cash flows and the risk adjustment.

(c) Methods used to measure the risk adjustment for non-financial risk

The risk adjustment for non-financial risk is the compensation that is required for bearing the uncertainty about the amount and timing of cash flows that arises from non-financial risk as the insurance contract is fulfilled.

The CoC method was used to derive the overall risk adjustment for non-financial risk. The risk adjustment is calculated at the issuing entity level and then allocated down to each group of contracts in accordance with their risk profiles.

The key assumptions which affect the undiscounted risk adjustment are the CoC rate, risk capital charges to determine the projected capital relating to non-financial risk, diversification between risk types and classes of business, Allianz SE Group diversification factor (“GDF”) and lambda dampener assumptions.

The CoC rate is representative of the Company’s view of the compensation that is required for the uncertainty arising from non-financial risk as the insurance contract is fulfilled. The CoC rate is set at 6.0% (2024: 6.0%) per annum, which is derived using Allianz SE Group’s Capital Asset Pricing Model. It represents the return required by the Company to compensate for the exposure to non-financial risk, and is used to steer the Company’s business as part of the planning dialogue, management reporting and KPIs used for monitoring.

To highlight the sensitivity of this assumption, a scenario with the rate at 4.0% has been modelled. The following table shows the impact on gross and net liabilities, profit before tax and equity for this change:

Change in assumptions	2025				
	Impact on Profit/(Loss) before tax gross of reinsurance	Impact on Profit/(Loss) before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance	
	£m	£m	£m	£m	£m
Reduce from 6.0% to 4.0%	13.1	5.8	9.5	4.3	

Change in assumptions	2024				
	Impact on Profit/(Loss) before tax gross of reinsurance	Impact on Profit/(Loss) before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance	
	£m	£m	£m	£m	£m
Reduce from 6.0% to 4.0%	4.8	1.8	4.3	1.7	

The capital is determined at a 99.5% confidence level over a one year horizon, and it is projected in line with the run-off of the business.

The risk capital charges are taken from the Company's Internal Model including premium risk, reserve risk (excluding PPO inflation which is considered a financial risk), lapse risk and cost risk. This covers the non-financial risk exposure for the Company from the fulfilment of its insurance contracts. An average of the past three years risk factors is used to reduce the volatility of the risk adjustment and represents the Company's long-term view of the capital required to cover the non-financial risk arising from insurance contract is fulfilled.

Diversification benefit between risk types and classes of business is assumed which is taken from the Company's Internal Model assumptions.

GDF is assumed in the calculation of the risk adjustment which allows for the diversification between different entities within the Allianz SE Group. This assumption is included to reflect the Company's position as part of the wider Allianz SE Group where this assumption is included in the Company's Return on Equity ambition which is used in the Company's pricing, planning dialogue, and management reporting.

The resulting amount of the calculated net risk adjustment corresponds to the confidence level and ultimate position, which is 66.9% (2024: 68.3%) against the Company's reserve risk distribution outputted from its Internal Model results.

Similar to the best estimate of FCF, the undiscounted risk adjustment is discounted where the payment pattern is aligned to the payment pattern for the best estimate of future cash flows by line of business and the same discount rate used. Similarly, the adoption of OCI and disaggregation approach is also applied to the risk adjustment. For further details on these assumptions, refer to note 4.1(b).

The methodology used to determine the risk adjustment for non-financial risk were not changed in 2025.

4.2 Loss development triangles

The following tables show the development of best estimate claims over a period of time on both a gross and net of reinsurance basis. The tables show the cumulative undiscounted incurred claims, including both notified and IBNR claims, for each successive accident year at each SOFP date, together with cumulative undiscounted claims as at the current SOFP. In the loss development triangles, the cumulative undiscounted incurred claims estimates and payments for each accident year are presented in pounds sterling at the date of the SOFP.

In addition, the effect of discounting of the best estimate future cash flows and the discounted risk adjustment for non-financial risk is included which aggregates up to the LIC.

Actual claims payments are compared with previous estimates of the undiscounted amounts of the claims in the claims development disclosure below on a gross of reinsurance basis as at 31 December 2025:

Highway Insurance Company Limited

Notes to the Financial Statements for the Year Ended 31 December 2025

Gross of Reinsurance	2015 and prior	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At end of accident year	-	266.7	289.8	316.9	295.5	276.4	341.9	310.8	343.5	262.8	279.2	
One year later	-	253.4	266.0	305.2	307.5	251.5	316.4	338.3	343.2	266.3	-	
Two years later	-	240.5	258.6	321.7	329.6	238.1	328.9	336.6	337.0	-	-	
Three years later	-	222.7	263.3	322.6	306.2	234.2	303.8	329.7	-	-	-	
Four years later	-	225.6	263.6	315.3	294.6	245.6	290.6	-	-	-	-	
Five years later	-	228.8	261.9	324.0	295.6	239.1	-	-	-	-	-	
Six years later	-	227.6	264.4	325.8	296.2	-	-	-	-	-	-	
Seven years later	-	227.5	265.4	320.4	-	-	-	-	-	-	-	
Eight years later	-	227.3	266.1	-	-	-	-	-	-	-	-	
Nine years later	-	227.8	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	-	227.8	266.1	320.4	296.2	239.1	290.6	329.7	337.0	266.3	279.2	2,852.4
Cumulative payments to date	-	(223.1)	(257.1)	(310.9)	(275.5)	(203.2)	(250.5)	(296.3)	(252.8)	(160.5)	(101.6)	(2,331.5)
Reserve in respect of prior years	162.8	-	-	-	-	-	-	-	-	-	-	162.8
Effect of discounting of the best estimate future cash flows	(90.5)	(0.2)	(3.5)	(0.7)	(4.5)	(7.9)	(11.0)	(5.3)	(13.8)	(10.9)	(27.8)	(176.1)
Effect of the risk adjustment for non-financial risk	1.9	0.1	0.2	0.2	0.5	0.7	1.1	0.8	1.8	2.0	3.8	13.1
Effect of receivables and payables	-	-	-	-	-	-	-	-	-	-	-	7.0
Gross LIC for contracts originated	74.2	4.6	5.7	9.0	16.7	28.7	30.2	28.9	72.2	96.9	153.6	527.7

Actual claims payments are compared with previous estimates of the undiscounted amounts of the claims in the claims development disclosure below on a net of reinsurance basis as at 31 December 2025:

Net of Reinsurance	2015 and prior	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At end of accident year	-	207.1	199.0	234.7	226.4	206.4	170.3	172.2	170.5	140.5	143.5	
One year later	-	176.7	190.0	226.7	233.9	188.3	162.6	184.5	172.0	139.1	-	
Two years later	-	168.8	186.9	232.7	244.3	257.4	167.6	184.7	173.4	-	-	
Three years later	-	156.5	191.0	235.6	230.9	254.7	165.4	180.1	-	-	-	
Four years later	-	158.9	191.6	229.4	218.8	256.1	162.7	-	-	-	-	
Five years later	-	161.2	194.9	232.9	221.0	258.3	-	-	-	-	-	
Six years later	-	161.3	197.5	235.9	222.4	-	-	-	-	-	-	
Seven years later	-	161.2	198.5	233.1	-	-	-	-	-	-	-	
Eight years later	-	161.1	199.8	-	-	-	-	-	-	-	-	
Nine years later	-	161.5	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative net claims	-	161.5	199.8	233.1	222.4	258.3	162.7	180.1	173.4	139.1	143.5	1,873.9
Net Cumulative payments to date	-	(156.8)	(190.8)	(230.3)	(211.2)	(238.3)	(145.3)	(162.6)	(128.2)	(83.9)	(51.5)	(1,598.9)
Net reserve in respect of prior years	43.5	-	-	-	-	-	-	-	-	-	-	43.5
Effect of discounting of the best estimate future cash flows	(18.1)	(0.2)	(3.6)	(0.1)	(1.3)	(2.2)	(3.9)	(3.0)	(4.7)	(4.6)	(9.1)	(50.8)
Effect of the risk adjustment for non-financial risk	0.5	0.1	0.2	-	0.2	0.3	0.5	0.5	0.9	1.1	1.8	6.1
Effect of receivables and payables	-	-	-	-	-	-	-	-	-	-	-	(12.5)
Effect of reinsurance funds withheld deposits	-	-	-	-	-	-	-	-	-	-	-	133.9
Net LIC for contracts originated	25.9	4.6	5.6	2.7	10.1	18.1	14.0	15.0	41.4	51.7	84.7	395.2

5. EXPENSES

		2025	2024
	Note	£m	£m
Claims and benefits		220.7	260.5
Fee and commission expense		69.3	73.9
Reversal of losses on onerous contracts	3(a)	-	(0.1)
Administrative expenses		25.7	28.9
Amortisation of intangible assets	10	0.6	0.5
Amounts attributed to insurance acquisition cash flows		(69.3)	(73.9)
Amortisation of insurance acquisition cash flows	3(a)	73.2	72.8
Charges for provisions		1.7	1.7
Non-attributable acquisition costs		9.7	11.1
Total expenses		331.6	375.4
Represented by			
- Insurance service expenses	3(a)	318.0	361.4
- Other operating and administrative expenses		13.6	14.0
Total expenses		331.6	375.4

6. NET INVESTMENT INCOME

		2025	2024
	Note	£m	£m
(a) Interest income			
Interest income from Investments held at AC			
Cash and cash equivalents		0.4	0.4
Other receivables		0.5	1.4
Interest income from Investments at FVOCI			
Debt securities		23.5	17.0
Interest income from Investments at FVTPL			
Debt securities		(0.1)	(0.8)
Total interest income		24.3	18.0
(b) Other investment expenses			
Net realised losses on investments measured at FVOCI		(1.2)	(6.7)
Total other investment expenses		(1.2)	(6.7)
(c) Net impairment gains/(losses) on financial assets			
Movements in ECL	17(b)	0.7	(0.7)
Total net impairment gains/(losses) on financial assets		0.7	(0.7)
(d) Investment expenses			
Investment management expenses		(0.6)	(0.7)
Total investment expenses		(0.6)	(0.7)
Net investment income		23.2	9.9

7. INSURANCE FINANCE (EXPENSES)/INCOME

	Note	2025			2024		
		Profit and loss £m	OCI £m	Total £m	Profit and loss £m	OCI £m	Total £m
(a) Finance (expenses)/income from insurance contracts							
Interest accretion	3(a)	(16.4)	(19.3)	(35.7)	(15.9)	19.3	3.4
Total finance (expenses)/income from insurance contracts		(16.4)	(19.3)	(35.7)	(15.9)	19.3	3.4
(b) Finance income/(expenses) from reinsurance contracts							
Interest accretion	3(b)	3.2	10.4	13.6	3.5	(14.7)	(11.2)
Total finance income/(expenses) from reinsurance contracts		3.2	10.4	13.6	3.5	(14.7)	(11.2)

8. INCOME TAX

(a) Income tax recognised in profit and loss

	2025 £m	2024 £m
Current tax:		
In respect of the current year	3.6	(3.6)
Total current tax	3.6	(3.6)
Total income tax expense/(credit)	3.6	(3.6)

The income tax expense/(credit) for the year can be reconciled to the accounting profit/(loss) as follows:

	2025 £m	2024 £m
Profit/(loss) before tax	16.0	(14.3)
Income tax expense/(credit) calculated at 25.0% (2024: 25.0%)	4.0	(3.6)
Effect of expenses not deductible for tax purposes	4.0	0.1
Effect of income that is exempt from taxation	0.1	-
Effect of imputed transfer pricing adjustments	(0.5)	(0.1)
Income tax expense/(credit) recognised in profit and loss	3.6	(3.6)

The Organisation for Economic Cooperation and Development ("OECD") Pillar Two model rules

As a fully consolidated affiliated entity of the Allianz SE Group, the Company is within the scope of the OECD Pillar Two Model rules. Under these rules, a top-up-tax must be paid per jurisdiction for the difference between the Global Anti-Base Erosion ("GloBE") effective tax rate and the 15.0% minimum rate. Local Pillar Two legislation came into effect from 1 January 2024 in the UK, the jurisdiction in which the Company is incorporated. However, as the GloBE effective tax rate of all Allianz UK entities being situated for tax purposes in jurisdiction the UK is expected to be greater than the minimum rate of 15.0%, no additional income tax is expected for the Company. Any transitional reliefs provided by the Pillar Two regulations will be taken as far as possible to reduce compliance and reporting efforts. The Company has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income tax legislation.

(b) Income tax recognised in OCI

	2025	2024
	£m	£m
Deferred tax	(3.4)	(3.1)
Total income tax recognised in OCI	(3.4)	(3.1)

(c) Tax received for cash flow purposes

	2025	2024
	£m	£m
Current tax assets at 1 January	(3.6)	(8.3)
Amounts charged/(credited) to profit and loss	3.6	(3.6)
Tax received during the year	1.0	8.3
Current tax liabilities/(assets) at 31 December	1.0	(3.6)

(d) Deferred tax balances

The balance comprises temporary differences attributable to:

	2025	2024
	£m	£m
(i) Deferred tax assets		
Unrealised losses on financial assets	4.8	9.5
Unrealised losses on insurance liabilities and reinsurance assets/(liabilities)	10.0	12.0
IFRS 9 profit and loss transitional adjustment	0.1	0.1
Total deferred tax assets	14.9	21.6
Set-off of deferred tax liabilities pursuant to set-off provisions	(10.0)	(12.0)
Net deferred tax assets	4.9	9.6

Movements in relation to deferred tax assets	Unrealised losses on financial assets	Unrealised losses on insurance liabilities and reinsurance assets/(liabilities)	IFRS 9 profit and loss transitional adjustment	Total
	£m	£m	£m	£m
At 1 January 2024	12.5	10.8	0.1	23.4
(Charged)/credited				
- to OCI	(3.0)	1.2	-	(1.8)
At 31 December 2024	9.5	12.0	0.1	21.6
Charged				
- to OCI	(4.7)	(2.0)	-	(6.7)
At 31 December 2025	4.8	10.0	0.1	14.9

The balance comprises temporary differences attributable to:

(ii) Deferred tax liabilities

	2025	2024
	£m	£m
Unrealised gains on insurance and reinsurance assets/liabilities	14.2	17.5
Total deferred tax liabilities	14.2	17.5
Set-off of deferred tax liabilities pursuant to set-off provisions	(10.0)	(12.0)
Net deferred tax liabilities	4.2	5.5

Movements in relation to deferred tax liabilities

	Unrealised gains on insurance and reinsurance assets/(liabilities)	Total
	£m	£m
At 1 January 2024	16.2	16.2
Charged		
- to other comprehensive income	1.3	1.3
At 31 December 2024	17.5	17.5
Credited		
- to other comprehensive income	(3.3)	(3.3)
At 31 December 2025	14.2	14.2

	2025	2024
	£m	£m
Non-current deferred tax assets	4.9	9.6
Non-current deferred tax liabilities	4.2	5.5

9. DIVIDENDS

No interim dividend was paid during the year ended 31 December 2025 (2024: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2025 (£nil) (2024: £nil).

10. INTANGIBLE ASSETS

	Renewal rights	Total
	£m	£m
Cost		
At 1 January 2024	<u>3.4</u>	<u>3.4</u>
At 31 December 2024	<u>3.4</u>	<u>3.4</u>
At 31 December 2025	<u><u>3.4</u></u>	<u><u>3.4</u></u>
Accumulated amortisation		
At 1 January 2024	(1.6)	(1.6)
Amortisation charge for the year	(0.5)	(0.5)
At 31 December 2024	<u>(2.1)</u>	<u>(2.1)</u>
Amortisation charge for the year	(0.6)	(0.6)
At 31 December 2025	<u><u>(2.7)</u></u>	<u><u>(2.7)</u></u>
Carrying amount		
At 31 December 2024	<u>1.3</u>	<u>1.3</u>
At 31 December 2025	<u><u>0.7</u></u>	<u><u>0.7</u></u>

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

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

11. FINANCIAL ASSETS

The carrying amounts of the financial assets held by the Company are:

31 December 2025	FVOCI	FVTPL Mandatory	Total
	£m	£m	£m
Debt securities ⁽¹⁾	747.9	0.9	748.8
Total	<u><u>747.9</u></u>	<u><u>0.9</u></u>	<u><u>748.8</u></u>
31 December 2024	FVOCI	FVTPL Mandatory	Total
	£m	£m	£m
Debt securities ⁽¹⁾	681.8	-	681.8
Total	<u><u>681.8</u></u>	<u><u>-</u></u>	<u><u>681.8</u></u>

⁽¹⁾The Company has entered into securities lending whereby blocks of securities are loaned to third parties. The amount of collateral required to be held above the fair value of the loaned securities is dictated by the agreements and depends on the quality of the collateral provided and calculated on a daily basis. The loaned securities are not removed from the Company's SOFP, they continue to be recognised within the appropriate investment classification. At 31 December 2025, the Company had lent £116.8m (2024: £33.6m) and held collateral under such agreements of £124.7m (2024: £35.3m). Due to the collateral held being higher than the value of securities lent the credit risk is deemed to be low.

Carrying amounts disclosed above reasonably approximate fair values at year end. For further details on fair value levelling, refer to note 17.

12. OTHER RECEIVABLES

	2025	2024
	£m	£m
Amounts due from related parties	19.1	28.5
Other receivables	6.9	0.1
Prepayments	0.4	0.5
Total other receivables	26.4	29.1

The carrying amounts disclosed above reasonably approximate fair values at year end. The other receivables are all current.

The Company has concluded that the ECL model has made no significant impact on the valuation of other receivables reported in the Financial Statements.

13. CASH AND CASH EQUIVALENTS

	2025	2024
	£m	£m
Cash and cash equivalents	4.6	9.8
Cash and cash equivalents per SOFP	4.6	9.8
Bank overdrafts	-	(3.3)
Total cash and cash equivalents per Statement of Cash Flows	4.6	6.5

The Company has concluded that the ECL model has made no significant impact on the valuation of cash and cash equivalents reported in the Financial Statements.

Cash and cash equivalents are offset for the year ended 31 December 2025 and the net amount is reported in the SOFP where the Company currently has a legally enforceable right to offset the recognised amounts. Cash and cash equivalents gross amount is £12.0m, overdraft gross amount is £7.4m. The net amount of cash and cash equivalents is £4.6m.

	2025	2024
	£m	£m
Loans and borrowings		
Subordinated note	-	(9.9)

The €12.0m subordinated note was repayable in 2034 with Interest payable at the three-month euro deposit rate plus a margin of 3.65%. The fair value of the sub-ordinated note is £nil (2024: £9.9m) derived using a discounted cash flow model valuation basis. The sub-ordinated note was repaid in full on 24 February 2025.

14. EQUITY

Share capital – allotted, called up and fully paid

	2025		2024	
	No.	£	No.	£
Ordinary shares of £1 each	120,000,000	120,000,000	120,000,000	120,000,000

The ordinary shares carry full voting rights and qualify for dividends. There are no restrictions on the repayment of capital other than as imposed by the Act.

Capital contribution reserve

	2025	2024
	£m	£m
Capital contribution reserve	131.4	131.4

The reserve was created to receive capital contributions from its intermediate parent Company, LVIC, to maintain regulatory capital.

15. ACCRUALS AND OTHER PAYABLES

	2025	2024
	£m	£m
Amounts due to related parties	20.1	-
Accrued expenses	0.4	0.6
Tax payables	-	0.1
Other payables	0.2	0.5
Total accruals and other payables	20.7	1.2

The carrying amounts disclosed above reasonably approximate fair values at the SOFP date. All of the liabilities are payable within 12 months of the SOFP date.

16. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Restructuring	Total
	£m	£m
At 1 January 2025	-	-
Provided during the year	1.7	1.7
Utilised in the year	(1.4)	(1.4)
At 31 December 2025	0.3	0.3

All provisions are current for the year ended 31 December 2025.

17. RISK MANAGEMENT POLICIES

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

Insurance risk

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

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insurance contract. By the nature of an insurance contract, insurance risk is random and unpredictable. Therefore, the actual claims costs may exceed the estimated insurance contract liabilities.

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

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

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

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

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

The Company has placed a WAQS treaty with an Allianz SE Group reinsurance company, in order to ensure the Company was able to deliver its ambitions and to improve the solvency position under Solvency UK.

The purpose of these underwriting and reinsurance strategies is to limit exposure to a series of unconnected events and catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by the Board. The Company is additionally exposed to Climate Risk, which is expected to increase the frequency and severity of weather events over time. It monitors this exposure through stress and scenario testing and adapts its underwriting and reinsurance strategies accordingly.

Reinsurance placement is limited to a small number of highly regarded reinsurers, in order to ensure as far as possible that reinsurance claims are met in full.

The Company has issued the following types of general insurance contract: Motor and Household. The following table sets out the LIC by contract type:

	2025			2024		
	Gross	Reinsurers share	Net	Gross	Reinsurers share	Net
	£m	£m	£m	£m	£m	£m
LIC						
Motor	467.0	(224.2)	242.8	453.0	(222.1)	230.9
Household	53.7	(22.7)	31.0	52.0	(21.2)	30.8
Effect of receivables and payables	7.0	(19.5)	(12.5)	5.2	(29.1)	(23.9)
Effect of deposits	-	133.9	133.9	-	116.1	116.1
Total LIC	527.7	(132.5)	395.2	510.2	(156.3)	353.9

Note 4 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Company's estimation techniques for claims payments. Note that the figures in the above table include counterparty default adjustment.

Claims Inflation risk

Claims inflation risk is the risk that changes in claims inflation expectations will adversely affect the Company's net asset value ("NAV"). The Company's insurance contract liabilities are subject to changes in claims inflation which is considered as part of insurance risk. PPO inflation is considered as a financial risk as it is linked to an index, refer to note 17(a)(ii).

Inflationary pressure continues to be the most significant area of uncertainty within the reserves, in particular on long-tailed claims, and is closely monitored as part of the setting of reserves, which is very sensitive to the assumptions made. During 2025, geopolitical risks and macro trends have evolved significantly and the interconnectedness of global trade and the UK's reliance on affected supply chains increases the volatility around inflation assumptions. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims.

The following sensitivity analysis shows the impact on profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions held constant. The effect is shown gross and net of reinsurance:

- Timing of liabilities: best estimate of future cash flows have assumed to be one year earlier or one year later which also has a knock-on impact on the risk adjustment. Similar stress is also applied to the best estimate of future cash flows on the unearned business to calculate whether there will be a loss component.
- Reserve over/underestimation, including impacts due to inflation (not including PPO inflation): +/-1.0% impact on the undiscounted best estimate of future cash flows which also has a knock-on impact on the risk adjustment. Similar stress is also applied to the future cash flows on the unearned business to calculate whether there will be a loss component.
- Life expectancy: assumed to be 4 years greater for each PPO claimant, which also has a knock on impact on the risk adjustment.

Change in assumptions	2025			
	Impact on loss before tax gross of reinsurance	Impact on loss before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£m	£m	£m	£m
Timing of cash flows				
Increase by 1 year	18.0	7.7	21.6	9.9
Decrease by 1 year	(15.6)	(6.5)	(18.4)	(8.1)
Expected loss				
1.0% increase	(5.9)	(2.6)	(5.2)	(2.5)
1.0% decrease	5.9	2.7	5.2	2.5
Life Expectancy				
Increase by 4 years	(20.5)	(2.6)	(5.8)	(0.8)

Change in assumptions	2024			
	Impact on loss before tax gross of reinsurance	Impact on loss before tax net of reinsurance	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£m	£m	£m	£m
Timing of cash flows				
Increase by 1 year	15.6	6.9	22.1	9.9
Decrease by 1 year	(12.2)	(5.6)	(20.4)	(8.5)
Expected loss				
1.0% increase	(5.8)	(2.3)	(5.0)	(2.3)
1.0% decrease	5.8	2.6	5.0	2.3
Life Expectancy				
Increase by 4 years	(18.3)	(2.7)	(4.4)	(1.1)

Note that these sensitivities demonstrate the effect of a change in key assumption while other assumptions remain unchanged. However, there are dependencies between these key assumptions and the occurrence of a change in one key assumption may lead to changes in other key assumptions as a result of correlations.

Financial risk

The key financial risk is that proceeds from the realisation of assets are insufficient to meet its obligations as they fall due. The most important aspects of financial risk comprise market risk, credit risk and liquidity risk.

(a) Market risk

Market risk is the risk that changes in market prices will affect the value of the Company's assets and income. The Company's liabilities have very limited exposure to these movements. The Company is exposed to market risk on all of its FVOCI and FVTPL financial instruments. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders' funds. A substantial part of the Company's financial assets are invested in FVOCI fixed interest securities. These are quoted on a recognised stock exchange and are readily tradable.

Climate risk could also impact market risk. This arises from the potential impact of the global transition to a lower-carbon economy. The Company manages this risk by monitoring its exposure using stress and scenario testing and adapts its investment strategy accordingly.

(i) Interest rate risk

Interest rate risk is the risk that interest rates will change, adversely affecting the market value of the fixed interest portfolio and consequently the value of the assets that the Company has available to meet insurance contract liabilities. A substantial part of the Company's FVOCI financial assets are invested in financial fixed interest securities. It also impacts the valuation of insurance contract liabilities as the LIC is discounted to reflect the time value of money.

Interest rate risk is managed by ensuring the liabilities and their duration are considered when setting and managing the strategic asset allocation, to ensure an acceptable degree of risk within market risk limits.

At 31 December 2025, the average duration of the fixed interest and cash and cash equivalent portfolios was 2.7 years (2024: 2.8 years) compared with the estimated average duration of the undiscounted cash flows of 10.1 years (2024: 10.8 years). The difference is explained by the impact of PPOs, due to their very long-tailed nature, the gap narrows significantly when discounting is applied.

At 31 December 2025, the average duration of the other receivables was 1 day (2024: 1 day).

(ii) PPO inflation risk

PPOs are court ordered regular payments linked to an index. This is usually the ASHE index. The valuation of PPOs includes a long-term assumption of inflation linked to the ASHE index. Therefore, PPO inflation is considered a financial risk as it is linked to the ASHE index. The risk is that changes in the long-term expectation of PPO inflation affect the Company's NAV.

(iii) Equity risk

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Equity risk is the risk that the market price of managed funds will fall in value as a result of adverse stock market movements. The Company's exposure to equity risk is deemed to be low.

(iv) Credit spread risk

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

(v) Currency risk

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

The Company has a policy of broadly matching currency liabilities, with assets denominated in the same currency to minimise currency risk. Rebalancing of net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values. At 31 December 2025, the largest currency exposures were:

	2025	2024
	£m	£m
Euro		
Assets	9.6	7.7
Liabilities	(12.8)	(20.5)

vi) Sensitivity to market risk

The tables below shows the sensitivity of the Company's equity to reasonably possible movements in key assumptions that affect financial risk with all other assumptions held constant. The effect is shown gross and net of reinsurance:

- Interest rate risk: shift in yield curve – +/-1.0% impact in yield curves to discount insurance contract liabilities, including the risk adjustment and discounted cash flows used to calculate the loss component. This does not affect the profit and loss due to "locked-in" interest rates used.
- PPO inflation: +/-1.0% impact on PPO inflation on PPO liabilities and knock-on impact on risk adjustment. It does not affect the loss component. This does not affect the profit and loss due to "locked-in" PPO assumptions used.

Change in assumptions	2025	
	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£m	£m
Interest rate		
+100 basis points shift in yield curves	19.1	5.9
-100 basis points shift in yield curves	(22.6)	(6.6)
PPO inflation		
+100 basis points shift in yield curves	(0.6)	(0.1)
-100 basis points shift in yield curves	0.6	0.1

Change in assumptions	2024	
	Impact on equity gross of reinsurance	Impact on equity net of reinsurance
	£m	£m
Interest rate		
+100 basis points shift in yield curves	19.7	6.0
-100 basis points shift in yield curves	(23.6)	(6.7)
PPO inflation		
+100 basis points shift in yield curves	(0.7)	(0.1)
-100 basis points shift in yield curves	0.7	0.1

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

	2025		2024	
	Impact on Profit before tax	Impact on Equity	Impact on Loss before tax	Impact on Equity
	£m	£m	£m	£m
Interest rate risk				
+100 basis points shift on investment value	1.6	1.2	1.4	1.1
-100 basis points shift on investment value	(1.6)	(1.2)	(1.4)	(1.1)
Currency rate risk				
10.0% weakening of Euro exchange rate	1.3	1.0	1.3	1.0
10.0% strengthening of Euro exchange rate	(1.3)	(1.0)	(1.3)	(1.0)

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

The sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Additionally, sensitivity analysis is based on the Company's financial position at the reporting date and may vary at the time that any market movement occurs. As investment markets move past pre-determined trigger points, management action would be taken and alter the Company's position.

Note that these sensitivities demonstrate the effect of a change in key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

(b) Credit risk

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

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

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

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long-term exposure from insurance risks, reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long-term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. The largest reinsurance counterparty risk at 31 December 2025 was £242.2m (2024: £230.9m) with an Allianz SE Group reinsurance company with the majority relating to the LPT and WAQS which is on a funds withheld basis of £199.2m (2024: £199.4m).

Premiums receivable are closely monitored via the credit control process. For amounts due from brokers, credit terms are applied which are determined by a range of factors, including the type of business, size of account and financial standing. The largest insurance counterparty risk at 31 December 2025 was £8.5m (2024: £12.1m).

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

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The following table provides information regarding the credit risk exposure of the Company at 31 December 2025 by classifying assets according to the credit ratings of counterparties.

	AAA-A	BBB-B	CCC-C	Other not rated	Total
2025	£m	£m	£m	£m	£m
Reinsurance contract assets	112.9	-	-	0.4	113.3
Assets measured at FVTPL	-	0.9	-	-	0.9
Assets measured at FVOCI	551.7	195.0	-	1.2	747.9
Other receivables	15.3	-	-	10.7	26.0
Cash and cash equivalents	4.6	-	-	-	4.6
Total	684.5	195.9	-	12.3	892.7
Percent	76.7%	21.9%	0.0%	1.4%	100.0%

	AAA-A	BBB-B	CCC-C	Other not rated	Total
2024	£m	£m	£m	£m	£m
Reinsurance contract assets	131.6	-	-	-	131.6
Assets measured at FVOCI	528.0	152.1	1.7	-	681.8
Other receivables	27.1	-	-	2.0	29.1
Cash and cash equivalents	9.8	-	-	-	9.8
Total	696.5	152.1	1.7	2.0	852.3
Percent	81.7%	17.8%	0.2%	0.2%	100.0%

The following table set out the credit quality analysis for the Company's debt investments measured at FVOCI without taking into account collateral or other credit enhancements. Unless specifically indicated, the amounts in the table represent gross carrying amounts.

Assets at FVOCI

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
AAA - A	551.7	-	-	551.7	528.0	-	-	528.0
BBB – B	195.0	-	-	195.0	152.1	-	-	152.1
CCC - C	-	-	-	-	-	-	1.7	1.7
Other not rated	1.2	-	-	1.2	-	-	-	-
Fair Value	747.9	-	-	747.9	680.1	-	1.7	681.8

Significant increases in credit risk, default and cure

When determining whether the credit risk (i.e. risk of default) on financial assets has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both qualitative and quantitative information and analysis based on the Company's experience, credit assessment and forward-looking information.

The Company continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL ("Stage 1") or lifetime ECL significant risk ("Stage 2") or lifetime ECL credit-impaired ("Stage 3"), the Company assesses whether there has been a significant increase in credit risk since initial recognition. The Company uses hurdle ratings that indicate a significant increase in credit risk and consequently a transfer from Stage 1 to Stage 2 on a notch-by-notch basis. In addition, the rating hurdle is dependent on the expected maturity of the investment. A transfer to Stage 3 is triggered by a CCC rating or when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

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The Company considers a financial asset to be “default” when the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to mitigating actions. The criteria of “default” are consistent with those of “credit-impaired”.

In cases when an instrument identified as defaulted, it is the Company’s policy to consider a financial instrument as “cured”, and therefore re-classified out of credit-impaired when none of the default criteria have been present for at least 12 consecutive months.

Modifications of financial assets

The contractual terms of a financial asset may be modified for a number of reasons, including changing market conditions and other factors not related to a current or potential credit deterioration of the debtor. An existing financial asset whose terms have been modified may be derecognised and the renegotiated asset recognised as a new financial asset at fair value plus eligible transaction costs in accordance with the accounting policies, refer to note 1.4(d).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of significant increase in credit risk is assessed. The credit risk at the reporting date under the modified contractual terms of the asset shall be compared to the credit risk at initial recognition under the original unmodified contractual terms of the financial asset. If this comparison does not show a significant increase in credit risk, the loss allowance should be measured at 12-month ECL.

Incorporation of forward-looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECL.

It formulates a “base case” view of the future direction of relevant economic variables and a representative range of other possible forecast scenarios based on management knowledge and consideration of a variety of external actual and forecast information. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities where the Company operates.

The forward-looking information is not considered as a significant accounting estimate input to the calculation of ECL.

Impairment losses on financial assets subject to impairment assessment

The following tables show reconciliations from the opening balance to the closing balance of the loss allowance by class of financial instrument.

Assets at FVOCI

	2025				2024			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January	0.2	-	0.8	1.0	0.3	-	-	0.3
Net remeasurement of loss allowance	-	-	(0.7)	(0.7)	(0.1)	-	0.8	0.7
Balance at 31 December	0.2	-	0.1	0.3	0.2	-	0.8	1.0

(c) Liquidity risk

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

The Company is exposed to calls on its available resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. In 2025, the cash pool was £15.3m (2024: £27.1m) plus cash and cash equivalents of £4.6m (2024: £9.8m) totalling £19.9m (2024: £36.9m), nearly all of these are readily realisable. As the majority of the Company’s invested assets are highly liquid, the Company’s exposure to liquidity risk is considered low. In line with this assessment, the Company’s risk capital model does not allocate capital to liquidity risk, as holding capital is not regarded as an effective mitigant for this type of risk.

The following tables show information about the contractual maturities of the Company's financial assets, other receivables and cash and cash equivalents. In addition, it shows the estimated timing of the cash flows from the Company's insurance contract liabilities and reinsurance contract assets/(liabilities), which reflect the dates on which the cash flows are expected to occur. The cash flows are undiscounted and exclude the risk adjustment for non-financial risk. The analysis for insurance and reinsurance contract excludes the liabilities (and assets) for remaining coverage for contracts measured under the PAA.

2025	Carrying amount	Less than 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 - 10 years	More than 10 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
- Measured at FVTPL	0.9	-	-	0.1	0.1	0.1	0.8	0.4	1.5
- Measured at FVOCI	747.9	174.5	122.0	150.3	115.1	99.9	209.7	51.1	922.6
Other receivables	26.4	26.4	-	-	-	-	-	-	26.4
Cash and cash equivalents	4.6	4.6	-	-	-	-	-	-	4.6
	779.8	205.5	122.0	150.4	115.2	100.0	210.5	51.5	955.1
Insurance contract liabilities	(527.7)	(179.3)	(104.7)	(73.9)	(47.5)	(34.4)	(69.1)	(174.8)	(683.7)
Reinsurance contract assets	139.3	83.0	46.2	34.9	24.4	19.6	46.5	146.5	401.1
2024									
	Carrying amount	Less than 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 - 10 years	More than 10 years	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Financial assets									
- Measured at FVOCI	681.8	137.9	172.3	111.8	110.2	118.6	129.8	40.3	820.9
Other receivables	29.1	29.1	-	-	-	-	-	-	29.1
Cash and cash equivalents	9.8	9.8	-	-	-	-	-	-	9.8
	720.7	176.8	172.3	111.8	110.2	118.6	129.8	40.3	859.8
Insurance contract liabilities	(510.2)	(178.7)	(96.0)	(65.3)	(48.4)	(30.2)	(69.3)	(193.5)	(681.4)
Reinsurance contract assets	162.8	87.0	46.9	32.9	22.9	16.8	46.1	161.2	413.8

Fair value hierarchy

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

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

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

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

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	Level 1	Level 2	Level 3	Total
Fair value as of 31 December 2025	£m	£m	£m	£m
Government and government agency bonds	177.1	67.9	-	245.0
Corporate bonds	-	503.8	-	503.8
Securitised debt	-	0.1	-	0.1
Total	177.1	571.8	-	748.9

	Level 1	Level 2	Level 3	Total
Fair value as of 31 December 2024	£m	£m	£m	£m
Government and government agency bonds	123.5	37.0	-	160.5
Corporate bonds	-	521.3	-	521.3
Total	123.5	558.3	-	681.8

Operational risk

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

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

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

Capital Management

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

The level of capital required by the Company is determined by its risk appetite, approved by the Board. The Company used the Standard Formula to calculate its capital requirements throughout 2025. Capital held to back the SCR is of high quality and clearly meets the tests for the composition of capital set out by Solvency UK, which came into effect on the 1st January 2025.

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

The Company's capital comprises total shareholders' equity and amounts to £258.4m (2024: £239.8m).

The Company has complied with all externally and internally imposed capital requirements throughout the year. At 31 December 2025 the own funds amount to £231.8m, with a coverage ratio of 172.7% on SCR (2024: eligible own funds amount to £235.3m with a coverage ratio of 191.7% on SCR). The target management SCR coverage ratio is 130.0%.

18. PARENT AND ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is HIG, a company registered in England and Wales. The ultimate parent undertaking and controlling party, Allianz SE, is incorporated in Germany and is the parent of the largest and smallest group of undertakings for which consolidated group Financial Statements are drawn up and of which the Company is a member. Copies of the consolidated Allianz SE Group Financial Statements are available on request from the ultimate parent's registered address, Allianz SE, Königinstrasse 28, 80802 München, Germany.

19. CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

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

20. RELATED PARTY TRANSACTIONS

Transactions with and balances from or to related parties

The Company enters into transactions with fellow Allianz SE undertakings and key management personnel in the normal course of business. All transactions have been made at arm's length and details of transactions carried out during the year with related parties are as follows:

	2025	2024
	£m	£m
Administrative and claims handling service fees from other related parties	51.7	57.5
Reinsurance premiums paid to other related parties ⁽¹⁾	154.5	171.5
Reinsurance recoveries from other related parties ⁽¹⁾	88.9	115.3
Cost of services from other related parties	5.3	11.7
Interest received from cash pool with other related parties ⁽¹⁾	0.5	1.2
Amounts transferred to cash pool with other related parties ⁽¹⁾	11.9	4.8

⁽¹⁾Transactions relating to reinsurance premiums, reinsurance recoveries, interest received from cash pool and net amounts transferred from cash pool were omitted in the prior year Financial Statements but have been included in the comparative figures in the table above, to align the disclosure across Allianz UK Financial Statements.

Year end balances arising from transactions carried out with related parties are noted in the following table (some of which relate to reinsurance contract assets and liabilities, refer to note 3):

	2025	2024
	£m	£m
Due from related parties		
Other related parties	72.2	80.5
Total due from related parties	72.2	80.5
	2025	2024
	£m	£m
Due to related parties		
Other related parties	31.0	13.9
Total due to related parties	31.0	13.9

Management services were acquired from fellow Allianz UK companies on a cost-plus basis, including a margin of 5.0% (2024: 5.0%).

The Company considers its key management personnel to be the Directors only. For further information, refer to note 22. The Company incurred a £0.7m (2024: £0.3m) cross-charge from LVGIG, an Allianz UK services company.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given by the Company. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

21. EMPLOYEE RELATED COSTS

The Company has no employees (2024: none) and, as such, incurs no employee-related costs (2024: £nil). AMS provides services and staff resources to the Company as well as to other Allianz UK companies.

22. DIRECTORS' EMOLUMENTS

	2025	2024
	£	£
Emoluments ⁽¹⁾	3,847,155	3,514,678
Company pension contributions to defined contribution schemes	90,012	86,384
Number of Directors accruing benefits under defined contribution scheme	2	1
In respect of the highest paid Director:		
Emoluments	1,845,945	1,691,915

⁽¹⁾Emoluments include £269,253 (2024: £118,942) of payments received by one Director following the exercise of Restricted Stock Units ("RSUs") under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE.

Three individuals who were previously Directors of the Company and paid by AMS, an Allianz UK services company, and one former Director who was paid by LVGIG, an Allianz UK services company, received payments totalling £3,039,281 (2024: £664,592) following the exercise of RSUs relating to grants in a previous year when they were in office as Directors.

Seven Directors (2024: seven) were remunerated by AMS. Two Directors (2024: one) were remunerated by Allianz SE with costs borne by AMS and one Director (2024: one) waived their right to receive emoluments. The Directors of the Company are also Directors of fellow Allianz UK companies. The emoluments disclosed above were the total emoluments received by the Directors in relation to their Allianz UK directorships.

Total emoluments have been disclosed as it was not possible to make an accurate apportionment of their remuneration in respect of their roles as a Director of the Company.

23. AUDITORS' REMUNERATION

The total remuneration payable by the Company excluding VAT, to its auditors in respect of the audit of these Financial Statements, is shown below. The Company's audit fees are borne by AMS. Other services supplied pursuant to legislation were £nil (2024: £nil).

	2025	2024
	£m	£m
Fees payable to the Company's auditors and its associates	0.5	0.5
Audit-related assurance services	0.1	0.1

24. SUBSEQUENT EVENTS

There have been no material subsequent events after the SOFP date.