Registered Number: 84638

Annual Report and Financial Statements 2020

Allianz Insurance plc

Directors:	R O Hudson
	C W T Dinesen
	J M Dye
	R M Murison
	D A Torrance
	D J Larnder
	F K Dyson
	S Treloar (appointed 01.01.2020)
	N C Peiris (resigned 31.12.2020)
Secretary:	C M Twemlow (appointed 01.09.2020) T A Beicken (resigned 01.09.2020)
Registered Office:	57 Ladymead, Guildford, Surrey, GU1 1DB
Registered No:	84638

Strategic Report

The Directors present their Strategic Report for the year ended December 31, 2020.

Principal activities

Allianz Insurance plc ("Allianz", "the Company") is a wholly owned subsidiary of the Allianz Holdings plc group of companies ("the Group") which is one of the largest general insurers in the United Kingdom ("UK") measured by gross written premium. The Company offers a wide range of products focused predominantly in the commercial, pet and legal expenses insurance markets. However, it concentrates resources on markets and products which will deliver the best return for its shareholder. The Company distributes its products almost entirely in the UK.

The Company distributes products under a number of brands, supported by its service divisions - Technical, Claims, Operations, Finance, HR and IT. An analysis of the 2020 results and the prospects for 2021 are set out below.

The Company has a quota share reinsurance arrangement of 40% with an Allianz Societas Europaea ("Allianz SE") Group reinsurance company. This has the benefit of improving its solvency position by reducing the capital the Company is required to hold. Further, it keeps the profits generated by the UK business entirely within the wider Allianz SE Group. UK management remains responsible for optimising the results of the business prior to this quota share. For this reason, and to facilitate comparisons with prior years, the numbers quoted in this commentary are before quota share, unless stated otherwise.

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

Business review

The Company has been widely recognised both within and beyond the insurance industry and a number of awards have been won in recent years. 2020 was another good year for Allianz and for Chief Executive Officer, Jon Dye, who secured the Insurance Personality of the Year at the British Insurance Awards. Allianz won the Major Loss Award at both the British Insurance Awards and the British Claims Awards. At the Business Continuity Awards, Allianz received the Transformation Award.

Globally, Allianz SE Group was recognised as the number one insurance brand in the 2020 Interbrand Best Global Brand Rankings, for the second year in a row. This recognition is a fantastic reflection of all the hard work around the business and the strength of Allianz SE Group globally.

Gross written premiums reduced to £1,879.5m from £1,990.7m in 2019, a 5.6% decrease. Personal lines fell by 10.6%, predominantly due to the exit from a partnership contract, as well as motor and household accounts reducing as they continue to run-off. Commercial lines decreased by 2.9% with premiums adversely impacted by the Coronavirus disease ("COVID-19") pandemic.

Strategic Report (continued)

Business review (continued)
The COVID-19 pandemic has had a significant impact on claims. Despite seeing frequency reductions in some lines, business interruption claims have increased dramatically due to the government restrictions throughout 2020 and are estimated to be £175m (net of reinsurance but before the quota share) severely impacting profitability for the year. The Company adopted a responsible and market-leading approach to dealing with these claims, settling quickly and fairly from the outset. Allianz have continued to review the applicability of coverage as the FCA test case has developed. Following the High Court ruling in 2020 we affirmed cover on a limited number of additional wordings and following the Supreme Court judgement in early 2021 a very small number of claims were affected. Further details of the impact of COVID-19 on the Company are noted within principal risks and uncertainties.

Floods in the first half of the year, deterioration against prior years and an increase in large losses also impacted the result. In personal lines, our Animal Health business continued to deliver profitable growth. Intermediary commissions decreased in 2020 reflecting premiums reducing in areas with high commissions and a focus within broker markets to manage commission levels. On a broader level, we were pleased to be able to donate £9.6m to the industry's COVID-19 support fund.

Overall, the Company has reported a loss before tax of £18.1m in 2020, falling from a profit before tax of £69.3m in 2019.

The Company looks to leverage the skills, expertise and scale of the Allianz SE Group. In particular, we are heavily committed to the Allianz SE Group's Renewal Agenda, which focuses on five important themes: customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. The business strategy "Simplicity Wins - Renewal Agenda 2.0" focuses on the key strategic objectives of Outperform, Transform and Rebalance in order to achieve the ambition of simplicity for its operating entities. Outperform focuses on making ourselves even more productive and benchmarking our capabilities against best-in-class to continually improve our customer experience. Transform targets reducing complexity and becoming more digital, and Rebalance encourages focus on new growth opportunities. We will continue to utilise these themes locally to drive our business forward and focus on our customers.

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

	2020	2019
	£m	£m
Gross written premium	1,879.5	1,990.7
Net written premium	1,752.4	1,874.9
Underwriting results[(1)]	(57.9)	46.1
(Loss)/profit before tax	(18.1)	69.3
Claims ratio[(2)]	73.8%	66.4%
Expense ratio[(3)]	29.5%	31.1%
Combined ratio[(4)]	103.3%	97.5%
SCR coverage ratio	152%	159%

[(1)]Underwriting results are the sum of premiums earned less incurred claims and expenses.

The underwriting result can be reconciled to the profit before tax reported in the statement of comprehensive income on page 24 as follows:

	£m	£m
Underwriting result	(57.9)	46.1
Impact of quota share	19.8	(18.4)
Investment income net of finance costs	46.1	81.7
Net realised gains	10.1	7.3
Other operating and administrative expenses	(36.2)	(47.4)
(Loss)/profit before tax	(18.1)	69.3

[(2)]Claims ratio is defined as incurred claims as a percentage of earned premiums.
[(3)]Expense ratio is defined as incurred expenses and commission as a percentage of earned premiums.
[(4)]Combined ratio is defined as incurred claims, expenses and commission as a percentage of earned premiums.

Strategic Report (continued)

Key performance indicators (continued)

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

Net Promoter Score ("NPS") performance - Commercial:
- Achievement: Achieved Loyalty Leader in 2020.
- Target: Maintain Loyalty Leader in 2021.

NPS performance – Engineering:
- Achievement: Achieved Loyalty Leader in 2020.
- Target: Maintain Loyalty Leader in 2021.

NPS performance – Pet
- Achievement: Achieved Loyalty Leader in 2020.
- Target: Maintain Loyalty Leader in 2021.

NPS is an important indicator of our customer service which captures customer 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. We achieved Loyalty Leadership positions in all three markets. These results are a credit to our frontline teams.

Principal risks and uncertainties
The principal risks facing the Company are insurance risk and market risk. The risk management policies are outlined in note 30.

On March 11, 2020 the World Health Organisation confirmed that the outbreak of COVID-19 was a global pandemic. This was a new and significant source of uncertainty for the Company in 2020, which continues into 2021. Preventative actions such as restricting the public on non-essential travel, working from home, closure of businesses, postponing events and stopping public gatherings were taken by the UK government to varying degrees throughout 2020. Restriction measures have continued into 2021. This had an immediate impact on the domestic and global economies, and financial markets, creating uncertainty for people and businesses which has been felt throughout the course of the pandemic. Consequently, insurance companies continue to assess the impact of COVID-19 on general insurance products as explained below.

The Company is closely monitoring the situation as it continues to develop, maintaining service to customers and managing both operational and economic risk. There is close alignment and interaction to ensure the Company is operating in accordance with government advice and benefiting from the wider Allianz SE Group response.

Our values continue to drive our decision making as we work through this challenging time, with a focus on putting our people first and prioritising existing, and emerging, customer needs.

The Company is responding to the COVID-19 situation using well established business resilience and crisis management procedures. The key risks this crisis presents are both operational and financial. These risks are being actively monitored and managed on a daily basis. Regular communications are taking place to keep all staff informed throughout the period of uncertainty.

The operational risks from COVID-19 have largely been addressed by increasing homeworking capability. Work has been prioritised to support claims payments and existing customers.

Financial risks which are being assessed and responded to include adverse movements in investments held. The investment strategy of the Company has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. We invest in assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the nature and duration of our insurance liabilities. In respect of underwriting risk, we have seen an increase in business interruption claims which were partially offset by fewer claims on motor, liability and pet insurance products as a consequence of the government instruction for people to stay at home. Reinsurance arrangements are in place providing further mitigation.

We are regularly assessing the disruption from risks posed by the COVID-19 pandemic to businesses insured by Allianz. The operational and financial impacts on the solvency position are being closely monitored. Our existing Risk Management framework is designed to cope with stresses and is responding to the current crisis. The impact as noted above is in some cases positive and in others causes a strain.

Strategic Report (continued)

Principal risks and uncertainties (continued)

We continue to assess the level of solvency against our risk appetite and have defined a number of contingency actions we would take in the event that the solvency position becomes under stress and needs addressing.

The Company continues to meet its solvency and capital requirements as required by regulation. The impact of business interruption claims is estimated to have been £175m. This impact has been partially offset by the claims frequency benefits arising in other lines of business as described above.

Brexit
The UK formally left the European Union (“EU”) on January 31, 2020 and a trade deal was agreed on December 24, 2020, coming into effect from January 1, 2021. The deal is not expected to have a significant impact on Allianz’s performance in 2021. The Company has assessed its contractual and supplier arrangements and does not expect there to be a significant impact to the Company as a result of Brexit.

Future outlook
Premium income at a gross level is expected to increase modestly in 2021 with underlying growth in the Commercial and Animal Health business, offset by reductions in Corporate Partner business. The quota share reinsurance will remain at 40% for 2021, which will continue to reduce net premium income in return for a reduction in the capital required. There remains a risk that both growth and profitability may be tempered as the COVID-19 pandemic continues to have an impact on the market, the economy and our customers.

However, underlying profitability is expected to improve through 2021 as rate increases applied in 2020 flow through to the results and the benefits of the continuing investment in productivity initiatives and technical excellence are realised. The Company remains vigilant with respect to claims fraud. By definition, insurance is an uncertain business and profitability in 2021 is susceptible to the ongoing COVID-19 pandemic, as well as the potential for a higher than expected level of major claims or weather events.

There remains surplus capacity in the insurance market and our customers are rightly as price-conscious as ever, so we expect market conditions to remain extremely competitive. Nevertheless, the Company is well equipped through its customer relationships, strong service delivery, wide range of products, robust financial position and a knowledgeable and dedicated workforce to meet these challenges and continue to be successful in 2021.

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

In 2020, business continuity activity was effected at pace to allow home working for employees throughout the year, without significant customer detriment. Key activities were, and continue to be, maintained throughout the changes in government restrictions, e.g. frontline service, payments and IT systems.

The Company continues to work closely with its suppliers to understand and manage the impact of COVID-19 on our supply chain.

The COVID-19 pandemic has affected the global economy, but the economic impact has hit the UK particularly hard in comparison to international counterparts. The UK stock market fell sharply in the early parts of the pandemic, but has been gradually recovering since April 2020, albeit still below the average value seen in early 2020, before the decline. The UK Gross Domestic Product at the end of December 2020 was 6.3%[1] below the pre-pandemic levels seen in February 2020. The economy weakened in early 2021 due to further lockdowns but is expected to enter recovery later in the year as vaccines become widespread.

Management is regularly assessing the impact on the financial, liquidity and solvency position with actions in place to respond where appropriate. As at December 31, 2020, the total ultimate cost of business interruption claims in 2020 is estimated to be £175m, before the quota share. Reductions in claim frequency across a number of lines help serve to offset this. The impact of COVID-19 continues to evolve and there remains uncertainty in these impacts, for example the length and scale of the current national lockdown despite the UK government announcing their roadmap out of lockdown and subsequent easing of restrictions.

The Board will continue to monitor the situation closely and take appropriate action as necessary.

(1)Key Economic indicators- House of Commons Library (parliament.uk)

Strategic Report (continued)

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

As a result of the governance structure of the Group, some strategic decisions and stakeholders interests (such as employees, community and the environment), are considered on a Group-wide basis by the Board of Allianz Holdings plc or its committees ("Group Board") rather than at a subsidiary board level. Such decisions and stakeholder considerations are understood by the Company's Directors as they are also Directors of the Group Board.

As a wholly owned subsidiary of Allianz Holdings plc and in line with the duty to promote the success of the Company for the benefit of its shareholder, the Company's Board must have regard to the overall strategy and direction of the Group, including the impact on broader stakeholders of the Group, when making decisions. Stakeholders, their interests and the manner in which the Company engages with them, are integral to how the Company conducts business. The Company's Board meets quarterly, with additional ad hoc meetings held if required. The Board considers all decisions put to it from the perspective of the Company and has regard to the Company's stakeholders and their interests. This approach is embedded within the Group governance structure.

<u>Stakeholder engagement</u>
This section of the Company's report explains the Company's engagement activities in relation to its customers, suppliers and other stakeholders relevant to the Company.

The Board and individual directors engage with some stakeholders directly on specific issues. However, due to the size of the Group and how it operates stakeholder engagement more regularly takes place at an operational level. In addition, stakeholder engagement takes place at both a Group level and a Company level depending on the matter at hand. This allows the Group to be responsive to stakeholder needs. The Group Board and the Company's Board receive information from across the business in the form of Board reports and presentations when making decisions and these reports include information about how stakeholder interests have been considered. This provides the Board with an overview of stakeholder interests when making decisions even where they have not engaged directly with those stakeholders themselves.

<u>Employees</u>
The Company does not employ any staff. During the year, Allianz Management Services Limited ("AMS"), a company within the Group, provided administrative services and staff to the Company and to other Group Companies. AMS has a high level of resources and expertise which benefit the Company.

AMS and the Group seek feedback and measure the engagement of employees in a variety of ways. Engagement methods include pulse surveys sent to employees on various topics, town hall presentations (which have been virtual following the impact of COVID-19), newsletters and the annual Allianz Engagement Survey ("AES"). The AES is a valuable employee feedback platform and an indicator of Allianz's corporate culture and employee engagement.

The AES results include the Inclusive Meritocracy Index which covers aspects of leadership, performance, collaboration, trust and respect and the Work Well Index plus is used to measure the quality of the work environment, practices and opportunities. Inclusive Meritocracy is our target culture and can be described by three principles: 1) people and performance matter in a culture of inclusive meritocracy; 2) the 'what' and the 'how' count and define individual performance at Allianz; and 3) people attributes set the aspiration for how each employee should act. The Inclusive Meritocracy Index is derived from the responses to a specific series of questions asked in the annual AES.

The AES results are collated to give a Group-wide result and also broken down by teams within divisions. The survey results are shared with the Group Board and action plans are developed based on the feedback received within teams. The Company's Board and management team also review the results for the Company. The results of the survey are directly linked to the performance objectives of the Management Board. This approach ensures that our people, matters of importance to them and the impact of decisions on the workforce are actively considered by the leadership team when making decisions.

Strategic Report (continued)

Section 172 Companies Act 2006 Statement (continued)

Employees (continued)
Since the beginning of COVID-19 and the resulting changes to the way in which we work, a variety of engagement methods have been introduced to keep our workforce informed and seek feedback on matters which affect them. This includes fortnightly COVID-19 update calls where senior leadership provide updates on developments, explain decisions and discuss the impact of home-working on the workforce. These calls include a question and answer forum whereby employees are encouraged to ask questions directly to key speakers. The Board received regular updates about the impact of COVID-19 on employees and their well-being during 2020.

Customers
Customer centricity is fundamental to the Company's growth and development and is key to the Allianz SE business strategy which the Company has adopted and is explained in the Strategic Report on page 2.

A key method of engaging with our customers across our business and ensuring that a customer-centric culture is embedded is the NPS. The NPS is explained above under Key Performance Indicators. Feedback is sought and our performance across different brands is benchmarked against competitors. The NPS results are a KPI for the Company and the results are shared with the Board so this information can be considered when making decisions.

In addition, on a day-to-day basis our customer-facing people engage with and foster relationships with our customers directly. Direct and indirect feedback received from customers 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.

During 2020, the Group Board established a new Customer and Conduct Committee which is responsible for overseeing Group customer conduct matters including customer relationships, engagement and culture. The Customer and Conduct Committee receives reports on a variety of matters including from the Company's perspective, reports from its Strategic Customer Forum. The forum focuses on customer value underpinned by metrics around conduct risk, customer experience and customer culture for the Company. The Customer and Conduct Committee reports into the Group Board on all matters, ensuring that the Directors are aware of customer engagement metrics to factor into decision making.

Suppliers
Proposed significant supplier contracts, either strategic or by reason of size and significance, which are relevant to the Company, are considered by the Group Board following initial meetings and negotiations by procurement and commercial teams, and direct engagement with senior management. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures certain standards are met in relation to ethics, labour and the environment. In addition, the sourcing process itself is governed across the Group by adherence to requirements laid out in the Allianz Global Standard for Procurement via the Local Procurement Standard.

The Group Board assumes responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance assessment. As a consequence, the Group Board gives due consideration to significant intended supplier arrangements, their suitability and ability to meet the Group's requirements and the ease with which a productive and mutually beneficial working relationship can be established and maintained with each supplier.

The Supplier Relationship Management team has been set up in procurement specifically to assist teams across the Group with the management of supplier relationships by creating a framework of best practise controls and governance, and by supporting the business in managing significant supplier relationships. The team works in conjunction with our safeguarding functions such as Protection and Resilience, Information Security and Data Privacy. This ensures continued protection and continuity of services for our customers. The collaboration ensures we are able to effectively manage supply chain risks such as Brexit and Covid-19.

In addition, relationships are fostered with suppliers at an operational level with senior management establishing partnerships with insurance aggregators, brokers, reinsurers and other suppliers. These relationships are managed on a day-to-day basis by various relationship teams who maintain regular contact. They also seek regular feedback from suppliers and renewal rates are also monitored. This information is reported back to the Board for review and discussion.

Strategic Report (continued)

Section 172 Companies Act 2006 Statement (continued)

Regulators
Regulations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the Board and taken into account when considering matters for approval. In addition the Board carefully considers and takes into account any letters received by the Company from the regulators, such as the 'PSM' letter following the annual risk assessment by the PRA and the firm evaluation by the FCA.. 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 will then be brought into Board discussions. Other engagement methods with regulators include regular meetings and responding to regulatory market reviews.

The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. Any reviews or changes required as a result of regulatory updates or recommendations are considered and the implementation of recommendations is owned and overseen by the Board. This ensures that regulatory matters are of key importance with a top-down approach led by the Board. More information on the Board decision-making in relation to the FCA pricing review is included below under principal decisions.

In relation to its regulatory requirements, the Board also reviewed and approved its relevant Solvency II Reports.

Shareholder
The Company has regard to the interests of its immediate shareholder, Allianz Holdings plc, and the wider Group when making decisions. The Company's strategy is closely aligned with the Group's strategy and the Allianz SE strategy. Allianz SE nominate a non-executive Director to the Board of the Company. This Director was N C Peiris to December 31, 2020. A new Allianz SE representative non-executive Director was nominated and will be formally appointed during 2021, following regulatory approval. This ensures that the Company is aligned with and takes into account the views of the ultimate shareholder when making decisions, while also remaining independent from the ultimate shareholder.

Community and the Environment
An Environmental, Social, Governance strategy ("ESG") ensures the Group is a leader in sustainability, a responsible and trusted business, and a committed corporate citizen. The Group focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of our business. The Group including the Company have undertaken their own initiatives during the year in the area of ESG. Allianz is fully committed to environmental, social and governance principles and consideration of our impact in these areas is an important part of Company and Group discussions. Examples of initiatives undertaken by Allianz include partnerships with the mental health charities Mind and Scottish Action on Mental Health, which benefits people across the UK as well as the Group's employees as the partnership has been utilised to expand the mental health support resources in place. There is also a local community fund which donates to organisations local to the Allianz Head Office in Guildford. In addition during 2020, the Company donated £9.6m (out of a total of £10.1m donated by the Group) to the industry's COVID-19 support fund. This response to the pandemic and supporting those most in need was discussed and fully supported by the Group Board and the Company's Board.

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

The Board continues to review its processes to ensure that a formal analysis is carried out of how significant decisions that it is required to approve will impact the Company's key stakeholders groups. New reporting templates have been developed and rolled out to further improve the quality of Board reporting, ensure consistency and ensure that stakeholder considerations are properly incorporated into all Board reports.

This analysis is in support of the Board's duties pursuant to section 172 of the Companies Act 2006 and ensuring that all potential impacts on stakeholders continue to be considered before Board approval is requested.

Strategic Report (continued)

Section 172 Companies Act 2006 Statement (continued)

Board decision-making (continued)

During the year the Directors took the following principal decisions:

Sale of British Reserve Insurance Company Limited (“BRIC”)

Section 172 considerations: promoting the success of the Company for the benefit of the Company’s members, maintaining a reputation for high standards

Stakeholders: customers, shareholder, regulators

On December 31, 2020 the Company completed the sale of BRIC, which was a wholly owned subsidiary of the Company, to Marco Capital Holdings Limited, a European P&C run-off group. BRIC underwrote Allianz musical insurance products until 2014. Since 2015, it has been in run-off. This decision aligned with the Group and the Company’s strategy of simplifying our business. When making the decision to proceed with the sale of BRIC, the Board considered the interests of customers, the shareholder and regulators. The Board received reports from the executive Directors which provided them with information on stakeholder considerations. The Board was provided with detailed information regarding engagement, including meetings held, with the regulator. The Board also received information regarding the safeguarding and fair treatment of customers during and following the sale process. This included how claims would be handled following completion, which was the main stakeholder focus. The Board also considered the financial benefits of the sale compared with other available options for its investment in BRIC. Following such considerations, the Board was satisfied that customer interests had been appropriately safeguarded and that claims would continue to be managed appropriately. The decision was in the best long-term interests of the Company and would contribute to the effective delivery of its strategy.

Pricing strategy and practices review

Section 172 considerations: maintaining a reputation for high standards, fostering relationships with customers and suppliers

Stakeholders: customers, regulators

During the year the Board considered its pricing strategy and practices to ensure fair pricing. The Board commissioned an external review to assess these practices and the customer centric culture within the Company. The Board discussed the results of the review, focusing on the interests of different types of customer, and continues to have oversight of the implementation of the recommendations.

The Company’s report on its application of The Wates Corporate Governance Principles for Large Private Companies is outlined in the Directors’ report on page 10. This contains further information regarding the governance of the Company and how the Board makes decisions for the long term success of the Company and its stakeholders.

By order of the Board

F K Dyson
Director

April 7, 2021

Directors' Report

The Directors present their report and the audited financial statements for the year ended December 31, 2020.

Stakeholder Engagement statement
Details of how the Board has had regard to the need to foster the Company's business relationships with suppliers, customers and other stakeholders and the effect of that regard on the principal decisions taken by the Company's Board is contained in the Section 172(1) statement on page 5 of the Strategic Report and in the "Stakeholder Relationships and Engagement" section of the Corporate Governance Report on page 15.

Directors
The Directors of the Company who were in office during the year are shown on page 1.

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

No interim dividend was paid during the year ended December 31, 2020 (2019: £175.0m).The Directors do not recommend the payment of a final dividend for the year ended December 31, 2020 (2019: £nil).

Future outlook
The future outlook for the Company is outlined in the Strategic Report on page 4.

Financial Instruments
The Company's policies in respect of financial instruments are given in note 30 to the Financial Statements.

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

One.Finance
In 2016, the Allianz SE Group launched a project "One.Finance". Included in the objectives is compliance with the forthcoming standards IFRS 9 "Financial instruments" and IFRS 17 "Insurance contracts". The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The project live date has been deferred to ensure alignment with the implementation date of IFRS 9 and IFRS 17, namely January 1, 2023, however readiness is expected well in advance of this date. The Group has established parallel work streams in the UK supporting the overall Allianz SE Group project.

Streamlined Energy and Carbon Reporting ("SECR")
The Company fulfils the statutory requirements for SECR which includes disclosure of the Company's carbon emissions. Under the Companies Act 2006 and SECR Regulations, 'Large' companies' are required to report their annual emissions in their Directors' report.

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).

<u>'Location based' Method</u>
The total energy consumption for 2020 was 17,689,860.13 kWh equating to 4,003.048 tCO2e
Carbon intensity: Emissions of tCO2e/full-time equivalent during 2020 was 0.87 tCO2e

However, the Company strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin ("REGO") certificates. Through this strategy, within the above 2020 total energy consumption, the company has sourced a total of 3,493,309.20 kWh of REGO backed (zero emission) electricity equating to 100% of total electricity use.

Directors' Report (continued)

Streamlined Energy and Carbon Reporting ("SECR") (continued)

<u>'Market Based' Method</u>
The total energy consumption for 2020 was 17,689,860.13 kWh equating to 2,703.548 tCO_2e
Carbon intensity: Emissions of tCO_2e/full-time equivalent during 2020 was 0.59 tCO_2e

Energy Efficiency actions taken during 2020:
LED lighting upgrades completed at three office locations.

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

Auditors
PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors; a resolution proposing the re-appointment of PricewaterhouseCoopers LLP will be submitted at the Annual General Meeting.

Corporate Governance Report

For the year ended December 31, 2020 the Company applied the Wates Corporate Governance Principles for large private companies ("Wates Principles") to its business and this report sets out how the Wates Principles were applied.

The Company is a wholly owned subsidiary of Allianz Holdings plc and leverages the governance structure of the Group.

Principle One – Purpose and Leadership

<u>Purpose</u>
The Company's purpose of "We Secure your Future" is aligned with that of the Group and the wider Allianz SE Group. This is implemented through the business strategy of "Simplicity Wins." The key strategic objectives underpinning this strategy are "Outperform, Transform and Rebalance."

Customer centricity is of paramount importance; customers are at the heart of what we do and their needs instruct directly our business and the products and services we design and sell. This clear focus on customers, be they commercial or retail, enables the business to transform and outperform. We benchmark ourselves against best in class to continually improve the customer experience. The objectives focus on being simple, digital and scalable. The business is also transforming its IT and digital capabilities as part of an Allianz SE Group wide initiative in order to improve productivity, reduce complexity and increase customer satisfaction.

<u>Values and Culture</u>
In line with our purpose, we aim to offer peace of mind through our products and services so our customers know that, in moments that matter, we will deliver our promise.
Allianz's values are embedded within its culture and the policies it upholds. The Board leads by example with a strong emphasis on integrity and honesty. To further enable a focus on culture and on customer and conduct issues, a new Customer and Conduct Committee was created by the Group Board during 2020. The Customer and Conduct Committee oversees these matters for all of the companies in the Group, including the Company, and receives reports and metrics relating specifically to the Company. This has ensured more focus on these matters which are of critical importance to the Company's Board.

The Group's policies and practices help reinforce the Group's values and required behaviours and attitudes amongst employees. The values are underpinned by the four "People Attributes" – customer and market excellence, collaborative leadership, entrepreneurship and trust, against which the performance of all of our people is measured.

The Company takes extremely seriously the identification and prevention of fraud, at any stage of a customer's journey. This has a direct benefit to both Allianz's other customers and the insurance industry generally.

When Allianz procures products and services from third parties, it looks to do so in a sustainable manner and with an unwavering commitment to transparency within any supply chain. With respect to Allianz's own products and services, they must always be clearly explained and honestly marketed.

Directors' Report (continued)

Corporate Governance Report (continued)

Principle One – Purpose and Leadership (continued)

Allianz's environmental, social and governance strategy is being embedded within the business. Under this strategy Allianz strives to be a responsible insurer, responsible investor, committed corporate citizen and a trusted Company. Allianz knows that by acting responsibly it can provide products and services that meet its customers' needs, reduce operating costs by being environmentally efficient and work in partnerships to address the challenges that its communities face.

Strategy
Strategy is developed by the Board as part of its Group-wide strategy. The strategy is segmented by line of business and the Company's Board focuses on the elements of the strategy and detailed plans of the Company to deliver the strategy. The strategy is implemented on a Group-wide basis by the Group CEO Jon Dye and the Allianz Holdings plc Management Board, together with the senior leadership.

Principle Two – Board Composition

Composition, Size and Structure
For the year ended December 31, 2020, the board comprised an independent non-executive Chair, five non-executive Directors (including one shareholder nominated Director) and three executive Directors. This composition is considered appropriate for the size and nature of the business, and provides the appropriate combination of skills, experience and knowledge required for the Board to carry out its responsibilities.

The roles of Chair and Chief Executive Officer are separate and clearly defined. The Chair is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making. The CEO of the Company is responsible for executing the strategy of the Company.

During 2020, R O Hudson indicated his intention to step down as Chair in 2021 and a search for a new Chair was commenced. Following a comprehensive and transparent search overseen by the Group Board's Compensation and Nomination Committee, P Evans was selected to become the new independent non-executive Chair and a Director of the Company when R O Hudson steps down later in 2021 and subject to regulatory approvals being sought and obtained. In addition on December 31, 2020, non-executive Director N C Peiris resigned from the Board. N C Peiris represented the ultimate shareholder, Allianz SE, and will be replaced by a new non-executive Director representing Allianz SE, following receipt of regulatory approvals.

Balance and Diversity
The Board is committed to increasing diversity across the business and the Group operates a diversity policy to encourage a more diverse and inclusive environment at all levels of the business. Diversity and inclusion is an important topic within the Group and is fully supported by the Board. Initiatives across Allianz have resulted in Allianz being included in the Inclusive Top 50 UK employers in 2020, recognising work done by the Group. There is a Diversity and Inclusion Steering Committee, sponsored by the CEO which develops the diversity and inclusion action plan.

In relation to the Board, as at December 31, 2020, two of the nine members (22%) of the Board were female. New appointments to the Board are recommended by the Group Board's Compensation and Nomination Committee after consideration of the Board's composition in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. The Board recognises that its own membership is not as diverse as it could be and this will be taken into account as and when new directors are appointed to the Board, including when existing Directors come to the end of their term in office.

The non-executive Directors bring a broad range of experience and skills to the Board which are highly relevant to the insurance sector and therefore they provide objective and constructive challenge to the executive Directors.

During the year the Compensation and Nomination Committee met the requirements of its clearly defined terms of reference, which included reviewing the Gender Pay Gap report. The Board approved the publication of the Gender Pay Gap report for 2020 which emphasises the approach of the Board to being an active and equal opportunities employer who promotes a workplace where everyone receives equal treatment regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability.

Directors' Report (continued)

Corporate Governance Report (continued)

Effectiveness
The Board engages an external provider to carry out a Board effectiveness review every three years and in the intervening years there are annual Board self-assessment effectiveness reviews. The reviews are led by the Chair in conjunction with the Group Chief Legal Officer and Company Secretary. The Board completed an external effectiveness review at the end of 2019 with the results presented to the Board in early 2020. During the year the Board has implemented changes following the recommendations of the external effectiveness review. As a result of the acquisitions and other integration work being undertaken, it was decided that the next Board self-assessment effectiveness review would be completed during 2021.

The Directors are provided with a comprehensive and tailored induction on joining the Board and regularly meet with senior managers across the business. External advisors are invited to provide detailed updates and training on various topics as required in order to support ongoing professional development of the Directors. Non-executive Directors have access to the Company Secretary and can take independent professional advice at the Company's expense. During the year, the Directors received training by participating in deep dive sessions with management. The sessions cover updates on certain topics as well as discussion. The topics vary between those which focus on one area of the business and those which focus on the Group. There were three sessions during the year and the following topics were discussed at each session:

- Session 1: Information Security including awareness of cyber risks applicable to the UK business; Remuneration, focusing on reward, performance and the regulatory impacts on remuneration; and Tax Risks;
- Session 2: Risk Management in the Motor Insurance market; the internal model and its application to and uses in the business; and
- Session 3: Data Ethics and Artificial Intelligence; Cyber Risk focusing on the insurance policies and products of Allianz.

Principle Three – Director Responsibilities

Accountability
The Board operates under a corporate governance framework that provides the required structure to enable prudent yet entrepreneurial management. The Board held meetings during 2020 and strategy days with members of the Executive Team. The majority of the additional meetings during the year were focused on the Company's response to COVID-19. The agenda for each meeting is carefully considered by the Chair, CEO and Company Secretary to ensure that all regulatory and governance matters are considered appropriately. This ensures that the Board is accountable and can effectively carry out its responsibilities.

Both Allianz SE Group and Group policies, including those concerned with Solvency II requirements, are applied to the operation of the Board and its function, as well as to the wider business. Group policies, in particular the Governance and Control Policy, are reviewed and approved annually to ensure continued relevance and effectiveness.

Individually each Board Director is required to perform their role in accordance with prescribed role profiles and competency requirements. Annual Board Fit and Proper assessments as part of the Senior Manager and Certification Regime help to ensure the Board members remain "fit and proper" to undertake their duties (both fiduciary and regulatory) and responsibilities to the Company.

All Directors are expected to report any potential conflicts of interest. The Directors declare any actual conflicts of interest at each Board meeting and the conflicts of interest register is reviewed. Where required, appropriate mitigations will be put in place, including where necessary a member recusing themselves from a particular agenda item or decision to ensure the interests of the Company are not compromised.

Board Committees
The Board composition is aligned with the Group Board, as the Directors are common to both Boards, and so it leverages the governance structure of the Group. The Group Board delegates certain activities to the Management Board (its principal executive committee), the Audit Committee, the Risk Committee, the Compensation and Nomination Committee, the Finance and Investment Committee and the Customer and Conduct Committee. All of these committees (save for the Management Board and the Finance and Investment Committee) are chaired by a non-executive Director who provides constructive challenge and influence across the work carried out by those committees. The Finance and Investment Committee has one non-executive Director member, who was appointed during the year following a recommendation from the most recent Board effectiveness review. The Management Board is an executive committee and accordingly there are no non-executive Directors as members of that committee. All of the Committees consider matters for the Group as a whole and matters which pertain to a particular division or Company, as required.

Directors' Report (continued)

Corporate Governance Report (continued)

Board Committees (continued)

The Customer and Conduct Committee was created during 2020 to focus specifically on customer, conduct and culture issues, following a recommendation from the recent Board effectiveness review. These matters were previously the responsibility of the Board Risk Committee. The new approach has ensured more focus on these matters which are of critical importance to the Company and Group.

Integrity of Information
The provision of clear, precise and relevant management information and reports to the Board is fundamental to achieving good corporate governance and efficient decision-making and operations.

There are formal and robust internal processes to ensure that the systems and controls in place are operating effectively, and that the Board receives accurate, regular and timely information about the performance of the business.

Information provided to the Board includes financial information, review of actual performance against plan, strategy updates and market developments. Reports include matters such as investment performance, the customer including cultural indicators, risk and conflicts of interest.

The internal audit function prepares an annual risk-based plan of audits, derived from an audit universe, defined and revised annually, covering the complete system of governance. This includes the controls surrounding the processes for collecting and reporting data. The annual plan is approved by the Audit Committee with quarterly reporting on progress to the Audit Committee and the Group Board. The Company's Board is therefore aware of and has oversight of these matters as appropriate and relevant to the Company and its activities.

Principle Four – Opportunity and Risk

Opportunity
The 2025 strategy for the Group was published in 2019. This strategy is aligned with the Allianz SE Group's purpose and strategy, which is explained, from a governance perspective under principle one. As part of the strategy, strategic opportunities are routinely considered, with the following examples of initiatives throughout 2020:

- Transformation of the IT platforms commenced in 2020 to enable increased standardisation and resilience, working in collaboration across the Allianz SE Group
- The Company has continued to simplify customer and internal processes through digitalisation, automation and decommissioning of legacy applications.
- The Company continues to place a strong focus on Data and Machine Learning, exploiting Allianz SE Group capabilities and enabling increased pricing sophistication and data insights.

Risk
At Allianz, our Enterprise Risk Management framework forms the overarching framework for management to deal with the various risks the Company may encounter, as well as their tracking and monitoring. This also ensures that Allianz has processes in place by which it assesses the risks that it is exposed to, both on a current and forward-looking basis.

The Board's responsibilities include strategy, strategic asset allocation, internal control and the overall operation of the Company. Within the Group governance structure oversight of risk management is delegated to the Chief Risk Officer ("CRO") and Group Board Risk Committee ("BRiCo"). The BRiCo is responsible for oversight of risks both current and emerging that the Group faces including those faced by the Company. The CRO is supported by the Risk Department – a team of qualitative and quantitative experts. However, managers in the business units are responsible for managing risk in their own areas.

To ensure Allianz is always prepared in a rapidly changing environment, it has a number of key risk management processes and policies that are implemented throughout the Group. These processes rely on a clear governance structure to enable effective risk management and culture.

During 2020, a new governance team was established, overseen by the Chief Legal Officer and Company Secretary, to support the Board and senior management in fulfilling their responsibilities in respect of the effectiveness of the Group's system of governance. A Governance and Control Committee consisting of senior leadership within the Group is in place to oversee the Group's system of governance and seek assurance that the governance framework is appropriate and effective. The system of governance is subject to annual review to ensure it continues to provide for sound and prudent management of the business of the

Directors' Report (continued)

<u>Corporate Governance Report (continued)</u>

Principle Four – Opportunity and Risk (continued)

<u>Risk (continued)</u>
Company (with a Statement of Accountability being signed by the Group CEO and Group Chief Financial Officer and provided to the Allianz SE Group as part of its own governance review).

<u>Responsibilities</u>
The Board terms of reference specify that, amongst other things, the Board is responsible for the:

- Establishment and maintenance of the system of internal control; and
- Approval of new appointments to FCA/PRA Controlled Functions.

The Group's internal control framework is articulated in its approved Governance and Control Policy.

The Board is able to make informed and robust decisions due to the risk management systems described in the Risk Policy. The BRiCo monitors performance against the risk management systems through the quarterly Own Risk and Solvency Assessment updates which it receives and reviews. Any significant deviations from the policy or other issues identified with the risk management system are communicated to the Board by the BRiCo.

The Board is responsible for setting and reviewing the Company's risk appetite. Allianz has a written statement confirming the degree of uncertainty (or risk) that the Company is willing to accept in the pursuit of its goals. Allianz has a conservative and controlled risk appetite that is aligned to achieving corporate objectives and meeting regulatory requirements as well as the requirements of its parent company, Allianz Holdings plc.

In relation to the objectives in the annual corporate plan, Allianz aims to ensure that no event or combination of events is possible that will cause a variance in result which is not consistent with the stated risk appetite.
The BRiCo is responsible for oversight of risks, both current and emerging, that the Group including its subsidiaries face. Mitigation activities are agreed by the BRiCo and issues, such as reputational risk events, are escalated and acted upon as appropriate. Risks are monitored by the Risk Department via the risk management systems in place.

Allianz has established clear communication channels. Internally, risks are discussed and escalated to relevant Group committees including BRiCo. Externally our risk profile is outlined in the annual report and solvency and financial condition report.

Principle Five – Remuneration

The Compensation and Nomination Committee of the Group Board is responsible for the Group's compensation strategy and making recommendations to the Group Board on matters concerning the remuneration of the Directors and senior executives.

The Group Remuneration Strategy and policies ensure that remuneration of all employees is aligned to the performance of the business and adheres to its values and behaviours. The Remuneration Policy also ensures that reputational and behavioural risks to the Company and Group from inappropriate incentives or arrangements are carefully considered and such arrangements are not put in place across the Group.

<u>Remuneration Decisions</u>
The Compensation and Nomination Committee is chaired by a non-executive Director, and has a majority of members who are non-executive Directors. The Compensation and Nomination Committee is responsible for reviewing compensation strategy and applying it to senior executive positions in order to attract and retain quality people to enable the delivery of the Company's strategy.

<u>Setting Remuneration</u>
Compensation is set with reference to the Group's Remuneration Policy (which contains malus arrangements) and to the compensation framework set up by Allianz SE Group's Compensation Committee. The Compensation and Nomination Committee determines total remuneration in relation to Directors (executive and non-executive) and senior executives. The Compensation and Nomination Committee seeks external input from specialist advisors on, for example, market trends and benchmarking. When setting the bonuses to be paid in respect of the 2020 financial year, consideration was given to market conditions following the impact of COVID-19. Different stakeholder groups such as customers and the shareholder were considered, including the Committee being satisfied that customers had been protected, when determining appropriate levels of bonus payments. The Compensation and Nomination Committee also takes into account relevant UK regulatory guidance on remuneration. Directors and Management Board

Directors' Report (continued)

Corporate Governance Report (continued)

Setting Remuneration (continued)

members who sit on subsidiary Boards are remunerated at holding company level and are not remunerated separately for their subsidiary Board positions. The Directors' remuneration is disclosed in note 11. Salaries of all Group employees are aligned to the performance of the business and market conditions, with bonus (and long term incentives for senior executives) driven by a combination of personal and business performance. The approach is aligned for employees of all levels and remuneration, particularly bonuses, are closely aligned with the Group's purpose and values and achievement of strategy.

Principle Six – Stakeholder Relationships and Engagement

External Impacts

Good and effective corporate governance underpins and drives a number of key business objectives including: growth and profitability, product performance, customer satisfaction, co-operative arrangements with third party stakeholders and suppliers, and sustainability.

Allianz is acutely aware of the broader impact it has on its various environments, its customers and society in general, and adheres to and participates in the Group's corporate social responsibility policies and practices. In addition, sustainability is a key objective of the business, informing what it does and in particular the goods and services it procures.

Stakeholders

The Company has a number of key stakeholders including: suppliers, customers, regulators, its shareholder and the wider insurance industry.

Details of how the Company and its Directors engage with stakeholders can be found in the section 172(1) statement on page 5.

By order of the Board

C M Twemlow
Company Secretary
April 7, 2021

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 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 also 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 responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

By order of the Board

F K Dyson
Director

April 7, 2021

Independent auditors' report to the members of Allianz Insurance plc

Report on the audit of the financial statements

Opinion

In our opinion, Allianz Insurance plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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, which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

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 9 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuation of Insurance Contract Liabilities
- Impact of Covid-19

Independent auditors' report to the members of Allianz Insurance plc

Materiality

- Overall materiality: £17.0 million (2019: £18.6 million) based on the amount that would change the Combined Operating Ratio ("COR") by more than 1%, excluding the effect of the internal quota share contract.
- Performance materiality: £12.7 million.

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.

Capability of the audit in detecting irregularities, including fraud

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority 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 preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Board of Directors, management, internal audit, senior management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the company's whistleblowing helpline and fraud report and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Testing significant accounting estimates and judgements such as insurance contract liabilities as included in the key audit matter section below;
- Attending relevant meetings of the Audit Committee and reviewing minutes of the Risk Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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.

Independent auditors' report to the members of Allianz Insurance plc

These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of Insurance Contract Liabilities	
Insurance contract liabilities are based on an estimated ultimate cost of all claims incurred but not settled at December 31, 2020, whether reported or not, together with the related claims handling costs. The valuation of these insurance contract liabilities is a significant accounting estimate in the financial statements and involves a significant degree of judgement. Key areas of focus this year were: • The underlying volatility attached to estimates for the larger classes of business, such as commercial and personal motor and commercial liability business, where small changes in assumptions can lead to large changes in the level of estimate held and the combined operating ratio. • The risk of inappropriate assumptions being used in determining current year estimates for the company. Given that limited data is available there is greater reliance on expert judgement in their estimation. • The risk that estimates in respect of large losses or events, and PPOs are inappropriate. There is significant judgement involved in the estimation of such losses, particularly as they are often estimated based on limited data. • The risk that those areas affected by the Covid-19 pandemic have been inappropriately reported. This includes the impact of losses on business interruption policies and other effects of the pandemic such as the reduced motor loss frequency. Refer to Note 1 for the accounting policies of the insurance contract liabilities and Notes 25 and 26 for disclosure of the related judgements and estimates.	In performing our audit over insurance contract liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Developing independent point estimates for classes considered to be higher risk, particularly focussing on the largest and most uncertain estimates, as at September 30, 2020 and performing roll-forward testing to December 31, 2020. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated insurance contract liabilities represent a reasonable estimate. • For the other classes of business, we tested the methodologies and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates based on the company's facts and circumstances, or performed key performance indicator testing. • For the business interruption losses, we evaluated the directors' estimate. We evaluated the estimate in the context of the information available as at the date of our opinion and performed audit procedures over the assumptions and judgements applied by the directors. We had regard to the exposures of the company under various policy wordings and the results of any legal judgements, including the 'FCA Supreme Court test case'. • Obtained and reviewed relevant reinsurance contracts (including Excess of Loss agreements and the quota share agreement with Allianz Re Dublin dac). In performing the above, we have also considered and tested the following: • The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence. • The directors' assessment of estimation uncertainty (disclosed in Note 26). • Considered whether any of our audit procedures gave rise to an indication of management bias. • Assessed the disclosures in the financial statements. Based on the work performed and evidence obtained, we consider the value of the insurance contract liabilities to be appropriate.

Independent auditors' report to the members of Allianz Insurance plc

Impact of Covid-19	
The impacts of the global pandemic due to the Coronavirus ("Covid-19") continue to cause significant social and economic disruption up to the date of reporting. In our audit we have identified the following key impacts of Covid-19: <u>Ability of the entity to continue as a going concern</u> There are a number of potential matters in relation to Covid-19 which could impact on the going concern status of the company. Using solvency scenario analysis, the directors have considered the ability of the company to remain solvent with sufficient liquidity to meet future obligations. The Directors have also considered its requirements in respect of regulatory capital under Solvency II and the potential operational impact on the business arising from remote working. The directors' have concluded that the company is a going concern. <u>Impact on estimation uncertainty in the financial statements</u> The pandemic has increased the level of estimation uncertainty in the financial statements. The directors have therefore considered how Covid-19 has impacted the key estimates that determine the valuation of material balances, particularly the insurance contract liabilities, as discussed above. <u>Qualitative Disclosures in the Annual Report and Financial Statements</u> In addition, the directors have considered the qualitative disclosures included in the annual report and financial statements in respect of Covid-19 and the impact that the pandemic has had, and continues to have, on the company.	In assessing management's consideration of the impact of Covid-19 on the company we have performed the following procedures: • Obtained management's going concern assessment and challenged the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence. • Evaluated management's solvency scenario analysis and challenged management's key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we considered the governance over the production of this information and its consistency with other available information and our understanding of the business. • Completed procedures as detailed above over the business interruption losses and other Covid-19 impacted claims estimates, recorded as a result of the pandemic. • Discussed with management their communications with the regulators. • Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the company based on our audit and the other procedures listed here. • Assessed the capital contingency options management have identified and further plans they have, if they are required, due to further deterioration of the wider UK and Global economy. Based on the work performed and the evidence obtained, we consider the financial statements being prepared on a going concern basis and the disclosure of the impact of Covid-19 in financial statements to be appropriate.

How we tailored the audit scope

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

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

Where the work was performed by the Allianz SE group auditor, we determined the level of involvement we needed as the company audit team of those auditors to be able to conclude 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 and phone calls and discussions, where appropriate.

Independent auditors' report to the members of Allianz Insurance plc

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	£17.0 million (2019: £18.6 million).
How we determined it	The amount that would change the Combined Operating Ratio ("COR") by more than 1%, excluding the effect of the internal quota share contract.
Rationale for benchmark applied	We consider the Combined Operating Ratio ("COR") as a key performance related benchmark used by the directors and is central to the directors' communication to the public on the performance of this business. In determining our materiality, we excluded the effect of the company's internal quota share reinsurance arrangement with another Allianz SE group company to ensure materiality is calculated on a basis consistent with how those charged with governance view the performance of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £12.7 million for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.8 million (2019: £0.9 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining the directors' going concern assessment and challenging the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence;
- Evaluating management's solvency scenario analysis and challenging management's key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we considered the governance over the production of this information and its consistency with other available information and our understanding of the business;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of Covid-19); and
- Enquiring and understanding the actions taken by management to mitigate the impacts of Covid-19, including review of Board Risk Committee minutes and attendance at all Audit Committees.

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.

Independent auditors' report to the members of Allianz Insurance plc

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 2020 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 Strategic Report, the Directors' Report and 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.

Independent auditors' report to the members of Allianz Insurance plc

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.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 9 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2018 to 31 December 2020.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 April 2021

Statement of Comprehensive Income

For the year ended December 31, 2020

	Note	2020 £m	2019 £m
Gross earned premiums	3	1,906.2	1,981.1
Reinsurers' share of gross earned premiums	3	(845.1)	(863.5)
Net insurance revenue	3	1,061.1	1,117.6
Reinsurance commission		107.3	125.5
Investment income	4	63.2	136.6
Net realised gains	6	10.1	7.3
Other revenue		180.6	269.4
Total revenue		1,241.7	1,387.0
Gross insurance claims paid	25	(1,231.6)	(1,299.5)
Reinsurers' share of gross insurance claims paid	25	525.8	540.9
Gross change in insurance liabilities	25	(266.8)	14.9
Reinsurers' share of gross change in insurance liabilities	25	189.9	1.3
Net insurance claims		(782.7)	(742.4)
Commission		(252.1)	(306.3)
Finance costs	5	(17.1)	(54.9)
Other operating and administrative expenses	7	(207.9)	(214.1)
Other expenses		(477.1)	(575.3)
Total claims and expenses		(1,259.8)	(1,317.7)
(Loss)/profit before tax		(18.1)	69.3
Income tax credit/(expense)	10(a)	7.8	(3.1)
(Loss)/profit for the year wholly attributable to the equity holders		(10.3)	66.2
Other comprehensive income			
Items that may be reclassified to profit and loss			
Net change in fair value of available for sale financial assets	20	50.1	39.9
Net change in fair value of available for sale financial assets transferred to profit or loss		(13.6)	(0.7)
Items that will not be reclassified to profit and loss			
Foreign currency translation differences		-	(8.3)
Tax on fair value movements	10(b)	(8.2)	(6.7)
Other comprehensive income for the year, net of tax		28.3	24.2
Total comprehensive income attributable to the equity holders		18.0	90.4

The accounting policies and notes on pages 28 to 65 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended December 31, 2020

	Share capital £m	*Share premium £m*	*Fair value reserve £m*	*Retained earnings £m*	*Total equity £m*
Balance as at January 1, 2019	172.8	5.2	19.5	823.0	1,020.5
Net change in fair value of available for sale financial assets	-	-	39.9	-	39.9
Net change in fair value of available for sale financial assets transferred to profit or loss	-	-	(0.7)	-	(0.7)
Foreign currency translation adjustment	-	-	-	(8.3)	(8.3)
Tax on fair value movements	-	-	(6.7)	-	(6.7)
Dividends paid	-	-	-	(175.0)	(175.0)
Net profit for the year	-	-	-	66.2	66.2
Total recognised income and expense for the year	-	-	32.5	(117.1)	(84.6)
Balance as at December 31, 2019	172.8	5.2	52.0	705.9	935.9
Net change in fair value of available for sale financial assets	-	-	50.1	-	50.1
Net change in fair value of available for sale financial assets	-	-	(13.6)	-	(13.6)
Tax on fair value movements	-	-	(8.2)	-	(8.2)
Net loss for the year	-	-	-	(10.3)	(10.3)
Total recognised income and expense for the year	-	-	28.3	(10.3)	18.0
Balance as at December 31, 2020	172.8	5.2	80.3	695.6	953.9

The accounting policies and notes on pages 28 to 65 are an integral part of these financial statements.

Balance Sheet

As at December 31, 2020

Assets	*Note*	*2020* *£m*	*2019* *£m*
Intangible assets	14	35.4	41.9
Investment in group undertakings	13	231.6	270.2
Property and equipment	15	13.0	15.9
Deferred acquisition costs	16	174.9	177.3
Deferred tax assets	10(e)	11.2	9.0
Reinsurance assets	18 & 25	1,435.2	1,259.4
Financial assets:			
Available for sale financial assets [(1)]	20	2,332.0	2,151.9
Derivative financial instruments	20	4.2	1.1
Loans to related parties	20	145.8	162.0
Other loans and receivables	20	36.0	36.2
Insurance receivables	21	752.7	807.0
Other receivables	22	142.0	79.2
Current tax receivables	10(d)	2.6	-
Accrued income	19	22.9	22.2
Cash and cash equivalents	23	23.2	6.7
Total assets		5,362.7	5,040.0
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	24	172.8	172.8
Share premium	24	5.2	5.2
Fair value reserve		80.3	52.0
Retained earnings		695.6	705.9
Total equity		953.9	935.9
Liabilities			
Insurance contract liabilities	25	2,957.6	2,713.6
Reinsurers' share of deferred acquisition costs	16	69.7	70.1
Insurance related payables	27	1,070.3	1,028.8
Current tax liabilities	10(d)	-	6.1
Deferred tax liabilities	10(e)	18.8	10.6
Accruals and other payables	28	281.0	262.3
Provisions for other liabilities and charges	29	11.4	12.5
Total liabilities		4,408.8	4,104.1
Total equity and liabilities		5,362.7	5,040.0

(1) Within available for sale financial assets there are £216.2m (2019: £194.0m) of lent securities. See note 20(a).

The accounting policies and notes on pages 28 to 65 are an integral part of these financial statements.

These financial statements on pages 24 to 65 were approved by the Board of Directors on April 7, 2021 and signed on its behalf by:

F K Dyson
Director

Statement of Cash Flows

For the year ended December 31, 2020

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operations	33	63.2	93.7
Dividend received	4	12.2	82.0
Net investment income received/(paid)		49.5	(0.3)
Income tax paid	10(c)	(3.2)	(7.6)
Net cash inflow from operating activities		121.7	167.8
Cash flows from investing activities			
Decrease in deposits with credit institutions	20(b)	0.2	0.7
Purchase of derivatives	20(c)	(3.1)	(1.1)
Purchase of available for sale financial assets		(950.6)	(629.8)
Proceeds from sale of available for sale financial assets		793.3	775.9
Purchase of property and equipment	15	-	0.3
Proceeds from return of share capital		32.0	-
Disposal of subsidiary	13	6.8	-
Net cash (outflow)/inflow from investing activities		(121.4)	146.0
Cash flows from financing activities			
Dividend paid	12	-	(175.0)
Payment of lease liabilities		-	(0.4)
Proceeds/(payment) in loan from group undertakings	20(b)	16.2	(142.0)
Net cash inflow/(outflow) from financing activities		16.2	(317.4)
Net increase/(decrease) in cash and cash equivalents		16.5	(3.6)
Cash and cash equivalents at the beginning of the year	23	6.7	10.3
Cash and cash equivalents at the end of the year	23	23.2	6.7

The accounting policies and notes on pages 28 to 65 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2020

1. ACCOUNTING POLICIES

1.1 Company and its operations

Allianz Insurance plc is a public limited company incorporated and domiciled in England and Wales, whose shares are not publicly quoted. The Company transacts most classes of general insurance business. Products offered include motor, property and business interruption, liability and speciality pecuniary.

1.2 Statement of Compliance

The financial statements of the Company have been prepared and approved by the Directors in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006.

1.3 Basis of preparation

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

- Financial assets classified as available for sale
- Derivative financial instruments
- Own use properties

The functional and presentational currency is British Pounds.

Going concern

These financial statements are prepared on a going concern basis. For more information on the going concern assessment please refer to the Directors' Report on page 9.

UK-adopted international accounting standards
On December 31, 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board ("UKEB").

New standards and interpretations adopted by the Company

There are no new standards and interpretations that are mandatorily effective from January 1, 2020.

New standards and interpretations not yet adopted by the Company

New standards and interpretations which are not mandatorily effective have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early; instead it will apply the standards from the effective date as determined by the date of UKEB endorsement.

- IFRS 17 "Insurance Contracts" – In May 2017 the International Accounting Standards Board ("IASB") issued IFRS 17 and it was amended in June 2020. It will replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning on or after January 1, 2023. The Company has completed an initial parallel run of the financial results under IFRS 17 in line with the "One.Finance" project to understand the impact of these changes. The Company is now refining new and updated processes whilst working with Allianz SE to ensure alignment of accounting policies, this is expected to be complete by 2022 to ensure compliance with the standard.

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

Notes to the Financial Statements

For the year ended December 31, 2020

1. ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

New standards and interpretations adopted by the Company (continued)

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

As of December 31, 2015, the Company's total carrying amount of liabilities connected with insurance amounted to £3.5bn which represented more than 90% of its total liabilities of £3.5bn. No change in the activities of the Company has occurred subsequently that would have required a reassessment.

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

Financial assets under IFRS 9 classification rules:

	Financial assets that meet the SPPI criterion		Financial assets that do not meet the SPPI criterion	
As of December 31, 2020	Fair Value	Fair Value change during the year	Fair Value	Fair Value change during the year
	£m	*£m*	*£m*	*£m*
Cash and cash-equivalents	6.1	-	-	-
Debt securities	2,021.7	44.6	190.2	(0.5)
Managed Funds	-	-	120.1	3.9
Total	2,027.8	44.6	310.3	3.4

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

	Cash and cash equivalents	Debt securities
	£m	*£m*
Investment grade		
AAA	-	522.2
AA	-	355.3
A	6.1	357.8
BBB	-	649.6
BB	-	89.5
B	-	40.5
CCC	-	2.0
Not rated	-	4,8
Total	6.1	2,021.7

Notes to the Financial Statements

For the year ended December 31, 2020

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies

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

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

(a) Investments in associated undertakings

Investments in associated undertakings are shown in the Balance Sheet at cost. The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment assessment compares the carrying amount of the investment in the subsidiary with the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount is higher than the recoverable amount, an impairment is recognised in the Statement of Comprehensive Income in the period in which it occurred.

The Company is exempt from preparing group accounts by virtue of the Companies Act 2006, as it is a subsidiary undertaking of an EU parent (see note 31). The financial statements present information about the Company as an individual undertaking and not about the Allianz Insurance plc Group.

(b) Property and equipment

Own use properties are initially recognised at cost and are subsequently carried at fair value, as assessed by qualified external valuers. Fair value is the estimated amount for which a property can be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction.

Gains arising from changes in fair values are recognised in the fair value reserve in equity, unless this reverses a revaluation decrease previously recognised in the Statement of Comprehensive Income. Losses arising from changes in fair value are recognised in the Statement of Comprehensive Income, unless this reverses a revaluation increase previously recognised in the fair value reserve.

(c) 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 eight years.

(d) Deferred acquisition costs (“DAC”)

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

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

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

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount, and the impairment loss is recognised immediately in the statement of comprehensive income.

(e) Income taxes

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

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

Notes to the Financial Statements

For the year ended December 31, 2020

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(e) Income taxes (continued)
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 Balance Sheet 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 Balance Sheet date.

Deferred income tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of deferred income tax assets are reviewed at each Balance Sheet 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.

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

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the Balance Sheet and are not included in reinsurance assets or liabilities. These are deposit assets that are recognised based on the consideration paid and are designated as loans and receivables.

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

(g) Derivative financial instruments
Derivative financial instruments are stated at fair value. None of the derivative financial instruments qualify for hedge accounting. These are initially recognised at fair value on the date the financial derivative contract is entered into and are subsequently remeasured at fair value by mark to market. Changes in the fair value are recognised immediately in the statement of comprehensive income. Fair values are obtained from quoted prices prevailing in active markets.

(h) Financial assets
The Company classifies its investments as either available for sale financial assets, loans to related parties or other loans and receivables.

All purchases and sales of financial assets are recognised on the trade date i.e. the date the Company commits to purchase or sell the asset.

All financial assets are initially recognised at fair value plus, in the case of available for sale assets and loans and receivables, the transaction costs that are directly attributable to the acquisition of the investment. A financial asset shall be derecognised when the contractual right to receive cash flows expire or when the asset is transferred.

Available for sale financial assets
Available for sale financial assets, after initial recognition, are measured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported in equity is transferred to the Statement of Comprehensive Income.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and are not quoted on an active market. Loans and receivables are subsequently measured at cost.

Notes to the Financial Statements

For the year ended December 31, 2020

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(h) Financial assets (continued)

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 per cent of the fair value of securities loaned is required from all securities' borrowers.

Impairments

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

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

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

Impairment losses are recognised in the statement of comprehensive income immediately.

(i) Fair value reserve

The fair value reserve relates to the changes in the fair value gains or losses on investments classified as available for sale and fair value gains on own use property. Fair value losses on own use properties are recognised in the statement of comprehensive income immediately.

(j) Insurance receivables

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

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less at the date of placement, free of any encumbrances.

(l) Product classification

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Financial guarantees are recognised as insurance contracts.

(m) 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.

Notes to the Financial Statements

For the year ended December 31, 2020

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(n) Insurance contract liabilities

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

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

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

(o) Insurance payables

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

(p) Levies

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

(q) Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or incentives received at or before the commencement date, plus initial direct costs incurred and an estimate of costs to dismantle, remove and restore the underlying asset and the site on which it is located.

The right of use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the asset's useful life or end of the lease term, in line with the Company's policy for Property and Equipment. The Company applies IAS 36 Impairment of Assets to determine whether the right of use asset is impaired.

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments and increasing the carrying amount to reflect interest on the lease liability. The carrying amount will also be adjusted to reflect any reassessment or lease modifications specified in the standard.

The lease term is determined as the non-cancellable period of a lease, together with options to extend or terminate which the Company deems as reasonably certain.

The Company has elected to not recognise right of use assets and lease liabilities for short-term leases and leases of low-value assets. The lease payments are recognised as an expense on a straight-line basis over the lease term.

Notes to the Financial Statements

For the year ended December 31, 2020

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(r) Revenue recognition

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

Estimates of premiums written as at the Balance Sheet date but not yet processed are assessed based on estimates from underwriting or past experience and are included in premiums written and earned.

Reinsurance commission
A proportionate amount of reinsurance ceded to reinsurers is paid back to the Company as commission for undertaking the business. This commission is accounted for according to the reinsurance contract entered on individual classes of business. Commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy *d*. All other fee and commission income is recognised as the services are provided.

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

Net realised gains
Realised gains and losses on the sale of property and equipment and of available for sale financial assets are calculated as the difference between net sales proceeds and the original, amortised or impaired cost. Realised gains and losses are recognised in the Statement of Comprehensive Income when the sale transaction occurred.

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

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

(t) Interest payable
Interest payable is recorded in the period in which it is incurred.

(u) 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 Balance Sheet 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 Comprehensive Income, unless required to be taken to equity.

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

Notes to the Financial Statements

For the year ended December 31, 2020

2. USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENT (continued)

The following are the critical judgements, estimations and assumptions that the Directors have made in the process of applying accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Valuation of general insurance contract liabilities
For general insurance contracts, estimates are made for the expected ultimate cost of claims reported as at the Balance Sheet date and the cost of claims incurred but not yet reported ("IBNR") to the Company. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

Standard actuarial claims projection techniques, such as the Chain Ladder method are used to estimate the majority of outstanding claims. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are generally analysed separately from damage provisions. In addition, for motor classes, we analyse third party liability damage separately from own damage claims.

Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. In the case of periodic payment orders ("PPOs"), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

For COVID-19 business interruption reserves, the lack of historical claims experience means that the use of standard actuarial claims projection techniques are not appropriate and exposure based analyses have been used. The impact of COVID 19 on activity levels, such as in motor, has also required a tailored treatment and specific assumptions around frequency and severity impacts.

Significant accounting estimate – Insurance contract liabilities
The estimation of the ultimate liability arising from claims made under insurance contracts is the most critical accounting estimate for the general insurance business. Estimates are made for the expected ultimate cost of claims as at the Balance Sheet date and the cost of claims incurred but not yet reported. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately be paid for such claims. A new uncertainty this year relates to the impact of COVID-19 on business interruption claims. PPO claims continue to be a significant uncertainty owing to the annuity-type structure of claim payments i.e. they are typically paid annually over the claimant's life. PPOs have to be projected over a longer-term period and reserved for on a discounted basis accordingly, and are therefore sensitive to the assumed inflation and discount rate.

Significant judgement applied to estimate
While management believes the insurance contract liabilities carried at year end are adequate, the application of statistical techniques requires significant judgement.

The estimation of the majority of these claims is based on historical experience projected forward. Where possible, multiple techniques are adopted to provide a best estimate of the required level of provisions. This assists in developing greater understanding of the trends inherent in the data being projected. Estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies, as well as more bespoke methods and a number of different bases to determine these provisions. These include methods based upon the following:

- The development of previously paid claims, where payments to date are extrapolated for each prior year;
- Estimates based upon a projection of claims numbers and average cost;
- Incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- Expected loss ratios.

Notes to the Financial Statements

For the year ended December 31, 2020

2. USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

Significant judgement applied to estimate (continued)
At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Claims provisions are not discounted for the time value of money except for claims being settled by PPOs. For COVID-19 business interruption claims, the lack of historical claims experience means that the use of standard actuarial techniques based on historical experience projected forward is not appropriate and exposure based analyses have been used. Further details of the claims estimation process are described in note 26.

The carrying value at Balance Sheet date for these general insurance contracts is £2,957.6m (2019: £2,713.6m).

Fair value of financial assets
Fair value is the amount for which an asset could be exchanged, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Company uses assumptions to determine the fair value of financial instruments where one or more of the significant inputs are not based on observable market data. This is the case with financial instruments classified as "level 3":

- Corporate bonds
- Own use property

Corporate bonds
As no market prices are available a discounted cash flow model is used to determine the fair value of the fixed income financial instrument. Judgement is applied in determining the inputs to the model such as the reference spread for the discount rate and the deal specific spread. Further details concerning the valuation techniques can be found in note 30.

Own use property
The vacant possession value has been considered in order to estimate the fair value of the own use properties. Judgement is applied in determining the significant unobservable inputs, these being rental growth, voids, market rent, rent free periods and letting fees. Further details concerning the valuation techniques can be found in note 30.

3. NET INSURANCE REVENUE

	Note	*2020* *£m*	*2019* *£m*
(a) Gross written premiums			
Direct insurance[1]		1,872.2	1,989.8
Assumed reinsurance		7.3	0.9
Total gross written premiums	25	1,879.5	1,990.7
Gross change in unearned premium provision	25	26.7	(9.6)
Total gross earned premiums		1,906.2	1,981.1
(b) Reinsurers' share of gross written premiums			
Direct insurance		(827.8)	(865.4)
Assumed reinsurance		(0.2)	(0.4)
Total reinsurers' share of gross written premiums	25	(828.0)	(865.8)
Reinsurers' share of change in unearned premium provision	25	(17.1)	2.3
Total reinsurers' share of gross earned premiums		(845.1)	(863.5)
Total net insurance revenue		1,061.1	1,117.6

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

[1] The Company incurred some costs for Payment Protection Insurance ("PPI") redress, for further details, please refer to note 5.

Notes to the Financial Statements

For the year ended December 31, 2020

4. INVESTMENT INCOME

	2020	*2019*
	£m	*£m*
Interest income	50.3	54.6
Dividend received	12.2	82.0
PPI provision release	0.7	-
Total investment income	63.2	136.6

5. FINANCE COSTS

	2020	*2019*
	£m	*£m*
Impairment of debt instrument	(4.4)	-
Impairment of investment in subsidiaries(1)	(0.3)	(17.0)
Ceded investment income(2)	(11.3)	(12.8)
PPI redress(3)	-	(25.1)
Loan guarantee fee	(1.1)	-
Total finance costs	(17.1)	(54.9)

(1)For more information please refer to note 13.

(2)This amount relates to interest payable on the ceded retained reserves under the quota share reinsurance contract.

(3)The cost of providing redress reflects actual redress paid and the best estimate of the quantum of further claims notified by the deadline of August 29, 2019, based on uphold rates and average values for mis-selling and unfair commission redress (the latter of which is paid directly by the agent). Total gross written premiums include £nil (2019: £9.2m) of premium refunded to policyholders in respect of mis-selling of PPI by the selling agent. Legal proceedings have been issued to seek recovery of costs from the agent.

6. NET REALISED GAINS

	2020	*2019*
	£m	*£m*
Realised gains - debt securities	12.3	8.9
Realised losses - debt securities	(2.8)	(1.6)
Gain on disposal of subsidiary	0.6	-
Total net realised gains	10.1	7.3

7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2020	*2019*
	£m	*£m*
Acquisition costs	89.0	81.5
Movement in deferred acquisition costs	2.0	7.2
Unwind of discount on PPO claims reserve	0.9	0.9
Restructuring and integration charges	4.2	21.4
Administrative expenses	105.3	96.5
Amortisation of renewal rights	6.5	6.5
Total other operating and administrative expenses	207.9	214.1

Notes to the Financial Statements

For the year ended December 31, 2020

8. EMPLOYEE RELATED COSTS

The Company has no employees and as such incurs no employee related costs.

9. 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 (2019: £nil).

	2020	*2019*
	£m	*£m*
Fees payable to the Company's auditors and its associates	0.4	0.4
Audit-related assurance services	0.1	0.1

10. INCOME TAX

(a) Income tax recognised in profit or loss

	2020	*2019*
	£m	*£m*
Current tax:		
In respect of the current year	(2.3)	2.3
In respect of prior years	(3.3)	3.2
Total current tax	(5.6)	5.5
Deferred tax:		
In respect of the current year	(1.4)	(0.6)
In respect of prior years	0.3	(3.2)
Adjustments to deferred tax attributable to changes in tax rates and laws	(1.1)	1.4
Total deferred tax	(2.2)	(2.4)
Total income tax (credit)/expense recognised in the current year	(7.8)	3.1

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

	2020	*2019*
	£m	*£m*
(Loss)/profit before tax	(18.1)	69.3
Income tax expense calculated at 19.0% (2019: 19.0%)	(3.4)	13.2
Effect of expenses not deductible for tax purposes	1.3	1.2
Effect of prior year adjustment	(3.0)	-
Effect of income that is exempt from taxation	(1.2)	(0.2)
Effect of dividend received from subsidiary	(2.3)	(15.5)
Effect of unrealised movement on property	1.9	-
Effect of impairment on investment in associated enterprises	-	3.2
Effect of changes in statutory tax rate	(1.1)	1.4
Effect of imputed transfer pricing adjustments	-	(0.2)
Income tax (credit)/expense recognised in profit or loss	(7.8)	3.1

The tax rate used for the 2020 and 2019 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax will be 19% for 2021.

Notes to the Financial Statements

For the year ended December 31, 2020

10. INCOME TAX (continued)

(b) Income tax recognised in other comprehensive income

	2020 £m	2019 £m
Deferred tax	(8.2)	(6.7)
Total income tax recognised in other comprehensive income	(8.2)	(6.7)

(c) Tax paid for cash flow purposes

	2020 £m	2019 £m
Current tax liabilities at January 1	6.1	8.3
Amounts (credited)/charged to the income statement	(7.8)	3.1
Movements in deferred tax asset in the statement of comprehensive income	2.2	2.4
Tax paid during the year	(3.2)	(7.6)
Other movements	0.1	(0.1)
Current tax (receivables)/liabilities at December 31	(2.6)	6.1

(d) Current tax (receivables)/liabilities

	2020 £m	2019 £m
Current tax (receivables)/liabilities	(2.6)	6.1

(e) Deferred tax balances

	2020 £m	2019 £m
Deferred tax assets		
Tax losses	14.2	12.4
Unrealised losses on bonds	1.4	0.7
	15.6	13.1
Other		
Properties	-	1.3
Provisions	0.6	1.3
Capital allowances	0.1	0.1
Bonds transitional relief	-	0.7
	0.7	3.4
Total deferred tax assets	16.3	16.5
Set-off of deferred tax liabilities pursuant to set-off provisions	(5.1)	(7.5)
Net deferred tax assets	11.2	9.0
Deferred tax liabilities		
Claims equalisation reserve	3.7	6.8
Unrealised gains on bonds	20.2	11.3
Total deferred tax liabilities	23.9	18.1
Set-off of deferred tax liabilities pursuant to set-off provisions	(5.1)	(7.5)
Net deferred tax liabilities	18.8	10.6

Notes to the Financial Statements

For the year ended December 31, 2020

10. INCOME TAX (continued)

(e) Deferred tax balances (continued)

Deferred tax assets in relation to	*Tax losses*	*Unrealised losses on bonds*	*Other*	*Total*
	£m	£m	£m	£m
At January 1, 2020	12.4	0.7	3.4	16.5
(Charged)/ credited				
- to profit or loss	1.8	-	(2.7)	(0.9)
- to other comprehensive income	-	0.7	-	0.7
At December 31, 2020	14.2	1.4	0.7	16.3

	Tax losses	*Unrealised losses on bonds*	*Other*	*Total*
	£m	£m	£m	£m
At January 1, 2019	13.4	2.1	3.6	19.1
Charged				
- to profit or loss	(1.0)	-	(0.2)	(1.2)
- to other comprehensive income	-	(1.4)	-	(1.4)
At December 31, 2019	12.4	0.7	3.4	16.5

Deferred tax liabilities in relation to	*Claims equalisation reserve*	*Unrealised gains on bonds*	*Total*
	£m	£m	£m
At January 1, 2020	6.8	11.3	18.1
(Credited)/charged			
- to profit or loss	(3.1)	-	(3.1)
- to other comprehensive income	-	8.9	8.9
At December 31, 2020	3.7	20.2	23.9

	Claims equalisation reserve	*Unrealised gains on bonds*	*Total*
	£m	£m	£m
At January 1, 2019	10.5	6.0	16.5
(Credited)/charged			
- to profit or loss	(3.7)	-	(3.7)
- to other comprehensive income	-	5.3	5.3
At December 31, 2019	6.8	11.3	18.1

	2020	2019
	£m	£m
Deferred tax asset	11.2	9.0
Deferred tax liability	(18.8)	(10.6)
Current deferred tax asset	7.6	0.2
Non-current deferred tax asset	3.6	8.8
Non-current deferred tax liability	(18.8)	(10.6)

The UK Government announced its intention in the budget of March 3, 2021 to legislate to increase the rate of corporation tax from 19% to 25% with effect from April 1, 2023. This legislation is expected to be substantively enacted by summer 2021. If the deferred tax balance less amounts expected to reverse within one year is re-measured using a rate of 25% at December 31, 2020, the deferred tax asset increase to £4.7m and the liability would increase to £24.7m.

Notes to the Financial Statements

For the year ended December 31, 2020

11. DIRECTORS' EMOLUMENTS

	2020	*2019*
	£	£
Emoluments[1]	3,898,847	3,221,656
The amounts in respect of the highest paid Director are as follows:		
Emoluments	1,372,430	1,850,737

(1) Emoluments include £209,099 (2019: £459,451) of payments received following the exercise of Restricted Stock Units under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE.

The emoluments also include £231,167 of payments received during 2020 by the highest paid Director relating to the vesting of Liverpool Victoria General Insurance Group Limited ("LVGIG") Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £335,667 receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

The Directors of the Company are also directors of fellow Allianz Holdings plc Group companies. The emoluments disclosed above were the total emoluments received by the Directors in relation to their Allianz Holding plc Group directorships. Save for one Director, the Directors' emoluments were paid by AMS, a fellow Allianz Holdings plc subsidiary, on behalf of the Group. One Director's emoluments were paid by LVGIG, a fellow Allianz Holdings plc subsidiary, on behalf of the Group.

The highest paid Director was a member of the My LVGIG Savings Plan (a Group Self Invested Personal pension scheme) and during the year employer contributions of £13,938 were made into that scheme in relation to that Director. There are no Directors accruing retirement benefits under a defined benefit scheme nor who are members of the Allianz Retirement Savings Plan (a Group Personal Pension Plan defined contribution scheme).

One Director waived their rights to receive emoluments.

12. DIVIDENDS

No interim dividend was paid during the year ended December 31, 2020 (2019: £175.0m). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2020 (2019: £nil).

13. INVESTMENT IN GROUP UNDERTAKINGS

The subsidiary undertakings of the Company at December 31, 2020 are shown below. The registered office for all undertakings is 57 Ladymead, Guildford, Surrey, GU1 1DB.

Group undertakings	Country of Incorporation	Primary business operations	% Held
Pet Plan Limited	England	Insurance Intermediary	100
Trafalgar Insurance Limited[1]	England	General Insurance	100
Allianz Properties Limited	England	Investing in Real Estate	100
Allianz Equity Investments Limited	England	Investing In Equity Shares	100
Allianz Pension Fund Trustees Limited	England	Pension Fund Trustee	100

(1) Trafalgar Insurance Limited ("TIL") approved a capital reduction, effective on November 20, 2020, whereby 32m ordinary shares of £1 each were cancelled and extinguished. On November 30, 2020, following the capital reduction, £32m was returned to the Company reducing the carrying value of TIL.

In 2020, the Company completed the disposal of a subsidiary (BRIC), as noted below. The assets and liabilities to be sold were valued and as a result, the carrying amount of the investment in the subsidiary exceeded its estimated recoverable amount. Consequently the carrying amount was impaired prior to the sale. In 2019, the Company received a dividend of £82.0m from Pet Plan Limited ("Pet Plan"). As a result of paying this dividend, the carrying amount of the investment in the subsidiary exceeded its estimated recoverable amount and subsequently the carrying amount was impaired.

Notes to the Financial Statements

For the year ended December 31, 2020

13. INVESTMENT IN GROUP UNDERTAKINGS (continued)

The recoverable amount of the subsidiaries was determined to be fair value less costs to sell, estimated using net asset value. The fair value measurement is categorised as Level 3 in the fair value hierarchy based on the inputs and methods used in determining the value of the net assets. The result of the impairment test is summarised in the table below:

	BRIC	*Pet Plan*
	2020	2019
	£m	£m
Carrying amount	6.5	32.1
Recoverable amount	(6.2)	(15.1)
Impairment loss recognised	0.3	17.0

Disposal of subsidiary

On August 24, 2020, the Company entered into a sale agreement to dispose of a wholly owned subsidiary, BRIC. The disposal was effected in order to simplify the Group structure and allow the Company to focus on its core activities. The sale completed on December 31, 2020, and control of BRIC passed to the acquirer.

Details of the assets and liabilities disposed of, and the derivation of the gain on disposal, are disclosed below:

	£m
Cash and cash equivalents	6.4
Deposits with credit institutions	0.4
Reinsurance assets	2.6
Insurance contract liabilities	(2.9)
Deferred tax liabilities	(0.1)
Total net assets	6.4
Cost of disposal	(0.2)
Gain on disposal (note 6)	0.6
Total consideration	6.8

There were no disposals of subsidiaries made in 2019.

Notes to the Financial Statements

For the year ended December 31, 2020

14. INTANGIBLE ASSETS

	Total
	£m
Cost	
At January 1, 2019	78.0
At December 31, 2019	78.0
At December 31, 2020	78.0
Accumulated amortisation and impairment	
At January 1, 2019	29.6
Amortisation charge for the year	6.5
At December 31, 2019	36.1
Amortisation charge for the year	6.5
At December 31, 2020	42.6
Carrying amount	
At December 31, 2019	41.9
At December 31, 2020	35.4

The carrying amount relates to both goodwill and renewal rights to Commercial business.

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 Balance Sheet date. No indications of impairment were identified.

15. PROPERTY AND EQUIPMENT

	Property	*Dilapidations*	*Total*
	£m	*£m*	*£m*
At January 1, 2019	15.9	0.3	16.2
Adjustment on transition to IFRS 16	3.4	-	3.4
Depreciation	(0.7)	-	(0.7)
Disposals	(2.7)	(0.3)	(3.0)
At December 31, 2019	15.9	-	15.9
Unrealised loss	(2.9)	-	(2.9)
At December 31, 2020	13.0	-	13.0

Own use property is stated at fair value. On December 31, the properties were independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of open market value of such properties (amounts for which the properties could be exchanged between knowledgeable willing parties in an arm's length transaction at the valuation date). The significant assumptions used in the valuation of own use property are disclosed in note 30. Had the own use property been carried under the cost model the carrying amount would have been £23.7m (2019: £24.1m).

Notes to the Financial Statements

For the year ended December 31, 2020

16. DEFERRED ACQUISITION COSTS

	2020	2019
Gross	£m	£m
At January 1	177.3	189.4
Costs deferred during the year	367.1	400.6
Amortisation charge for the year	(369.5)	(412.7)
At December 31	174.9	177.3

	2020	2019
Reinsurance	£m	£m
At January 1	70.1	75.0
Costs deferred during the year	221.6	238.6
Amortisation charge for the year	(222.0)	(243.5)
At December 31	69.7	70.1

	2020	2019
Net	£m	£m
At January 1	107.2	114.4
Costs deferred during the year	145.5	162.0
Amortisation charge for the year	(147.5)	(169.2)
At December 31	105.2	107.2

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

17. LEASES

The right of use assets was £nil as at December 31, 2019, as a lease break was exercised on the commercial property located in Great Britain. There are no lease transactions in the year ended December 31, 2020.

Right of Use Asset

The movements for the year in the value of the right of use asset classified under property and equipment can be analysed as follows:

	2019
	£m
Right of use asset as at January, 1	-
Adjustment on transition to IFRS 16	3.4
Depreciation	(0.7)
Disposals	(2.7)
Right of use asset as at December, 31	-

Notes to the Financial Statements

For the year ended December 31, 2020

17. LEASES (continued)

Amounts recognised in profit or loss	*2019*
	£m
Variable lease payments not included in measurement of lease liabilities	0.1

Amounts recognised in cash flow	*2019*
	£m
Total cash outflow for leases	0.4

18. REINSURANCE ASSETS

	2020	*2019*
	£m	*£m*
Reinsurers' share of insurance contract liabilities	1,435.2	1,259.4
Total reinsurance assets	1,435.2	1,259.4

For the current and non-current split, refer to note 25.

19. ACCRUED INCOME

	2020	*2019*
	£m	*£m*
Interest	22.9	22.2
Total accrued income	22.9	22.2

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

20. FINANCIAL ASSETS

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

	2020	*2019*
	£m	*£m*
Available for sale financial assets	2,332.0	2,151.9
Loans to related parties	145.8	162.0
Loans and receivables	36.0	36.2
Derivative assets	4.2	1.1
Total financial assets	2,518.0	2,351.2

Notes to the Financial Statements

For the year ended December 31, 2020

20. FINANCIAL ASSETS (continued)

(a) Available for sale financial assets	*2020*	*2019*
	£m	*£m*
At fair value		
Managed funds	120.1	102.0
Debt securities	2,211.9	2,049.9
Total available for sale financial assets at fair value	2,332.0	2,151.9
At cost		
Managed funds	115.7	97.1
Debt securities	2,117.2	1,992.2
Total available for sale financial assets at cost	2,232.9	2,089.3

The Company has entered into securities lending whereby blocks of securities are loaned to third parties. The amounts 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 Balance Sheet; they continue to be recognised within the appropriate investment classification. At December 31, 2020, the Company had lent £216.2m (2019: £194.0m) and held collateral under such agreements of £220.1m (2019: £214.4m).

(b) Loans	*2020*	*2019*
	£m	*£m*
Loans to related parties[1]	145.8	162.0
Other loans	29.9	29.9
Deposits with credit institutions[2]	6.1	6.3
Total loans	181.8	198.2

	2020	*2019*
	£m	*£m*
Current loans	16.2	16.2
Non-current loans	165.6	182.0

[1] Amounts repayable by related party, AMS, are to be repaid over 10 years, up to and including September 30, 2029 and carry interest at the Bank of England base rate +0.25%. The interest is receivable quarterly and charged on the outstanding loan balance. A guarantee from Allianz SE was put into place to support the Company's regulatory solvency position. The principle terms of the guarantee are as follows:

- Guarantee fee: The Company will pay Allianz SE an amount of 0.68% of the amount of the outstanding loan facility per annum and in return, Allianz SE will guarantee that it will pay the outstanding loan balance in the event that AMS cannot meet obligations as they fall due.
- Automatic extension: The guarantee will extend automatically every year for another year (subject to payment of the guarantee fee by the Company) until September 30, 2029, unless it is cancelled by Allianz SE after giving 3 months prior notice.

[2] Included within the deposits with credit institutions is £6.1m (2019: £6.3m) which the Company has pledged as collateral relating to the future settlement of insurance contract liabilities.

The fair value of the loans made by the Company is £173.0m (2019: £186.4m). Other carrying amounts disclosed above reasonably approximate fair values at year end.

(c) Derivatives

	2020	*2019*
	£m	*£m*
Total derivatives	4.2	1.1

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

Notes to the Financial Statements

For the year ended December 31, 2020

21. INSURANCE RECEIVABLES

	2020	*2019*
	£m	*£m*
Due from policyholders	460.7	466.8
Due from reinsurers[1]	3.3	11.4
Due from agents, brokers and intermediaries	288.7	328.8
Total insurance receivables	752.7	807.0

[1] Included in amounts due from reinsurers are balances due from related parties of £2.6m (2019: £9.5m).

	2020	*2019*
	£m	*£m*
Current insurance receivables	699.3	745.9
Non-current insurance receivables	53.4	61.1

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

22. OTHER RECEIVABLES

	2020	*2019*
	£m	*£m*
Amounts due from related parties	76.1	18.7
Other receivables	65.9	60.5
Total other receivables	142.0	79.2

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

23. CASH AND CASH EQUIVALENTS

	2020	*2019*
	£m	*£m*
Cash at bank	23.1	6.6
Short-term deposits (including demand and time deposits)	0.1	0.1
Total	23.2	6.7

Deposits are subject to an average interest rate of 0.9% (2019:1.0%) and have an average maturity of 1 day (2019: 1 day). The carrying amounts disclosed above are reasonably approximate to fair value at year-end.

24. EQUITY

Share capital

	2020	*2019*
	£	£
Ordinary shares of £1 each fully paid	172,758,609	172,758,609

Share premium

	2020	*2019*
	£	£
Share premium classified as fully paid	5,244,412	5,244,412

Notes to the Financial Statements

For the year ended December 31, 2020

25. INSURANCE CONTRACT LIABILITIES

	2020			2019		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Provisions for claims reported by policyholders	1,774.6	(833.0)	941.6	1,718.4	(797.8)	920.6
Provisions for claims incurred but not reported	185.5	(170.7)	14.8	(29.0)	(13.0)	(42.0)
Total claims reported and IBNR	1,960.1	(1,003.7)	956.4	1,689.4	(810.8)	878.6
Provision for unearned premiums	997.5	(431.5)	566.0	1,024.2	(448.6)	575.6
Total general insurance contract liabilities	2,957.6	(1,435.2)	1,522.4	2,713.6	(1,259.4)	1,454.2
Current general insurance contract liabilities	1,627.8	(771.7)	856.1	1,508.4	(646.2)	862.2
Non-current general insurance contract liabilities	1,329.8	(663.5)	666.3	1,205.2	(613.2)	592.0

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

	2020			2019		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At January 1	1,689.4	(810.8)	878.6	1,701.3	(807.0)	894.3
Foreign exchange adjustment	-	-	-	(0.6)	0.2	(0.4)
Unwind of discount of PPO claim reserves	3.9	(3.0)	0.9	3.6	(2.7)	0.9
	1,693.3	(813.8)	879.5	1,704.3	(809.5)	894.8
Claims incurred in the current accident year	1,511.9	(737.8)	774.1	1,341.7	(561.5)	780.2
Movement on claims incurred in prior accident years	(13.5)	22.1	8.6	(57.1)	19.3	(37.8)
Claims paid during the year	(1,231.6)	525.8	(705.8)	(1,299.5)	540.9	(758.6)
At December 31	1,960.1	(1,003.7)	956.4	1,689.4	(810.8)	878.6

The provision for unearned premiums can be analysed as follows:

	2020			2019		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At January 1	1,024.2	(448.6)	575.6	1,014.5	(446.3)	568.2
Foreign exchange adjustment	-	-	-	0.1	-	0.1
	1,024.2	(448.6)	575.6	1,014.6	(446.3)	568.3
Premiums written in the year	1,879.5	(828.0)	1,051.5	1,990.7	(865.8)	1,124.9
Premiums earned during the year	(1,906.2)	845.1	(1,061.1)	(1,981.1)	863.5	(1,117.6)
At December 31	997.5	(431.5)	566.0	1,024.2	(448.6)	575.6

Notes to the Financial Statements

For the year ended December 31, 2020

26. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

The major classes of general insurance written by the Company include motor, property and business interruption, liability and speciality pecuniary. Risks under these policies usually cover a 12-month duration. The Company also writes other specialist lines of business such as legal protection. Risk durations under these policies can vary.

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

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

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of PPO's established under the Courts Act 2003. During 2020, four new settlements were agreed on this basis, making the total number of outstanding PPOs 44. Total PPO reserves are £144.5m (2019: £130.5m) gross and £36.8m (2019: £35.3m) net of reinsurance. The corresponding undiscounted amounts are £312.8m (2019: £302.2m) gross and £72.1m (2019: £70.4m) net. The interest rate used to discount PPOs is assumed to be in line with inflation. The following sensitivities show the impact of changing the interest rate and inflation assumptions:

- An increase of interest rate by 1% would decrease the discounted PPO reserves by £25.5m gross and £5.4m net
- A decrease of interest rate by 1% would increase the discounted PPO reserves by £36.1m gross and £7.6m net
- An increase of inflation rate by 1% would increase the discounted PPO reserves by £35.7m gross and £9.7m net
- A decrease of inflation rate by 1% would decrease the discounted PPO reserves by £25.7m gross and £7.1m net

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. The Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. The current rate is -0.25%, as set by the Lord Chancellor in July 2019. The rate will be reviewed by the Lord Chancellor by the summer of 2024.

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

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

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

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

The long-tailed nature of environmental and asbestos-related claims results in these claims being particularly difficult to reserve for.

Notes to the Financial Statements

For the year ended December 31, 2020

26. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

During 2020, COVID-19 has had a direct impact on claims from business interruption covers. Additionally, there are indirect impacts such as reduced claim frequency due to lower activity levels as a result of government restrictions.

The ultimate cost of business interruption claims has been estimated using an exposure based approach involving an assessment of policy wordings, legal advice and the emerging claims experience. Claims arising from the national lockdowns and tiering have been allowed for, with a full national lockdown assumed until the end of March and an easing in April 2021. The total ultimate cost of business Interruption claims in 2020 is estimated to be £175m, before the quota share. There is significant uncertainty surrounding the ultimate cost of these claims, for example the length of government restrictions is an area of uncertainty. As an indication, anticipating three additional months of a full lockdown would increase net claims in respect of the 2020 accident year by £14m, before the quota share.

The indirect impacts of COVID-19 on claims have been considered, with allowances made in the actuarial claims projections. This is another area of uncertainty, requiring expert judgement.

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,
- differences in the period between the occurrence and the reporting of claims.

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

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

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

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

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

Changes in assumptions have caused a £9.6m gross decrease in insurance provisions in respect of the prior period, driven by reductions in a run-off line of business and packages partially offset by increases on liability and personal motor. The net effect after reinsurance is a £9.6m increase driven by commercial motor and liability, partially offset by reductions on packages.

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

Notes to the Financial Statements

For the year ended December 31, 2020

26. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

Loss development triangles

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

Gross of insurance	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Accident year	1,046.2	1,159.3	1,139.5	1,285.5	1,540.5	1,495.8	1,428.8	1,418.0	1,341.7	1,511.9	
One year later	1,051.9	1,144.0	1,168.1	1,316.6	1,507.2	1,463.0	1,383.2	1,373.4	1,324.7	-	
Two years later	1,046.9	1,115.1	1,130.6	1,318.0	1,461.9	1,425.9	1,353.7	1,369.7	-	-	
Three years later	1,047.4	1,113.0	1,124.1	1,326.8	1,442.1	1,437.6	1,360.8	-	-	-	
Four years later	1,028.2	1,124.9	1,124.6	1,310.0	1,435.9	1,438.3	-	-	-	-	
Five years later	1,021.4	1,120.0	1,118.4	1,304.0	1,435.8	-	-	-	-	-	
Six years later	1,017.4	1,115.1	1,119.9	1,311.0	-	-	-	-	-	-	
Seven years later	1,013.9	1,113.8	1,123.1	-	-	-	-	-	-	-	
Eight years later	1,013.7	1,111.1	-	-	-	-	-	-	-	-	
Nine years later	1,009.2	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	1,009.2	1,111.1	1,123.1	1,311.0	1,435.8	1,438.3	1,360.8	1,369.7	1,324.7	1,511.9	12,995.6
Cumulative payments to date	995.3	1,095.3	1,094.6	1,241.3	1,389.8	1,341.9	1,230.2	1,172.1	1,047.3	688.1	11,295.9
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	260.4
Total gross liability as per the balance sheet	13.9	15.8	28.5	69.7	46.0	96.4	130.6	197.6	277.4	823.8	1,960.1

Net of insurance	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Accident year	1,038.4	1,132.0	1,111.8	1,256.6	1,201.5	858.0	826.8	821.0	780.2	774.1	
One year later	1,026.7	1,119.3	1,138.1	1,171.9	1,177.0	838.8	801.4	803.2	770.7	-	
Two years later	1,026.1	1,099.5	1,055.4	1,164.3	1,160.6	824.0	784.9	802.7	-	-	
Three years later	1,026.6	1,065.9	1,053.2	1,171.6	1,149.6	823.4	787.9	-	-	-	
Four years later	991.1	1,070.9	1,055.7	1,166.1	1,144.3	830.0	-	-	-	-	
Five years later	987.5	1,070.7	1,051.1	1,161.9	1,145.5	-	-	-	-	-	
Six years later	988.4	1,067.2	1,050.9	1,161.7	-	-	-	-	-	-	
Seven years later	986.4	1,066.2	1,051.1	-	-	-	-	-	-	-	
Eight years later	986.3	1,065.8	-	-	-	-	-	-	-	-	
Nine years later	985.5	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	985.5	1,065.8	1,051.1	1,161.7	1,145.5	830.0	787.9	802.7	770.7	774.1	9,375.0
Cumulative payments to date	978.0	1,057.1	1,040.7	1,131.4	1,117.5	779.1	711.2	686.5	610.7	402.0	8,514.2
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	95.6
	7.5	8.7	10.4	30.3	28.0	50.9	76.7	116.2	160.0	372.1	956.4

Notes to the Financial Statements

For the year ended December 31, 2020

27. INSURANCE RELATED PAYABLES

	2020	*2019*
	£m	*£m*
Arising out of direct insurance operations		
Third parties	61.4	68.6
	61.4	68.6
Deposits received from reinsurers		
Amounts due to related parties	944.9	898.3
Third parties	0.1	0.1
	945.0	898.4
Arising out of reinsurance operations		
Amounts due to related parties	32.6	20.5
Third parties	31.3	41.3
	63.9	61.8
Total insurance related payables	1,070.3	1,028.8
Current insurance related payables	1,070.2	1,028.7
Non-current insurance related payables	0.1	0.1

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

28. ACCRUALS AND OTHER PAYABLES

	2020	*2019*
	£m	*£m*
Amounts due to related parties	185.9	165.0
Accrued expenses	0.4	2.3
Tax payables	65.3	67.8
Other	29.4	27.2
Total accruals and other payables	281.0	262.3

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

Notes to the Financial Statements

For the year ended December 31, 2020

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Restructuring[1]	*Provision for PPI claims*[2]	*Other provision*	*Total*
	£m	£m	£m	£m
At January 1, 2019	4.1	-	0.7	4.8
Amount charged to the statement of comprehensive income	6.6	7.7	-	14.3
Utilised in the year	(6.1)	-	(0.5)	(6.6)
At December 31, 2019	4.6	7.7	0.2	12.5
Amount credited to the statement of comprehensive income	(1.2)	(1.0)	-	(2.2)
Reclassified in balance sheet	-	3.5	-	3.5
Utilised in the year	(2.3)	-	(0.1)	(2.4)
At December 31, 2020	1.1	10.2	0.1	11.4

(1) Restructuring activity initiated in previous years continued within claims and operations. The claims reorganisation involved consolidation of a number of claims handling centres and within Operations, efficiency measures continued including the review of organisation design.

(2) In 2019, the Company incurred some costs for PPI redress as discussed in note 5. The provision relates to unpaid PPI claims.

The provisions are all deemed to be current.

30. RISK MANAGEMENT POLICIES

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

Insurance risk

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

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

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

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, liability, property and business interruption) is limited according to risk appetite, capital requirements and the return on capital.

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

Insurance risk (continued)

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

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

Since 2016, the Company has placed a 40% quota share treaty with the ultimate parent Company's reinsurance Company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime.

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

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

The Company has issued the following types of general insurance contract: motor, household, property and business interruption, liability and speciality pecuniary. The following table sets out the concentration of insurance risk by contract type:

	2020			2019		
	Gross	*Reinsurers' Share*	*Net*	*Gross*	*Reinsurers' Share*	*Net*
Claims liabilities	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Motor	759.3	(384.2)	375.1	767.4	(393.9)	373.5
Household	16.4	(6.6)	9.8	27.1	(10.8)	16.3
Property and business interruption	652.1	(379.2)	272.9	271.9	(129.1)	142.8
Liability	455.8	(207.9)	247.9	492.6	(224.0)	268.6
Speciality pecuniary	58.9	(23.5)	35.4	112.7	(51.3)	61.4
Other	17.6	(2.3)	15.3	17.7	(1.7)	16.0
Total	1,960.1	(1,003.7)	956.4	1,689.4	(810.8)	878.6

Note 26 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Company's estimation techniques for claims payments.

Financial risk

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

(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 investment in group undertakings, available for sale financial assets and receivables.

The Company manages market risk in a conservative manner. The carrying value of the investment in group undertakings is subject to an annual impairment review. The subsidiaries are monitored individually and have historically all been profitable. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders' funds. A substantial part of the Company's financial assets are invested in available for sale fixed interest securities. These are quoted on a recognised stock exchange and are readily tradable.

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

(a) Market risk (continued)

i) Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contract liabilities. At December 31, 2020 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.9 years (2019: 3.7 years) compared with the average duration of the insurance contract liabilities which is estimated to be 4.5 years (2019: 5.1 years).

ii) Inflation risk

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

The risk is managed by broadly matching the asset inflation sensitivity to the inflation sensitivity of the liabilities.

iii) Equity risk
Equity risk is the risk that the market price of managed funds will fall in value as a result of adverse stock market movements.

iv) Credit spread risk

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

v) Currency risk

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

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

	2020	*2019*
	£m	*£m*
US Dollar		
Assets	209.6	75.2
Liabilities	15.6	23.8
Euro		
Assets	42.1	16.0
Liabilities	6.3	10.2

The Company holds foreign currency forward contracts covering £187.8m of US Dollars and £31.5m of Euros.

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

(a) Market risk (continued)

vi) Sensitivity to market risk

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

	2020		2019	
	Profit/(loss)	*Equity*	*Profit/(loss)*	*Equity*
	£m	*£m*	*£m*	*£m*
Interest rate risk				
+100 basis points shift in yield curves	-	(45.6)	-	(56.5)
-100 basis points shift in yield curves	-	48.7	-	59.2
Equity risk				
10% increase in equity prices	-	11.5	-	8.5
10% decrease in equity prices	-	(11.5)	(5.3)	(4.1)
Currency rate risk				
10% weakening of Euro exchange rate	-	0.4	-	0.6
10% strengthening of Euro exchange rate	-	(0.4)	-	(0.6)
10% weakening of US dollar exchange rate	-	0.6	-	5.1
10% strengthening of US dollar exchange rate	-	(0.6)	-	(5.1)

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

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

	Profit/(loss)		Equity	
2020	*Gross*	*Net*	*Gross*	*Net*
	£m	*£m*	*£m*	*£m*
Expense ratio				
1% increase in current year	(5.3)	(3.2)	(4.3)	(2.6)
1% decrease in current year	5.3	3.2	4.3	2.6
Loss ratio				
1% increase in current year	(14.5)	(7.4)	(11.8)	(6.0)
1% increase in all of the last 3 years	(40.2)	(22.3)	(32.6)	(18.1)
1% decrease in current year	14.5	7.4	11.8	6.0
1% decrease in all of the last 3 years	40.2	22.3	32.6	18.1

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

(a) Market risk (continued)

vi) Sensitivity to market risk (continued)

	Profit/(loss)		**Equity**	
2019	*Gross*	*Net*	*Gross*	*Net*
	£m	*£m*	*£m*	*£m*
Expense ratio				
1% increase in current year	(5.8)	(3.5)	(4.7)	(2.8)
1% decrease in current year	5.8	3.5	4.7	2.8
Loss ratio				
1% increase in current year	(12.8)	(7.4)	(10.4)	(6.0)
1% increase in all of the last 3 years	(38.7)	(22.6)	(31.4)	(18.3)
1% decrease in current year	12.8	7.4	10.4	6.0
1% decrease in all of the last 3 years	38.7	22.6	31.4	(18.3)

The sensitivity analysis demonstrates the effect of a change in a 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.

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 which would alter the Company's position.

(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 available for sale financial assets, cash and cash equivalents, reinsurance assets, loans and receivables, insurance receivables 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. The Company is also exposed to credit risk through its loan to a fellow member of the Group with an A rating. This loan is guaranteed by Allianz SE which is AA rated. The Company has also invested in an infrastructure loan with another AA rated counterparty. Details relating to the repayment of these loans are contained in note 20. The Company deems the credit risk associated with the loans to be low.

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. Some reinsurance is placed with the captive reinsurance companies of the Company's major clients. Where there is a significant or potentially significant exposure to an individual captive, additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2020 was £730.1m (2019: £673.3m).

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

(b) Credit risk (continued)

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

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

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

	AAA	*AA*	*A*	*BBB*	*BB*	*B*	*Other not rated*	*Total*
2020	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Reinsurance assets	-	1,396.4	5.5	-	-	-	33.3	1,435.2
Available for sale financial assets	613.6	379.4	403.8	669.1	89.5	40.7	135.9	2,332.0
Loans and receivables	-	6.1	175.7	-	-	-	-	181.8
Insurance receivables[1]	-	55.9	114.6	9.4	-	-	572.8	752.7
Cash and cash equivalents	-	-	23.2	-	-	-	-	23.2
Total	613.6	1,837.8	722.8	678.5	89.5	40.7	742.0	4,724.9
Percent	13.0	38.8	15.3	14.4	1.9	0.9	15.7	100.0

	AAA	*AA*	*A*	*BBB*	*BB*	*B*	*Other not rated*	*Total*
2019	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Reinsurance assets	-	1,208.1	3.7	-	-	-	47.6	1,259.4
Available for sale financial assets	585.1	500.9	356.3	569.1	25.9	12.6	102.0	2,151.9
Loans and receivables	-	6.3	191.9	-	-	-	-	198.2
Insurance receivables[1]	-	126.3	79.0	2.1	-	-	599.6	807.0
Cash and cash equivalents	-	-	6.7	-	-	-	-	6.7
Total	585.1	1,841.6	637.6	571.2	25.9	12.6	749.2	4,423.2
Percent	13.2	41.6	14.4	12.9	0.6	0.3	17.0	100.0

[1] Included in the not rated balance is £460.7m (2019: £466.8m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who whilst not independently rated are regulated by the FCA.

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

(b) Credit risk (continued)

The following table provides information on the carrying value of reinsurance assets and insurance receivables. The Company has no available for sale financial assets, loans and receivables or cash and cash equivalents that are impaired.

	2020		2019	
	Reinsurance assets	*Insurance receivables*	*Reinsurance assets*	*Insurance receivables*
	£m	*£m*	*£m*	*£m*
Neither past due or impaired	1,432.9	715.8	1,256.6	773.7
Past due but not impaired	-	36.5	-	33.1
Individually impaired	2.3	0.4	2.8	0.2
Total	1,435.2	752.7	1,259.4	807.0

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

	Less than 90 days	*90 -120 days*	*120-180 days*	*More than 180 days*	*Total*
2020	*£m*	*£m*	*£m*	*£m*	*£m*
Policyholders	0.6	0.1	-	-	0.7
Brokers	20.1	2.5	3.2	9.9	35.7
Reinsurers	-	-	-	0.1	0.1
Total	20.7	2.6	3.2	10.0	36.5
2019					
Policyholders	0.7	-	-	0.1	0.8
Brokers	21.8	4.1	2.6	2.9	31.4
Reinsurers	0.4	0.4	-	0.1	0.9
Total	22.9	4.5	2.6	3.1	33.1

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

(b) Credit risk (continued)

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 techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates.

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

	Total	*Level 1*	*Level 2*	*Level 3*
Fair value as of December 31, 2020	*£m*	*£m*	*£m*	*£m*
Own use properties	13.0	-	-	13.0
Government and government agency bonds(1)	385.1	14.2	370.9	-
Corporate bonds(1)	1,826.8	13.3	1,795.2	18.3
Managed funds	120.1	-	114.5	5.6
Total	2,345.0	27.5	2,280.6	36.9

	Total	*Level 1*	*Level 2*	*Level 3*
Fair value as of December 31, 2019	*£m*	*£m*	*£m*	*£m*
Own use properties	15.9	-	-	15.9
Government and government agency bonds(1)	476.5	136.8	339.7	-
Corporate bonds(1)	1,573.4	14.8	1,543.4	15.2
Managed funds	102.0	-	102.0	-
Total	2,167.8	151.6	1,985.1	31.1

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

The following table shows a reconciliation of movements in the fair value of Level 3 financial assets:

	Fair value as of January 1,	Additions	Unrealised gains/ (losses)	Fair value as of December 31,
	£m	£m	£m	£m
2020				
Own use properties	15.9	-	(2.9)	13.0
Corporate bonds	15.2	-	3.1	18.3
Managed funds	-	5.6	-	5.6
2019				
Own use properties	15.9	-	-	15.9
Corporate bonds	13.4	-	1.8	15.2

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

Fair value hierarchy (continued)

Own use properties

Valuation technique:

In estimating the fair value, the vacant possession value has been considered (assuming that no rent is currently received), whereby underlying site values were considered and market assumptions were adopted, as appropriate, for void costs, redevelopment costs and timeframe, future rent and yield allowances, to assess the value of the properties on a per acre/capital value per square foot basis using the comparable method.

Significant unobservable inputs:	
Rental growth	Factored into the yield applied (location/sector specific)
Voids	24-48 months
Market Rent (MR)	£12.00 - £32.50 per square foot (refurbished/redeveloped)
Rent free	12 - 18 months upon re-letting
Letting fees	15% of MR

Sensitivity analysis changes in key unobservable inputs:

	Net equivalent yield (NEY)	Estimated realisable value ("ERV") £m	Portfolio valuation £m
Base portfolio	6.66%	3.6	13.0
+5% ERV	6.65%	3.7	14.6
-5% ERV	6.65%	3.4	11.6
+5% NEY	6.98%	3.6	10.8
-5% NEY	6.32%	3.6	15.6
-5% NEY, -5% ERV	6.32%	3.4	14.0
+5% NEY, +5% ERV	6.98%	3.7	12.2
-5% NEY, +5% ERV	6.32%	3.7	17.2
+5% NEY, -5% ERV	6.98%	3.4	9.5

Corporate bonds

Valuation technique:

The valuation is conducted by Allianz Global Investors Model Valuation Team using an internal C++ based pricing engine which has been validated by Allianz Global Investors Risk department and approved by the senior management in compliance with the Article 68 of Alternative Investment Fund Managers Directive ("AIFMD") Level 2.

As no market prices are available, a discounted cash flow model is used to determine the fair value of the fixed income financial instruments. Cash flows are generated based on terms and conditions from the Note Purchase Agreement. Determination of the reference spread for the discount rate is based upon yield curves from market data providers for the same currency and similar risk (i.e. country, business area and seniority).

Finally there is a Deal Specific Spread which is calibrated so that the net present value at the financial closing is equal to the settlement price. The Deal Specific Spread is an unobservable input parameter which remains constant over the deal life time. However, dependent on the deal financial situation (e.g. credit event), market environment (e.g. increase in deal liquidity) as well as valuation methodology this parameter and benchmark curves may be amended.

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

(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 property and equipment, accrued income, deferred tax liability, insurance contract liabilities, provisions for other liabilities and charges and accruals and other payables. The Company considers the liquidity risk associated with property and equipment to be immaterial. These are owner occupied properties and the Company would have sufficient liquid assets to meet its obligations as they fall due without depending on the sale of these properties. The liquidity risk associated with accrued income is deemed to be immaterial as the Company has sufficient other liquid assets available to meet liabilities as they fall due. The Company considers the liquidity risk associated with the deferred tax liability to be immaterial as this is almost entirely offset by a deferred tax asset and the Company has sufficient liquid assets to meet the remaining obligation as it falls due. In regards to liquidity risk associated with the accruals and other payables and provisions for other liabilities and charges, the Company has sufficient liquid assets to settle these amounts as they fall due.

The Company is exposed to calls on its available resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's available for sale financial assets and loans at December 31, 2020 amounted to £2,513.8m (2019: £2,350.1m) plus cash and cash equivalents (including cash pooling to Allianz SE Group of £61.8m (2019: £18.4m)) of £85.0m (2019: £25.1m). With the exception of lent securities (see note 20), nearly all of these are readily realisable. As a result the Company's exposure to potential liquidity risk is extremely low and in the risk capital model used by the Company no capital is allocated to this risk.

The following table shows information about the estimated timing of the net cash flows from the Company's insurance contract liabilities. The analysis provided is by estimating timings of the amounts recognised in the Balance Sheet.

Available for sale financial assets	*Carrying amount*	*Less than 1 year*	*1 - 2 years*	*2 - 5 years*	*5 - 10 years*	*More than 10 years*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
2020	2,332.0	270.8	183.9	623.8	639.3	614.2
2019	2,151.9	272.8	159.0	623.3	600.7	496.1

Insurance contract liabilities	*Carrying amount*	*Less than 1 year*	*1 - 2 years*	*2 - 5 years*	*5 - 10 years*	*More than 10 years*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
2020	1,960.1	1,004.3	394.8	378.0	66.1	116.9
2019	1,689.4	773.1	363.0	370.5	78.1	104.7

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.

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

Notes to the Financial Statements

For the year ended December 31, 2020

30. RISK MANAGEMENT POLICIES (continued)

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 capitalisation required is derived from the Allianz SE Internal Model, approved for use to determine the Solvency Capital Requirement ("SCR") under Solvency II for the Company. This process involves undertaking a comprehensive assessment of the risks in the business and then quantifying the amounts and composition of the capital the Company needs to hold to mitigate these risks to an agreed level of confidence.

The Company's capital modelling processes use a stochastic model, where distributions of possible outcomes are specified, giving the relative probability of occurrence of certain events. This model has been parameterised and validated using a mixture of internal and external data and expert judgement, in line with the requirements laid down by the Solvency II Directive for the adoption of an Internal Model for determining the SCR. A single capital model is used in the Company for all purposes. Capital held to back the SCR is of high quality and clearly meets the tests for the composition of capital laid down by the Solvency II Directive.

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

The Company also aims to maintain at least an A rating with Standard and Poor's. It has been designated a "Strategically important" subsidiary of the ultimate parent, and therefore its rating is usually pegged to that of the ultimate parent. Allianz SE is currently AA rated; the Company is AA- rated, being one notch lower.

The Company's capital comprises total shareholders' equity and amounts to £953.9m (2019: £935.9m).

The Company has complied with all externally and internally imposed capital requirements throughout the year. At December 31, 2020 the own funds amount to £910.7m with a surplus of 52% on SCR (2019: own funds equal to £929.4m with a surplus of 59% on SCR).

31. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Allianz Holdings plc, a company registered in England and Wales.

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

Copies of the Group accounts are available on request from Allianz SE, Königinstrasse 28, 80802 München, Germany.

32. CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

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

Notes to the Financial Statements

For the year ended December 31, 2020

33. CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	*2020* *£m*	*2019* *£m*
(Loss)/profit before tax		(18.1)	69.3
Investment income	4 & 5	(61.7)	(81.7)
Non-cash items			
Amortisation of AFS financial assets		10.9	12.3
Amortisation of intangible assets	14	6.5	6.5
Amortisation of net deferred acquisition costs	16	147.5	169.2
Net acquisition costs deferred during the year	16	(145.5)	(162.0)
Net realised gains	6	(10.1)	(7.3)
Unrealised loss on revaluation of own use properties		2.9	-
Impairment of debt instrument	5	4.4	-
Impairment of investment in subsidiaries	5	0.3	17.0
Currency losses/(gains)		8.0	(5.2)
Changes in working capital			
Increase in reinsurance assets	18	(175.8)	(6.1)
(Increase)/decrease in accrued income	19	(0.7)	1.1
Decrease/(increase) in insurance receivables	21	54.3	(39.4)
(Increase)/decrease in other receivables	22	(62.8)	243.9
Increase/(decrease) in insurance contract liabilities	25	244.0	(2.2)
Increase/(decrease) in insurance related payables	27	41.5	(3.2)
Increase/(decrease) in accruals and other payables	28	18.7	(126.2)
(Decrease)/increase in provisions of other liabilities	29	(1.1)	7.7
Cash generated from operations		63.2	93.7

34. RELATED PARTY TRANSACTIONS

(a) Transactions with and balances from or to related parties

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

	2020 *£m*	*2019* *£m*
Administrative and claims handling service fees	321.1	325.4
Interest received from group loans	0.8	0.5
Reinsurance premiums paid to related parties	793.7	822.4
Reinsurance recoveries	696.8	741.7
Dividend received from subsidiary	12.2	82.0
Loan repaid by the parent	-	20.0
Loan instalment from fellow group undertaking	16.2	-
Loan issued to fellow group undertaking	-	162.0
Return of share capital from subsidiary	32.0	-

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

	2020 *£m*	*2019* *£m*
Due from related parties at December, 31		
Subsidiaries	14.0	0.1
Other related parties	65.3	24.7
Total	79.3	24.8

Notes to the Financial Statements

For the year ended December 31, 2020

34. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with and balances from or to related parties (continued)

	2020	*2019*
	£m	*£m*
Due to related parties at December, 31		
Parent	0.2	13.9
Subsidiaries	132.2	57.7
Other related parties	1,029.7	1,004.5
Total	1,162.1	1,076.1

Since 2016, the Company placed a 40% quota share treaty with the ultimate parent Company's reinsurance Company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime.

Management services were bought from a Group company on a cost-plus basis, allowing a margin of 5% (2019: 5%).

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.

	2020	*2019*
	£m	*£m*
Loan to related parties at December, 31		
Other related parties	145.8	162.0
Total	145.8	162.0

Amounts repayable by related party, AMS, are detailed in note 20.

(b) Investment in subsidiaries

No restrictions are placed on subsidiaries to transfer funds to the parent company in the form of cash dividends.

No guarantees or collateral were provided to subsidiaries. The Company is not liable for any contingent liabilities arising on the side of the subsidiaries and will not settle any liabilities on behalf of them.

35. CONTINGENT LIABILITY

The Company is reassessing an additional cohort of PPI complaints to determine if there are further exposures. Until detailed assessments and review work is completed, the Company is unable to reliably estimate the potential exposure. The range of further provision could be between £nil and £35m gross of quota share.

36. SUBSEQUENT EVENTS

There have been no subsequent events after the balance sheet date.