# Annual Report 2017


## Allianz Holdings plc

Allianz

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This image was taken from one of our Allianz Expert videos, which was part of a larger brand campaign targeting brokers in 2017. This thought leadership campaign included a content partnership with the Telegraph, videos and articles promoted across social and digital media, as well as webinars with the Chartered Institute of Insurance featuring Allianz experts talking about key global trends and their impact on brokers and clients.

Front cover image: In 2017 Allianz became a sponsor of the Drone Racing League (DRL) in a multi-year partnership. This new partnership fits in perfectly with our digital ambitions and builds on our existing experience in successful sporting partnerships.

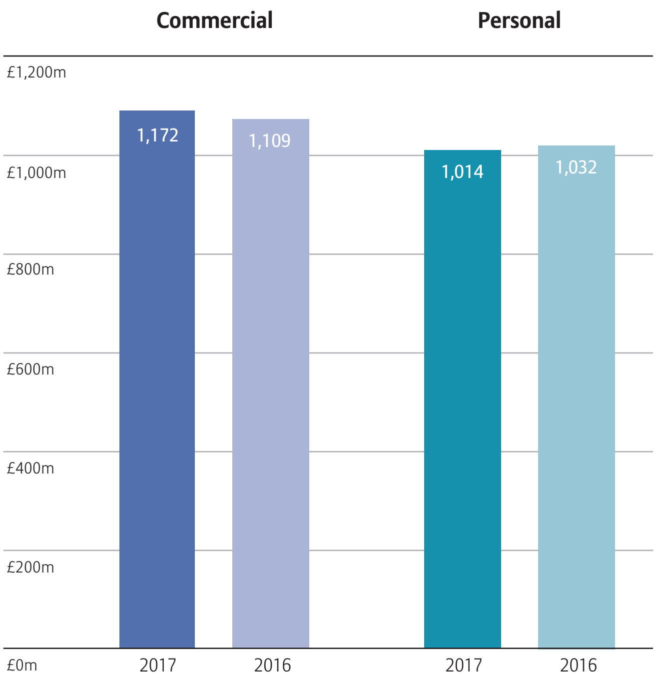
# Contents

# Financial Highlights

| | 2017 £m | 2016 £m |
|---|---|---|
| General insurance contracts premium revenue (Note 3) | | |
| Gross written premiums | 2,186.3 | 2,141.2 |
| Net written premiums | 1,274.9 | 1,041.7 |
| | | |
| Results | | |
| Total revenue | 1,582.4 | 1,532.6 |
| Total claims and expenses | (1,405.2) | (1,450.8) |
| Profit before tax | 177.2 | 81.8 |
| Income tax charge | (26.8) | (13.5) |
| Profit after tax | 150.4 | 68.3 |
| | | |
| Operating profit[1] before quota share | 121.3 | 96.2 |
| Operating profit[1] after quota share | 98.1 | 82.6 |
| Total equity | 1,875.7 | 1,263.0 |

[1] Operating profit is profit before tax adjusted for realised gains, impairments and other income on an Allianz SE Group basis.

## Gross Written Premiums



# Chief Executive's Report

2017 was a landmark year with the completion of the strategic joint venture partnership with LV= General Insurance. Operating profit before quota share to the Allianz Group increased from £96m to £121m with premiums increasing by 2.1%.

On December 28, 2017, having secured regulatory approval, Allianz and LV= completed the first stage in the creation of a joint venture, with Allianz acquiring a 49% stake in the LV= General Insurance business (LVGIG). As part of the agreement, the joint venture will acquire Allianz Insurance plc's personal home and motor renewal rights while Allianz Insurance plc will obtain LVGIG's commercial renewal rights.

Subject to acceleration from exercise of the put option held by LV=, the second stage of the transaction will take place in 2019, when Allianz will pay an additional £213m for a further 20.9 % stake in LVGIG through an agreed forward purchase based on a total valuation of £1,093m for 100% of LVGIG. After completion of this second stage, Allianz is expected to have total premium income in excess of £3 billion and predicted to become a top three player in the UK general insurance market with revenues being consolidated in 2020. LV= has a put option under which it can sell all or part of its remaining share to Allianz at any time up until the date of second completion.

Allianz Insurance has a quota share of 40% with an Allianz Group reinsurance company. This has the benefit of improving its solvency position. Further, it keeps the profits generated by the UK business entirely within the wider Allianz Group. The 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 the effect of the quota share, unless stated otherwise.

Allianz Insurance looks to leverage the skills, expertise and scale of the wider Allianz Group. In particular, we are heavily committed to the Renewal Agenda, which focuses on five important themes: true customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. We are already strong in these aspects of our business and we utilise these themes to drive the business forward.

Operating Profit in 2017 was £121.3m before and £98.1m after the quota share, an increase from the £96.2m before and £82.6m after the quota share achieved in 2016. This includes a £22m before and £13m after quota share charge due to the current year impact of the changes to the Ogden discount rate.

On February 27, 2017, the UK Government's Lord Chancellor announced a new discount rate to be used to calculate future pecuniary losses in respect of personal injury (the 'Ogden rate'). The real discount rate used in the UK changed from 2.5% to minus 0.75% resulting in an impact of £80m before quota share, of which £58m was accounted for in the 2016 result and £22m in 2017. Since the announcement, compensators have lobbied the Government for a review of the mechanism for setting the rate, and following a Government consultation, an intention to change the mechanism through statute was announced. An indication was given that if a new rate was set today, it would be between 0% to 1%. However, the statement in December from the Justice Select Committee indicated that the range may be lower than this and it is clear that there is considerable uncertainty about any outcome and the timing of any change.

The underlying profit is driven by the strength of our Commercial business, continuing profitable growth in Petplan and the absence of a major weather event.

Profit after tax was £150.4m (after quota share), which included non-operating benefits of £26.8m from an early loan redemption fee as well as a gain of £36.6m from the sale of Allianz Cornhill Information Services Limited (ACIS) to another group company. This compares to a profit after tax of £68.3m in 2016. Gross written premium grew by 2.1% predominantly driven by growth in Petplan and Commercial business.

Commercial Lines profits increased in 2017 compared to 2016 which included a larger charge due to the Ogden rate change. The 2017 result was impacted by an increase in the number of large losses but these were mitigated by the benefit of benign weather conditions and improved performance in relation to prior years. Personal Lines sustained another year of losses with the result being impacted heavily by the performance of Broker Household and Corporate Partner Motor as a result of poor claims experience.

The written premium of Commercial Lines grew by 5.7% in 2017 partially driven by pricing for the Ogden rate change within motor and liability lines, however at an underlying level, the market rating environment remained difficult. Motor business continued its excellent record of profitability and the Engineering business returned very satisfactory profits. The Liability account saw a fourth successive year of profits, as a result of some positive prior year claim reserve releases. Large losses, partially offset by benign weather conditions, caused the Property account to return marginal profits and Packages to move into loss.

Commission rates to intermediaries rose marginally in 2017 with consolidation continuing to be a feature of the broker market. Rate increases were generally below claims inflation including the effects of the Ogden rate change; consequently the business has faced another year of a weak rating environment. Further rate strength is needed across all Commercial lines of business.

Once again, the Personal Lines results varied significantly by account in 2017. Unacceptable loss ratios resulted in the Broker Motor and Corporate Partner accounts returning a loss. The household accounts also made significant losses with claims experience remaining difficult and extreme competitiveness within the market continuing to persist. Focus on improvement action continues and where appropriate, the worst performing motor and home schemes have been terminated.

Our Animal Health business had another very good year, continuing to grow strongly and deliver attractive returns. The Corporate Partner Animal Health business reduced slightly in 2017 as measures to manage profitability took effect. The Corporate Partner All Risks account, which is primarily mobile phone coverage, shrunk year on year, however it continues to generate reasonable profits. The Legal Protection account continues to adapt its business model following the 2013 reforms and delivered losses due to prior year deterioration on a small number of schemes.

Investment returns continue to be impacted by low interest rates, underlining the importance of achieving strong underwriting profits. Investment policy has remained largely unchanged in 2017. After loans to Allianz SE were repaid, a small allocation in emerging market sovereign debt and global investment grade credits were added to the portfolio for diversification purposes. The allocation to equities and property remain as a small proportion of total assets in order to control risk. Operating investment income continued to decline as the reinvestment of maturing bonds continues to be at lower levels.

The Group continues to pursue its strategy of only underwriting business where there is a realistic prospect of achieving a return in excess of the cost of capital. Transfers of the Personal home and motor portfolios to LVGIG and consolidation of the LVGIG Commercial business to Allianz Insurance will leverage the expertise in each respective business and ensure returns are maximised. Central to our objective of profitable growth is the continuing investment in the development of the technical, sales and leadership skills of our employees. The well-established Underwriting Acadamy and Claims Academy programmes are key to the continued development of technical insurance skills. We have also been running for several years an extensive programme of development in our sales skills and this continues.

We continued to update our customer propositions by upgrading our e-trade capability, launching a new mini fleet product and adding new digital solutions for Professional Indemnity and Directors' and Officers' cover.  We also expanded our mid-corporate offering with the launch of a new Construction Select product, offering a one-policy solution that combines property, liability and engineering cover. We also continue to leverage the wider covers available within the Allianz Group and by tailoring propositions for our customers we will continue to build on our strong reputation.

We achieved our highest-ever 'net promoter score' (a customer loyalty metric) in the commercial market, keeping our position of loyalty leadership. Engineering remains top of its market, too. Our score in personal broker has improved and Petplan remains number one in the pet insurance market. Customer centricity is one of the key objectives for the Allianz Group and we will continue to work hard to improve our scores and achieve loyalty leadership in all markets.

We were recognised in the insurance industry and further afield in 2017, with individuals and teams picking up awards across a range of categories. The Brand team won several awards for their 'Dare to Believe' videos with Channel 4 during the Rio 2016 Paralympic Games, while Petplan won Most Trusted Pet Insurance Provider at the Moneywise Customer Service Awards. Our claims service was recognised, with both individuals and teams winning several awards. Our Commercial team also won three categories at the Underwriting Service Awards. We are proud of the commitment and leading performance of our employees.

The Group has continued to put significant effort into minimising its impact on the environment, including reducing its carbon emissions, where Allianz have been awarded the Carbon Trust Standard for the fourth time since 2010. The accreditation, which lasts for two years, was awarded in 2016. In addition, Allianz continues to promote social responsibility and raising funds for charitable purposes. In February 2016, we launched a new corporate charity partnership with the Association of Air Ambulances Charity, and aim to raise £1m in 3 years. In 2017, we raised a total of £358,000, comprising employee fundraising and company contributions. This brought the total raised to date to £662,000 at the end of 2017.

2017 was an exciting year for our brand. Our successful partnership with European Champions, Saracens, was renewed for at least a further three years and Allianz Park remains an important venue for both the local community and the rugby club.

Our partnership with ParalympicsGB continued, complementing Allianz Group's support of the International Paralympic Committee. Our Dare to Believe Festivals developed the legacy of the Paralympics, bringing together young people, local communities and brokers for inclusive, multi-sport events – with over 2,500 children and over 150 Allianz volunteers taking part. We also introduced another element to our Paralympics partnership through a sport and business mentoring scheme, with 35 of our employees mentoring staff at the British Paralympic Association, as well as Olympic and Paralympic athletes.

At Allianz Group level, two global digital partnerships were added to our sponsorship portfolio, with us becoming the title sponsor of the Drone Racing League and a partner of the FIA Formula E Championship.

In 2017 we implemented a number of changes to our capital model, following the approval of BaFin, the German regulator, the Prudential Regulatory Authority (PRA) and the College of Supervisors. The most material was a change to better align our pension risk modelling with our accounting approach.

The financial services regulatory environment in the UK continues to be driven by the two main regulators, dealing respectively with conduct risk (the Financial Conduct Authority – FCA) and prudential risk (the PRA). We have continued to respond to the output of various reviews by the FCA, and have completed implementation of the changes required under the new renewal transparency rules. Preparation for implementation of the EU's insurance distribution directive rules has begun and will continue in 2018. Similarly, preparation for implementation of the EU's new data protection rules, effective from May 2018, has continued throughout 2017. With regard to the PRA, firm specific and market wide feedback is reviewed and actioned as a matter of course. Allianz participated in the PRA General Insurance Stress Test in 2017 and received approval of major model changes applied for. We continue to maintain open and regular communication with our regulators.

In 2017, we held festivals up and down the country to develop the legacy of the Paralympics – bringing together young people, local communities, employees and brokers for inclusive, multi-sport 'Dare to Believe' festivals.

In addition to the Ogden rate change, there continues to be legal and political pressure regarding the way personal injury claims are handled. The Government has confirmed its commitment to the whiplash reforms with the announcement of the Civil Liability Bill during the Queen's speech in July 2017. This will introduce tariff damages for injuries up to 2 years duration; small claims limits for Road Traffic Accidents will increase from £1,000 to £5,000 and all other types of personal injury claims will increase to £2,000. It is however unlikely that any changes will be implemented before April 2019 at the earliest.

Furthermore, an extension of fixed legal costs beyond the current £25k limit of injury claims is expected to gather pace in 2018 with fixed costs likely to be extended initially up to £100k.

With the continuing development of autonomous technologies within vehicles, the Automated and Electric Vehicles Bill was also introduced to Parliament in the Queen's Speech. The bill ensures compulsory insurance remains in place to compensate innocent victims of road traffic accidents even when the vehicle is operated in a self-driving mode. Limited hands-off driving will be permitted on UK motorways by 2019.

In 2017, terrorists adopted new and devastating strategies in the UK with vehicles being used as weapons. The insurance industry is working with Pool-Re to look at gaps in cover such as where there is no damage but consequential business interruption. The industry is looking at ways in which exposure can be pooled by the Motor Insurers' Bureau (MIB).

Following the Grenfell Tower tragedy, a review of building regulations has found the system is "not fit for purpose" and is open to abuse by those trying to save money. Dame Judith Hackitt's interim report into building safety called for an overhaul of the construction industry to put safety above cutting costs.

The Group remains in a strong business position relative to our competitors and we are backed by the biggest property and casualty insurance company in the world. There is continuing uncertainty about the long term effect of Brexit following the referendum result to leave the EU. The Office for Budget Responsibility now expects the economy to grow by 1.5% in 2018. Growth is predicted to drop to 1.3% by 2020 and then rise to 1.5% in 2021. The Bank of England base rate of interest increased from 0.25% to 0.5% in November 2017 and inflation has increased from an average of 0.7% in 2016 to 2.7% in 2017. There remains surplus capacity in the insurance market and our customers are rightly as price-conscious as ever, so these features are likely to keep competition very strong. We expect to continue to see insurance business being written at rates that on too many occasions are inadequate, particularly with the backdrop of very low investment yields. Nevertheless, the Group 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 again be successful in 2018.

Jonathan Dye

J M Dye
Chief Executive

# Group Strategic Report

In accordance with the Companies Act 2006, the Directors present their Group Strategic report for the year ended December 31, 2017.

## Background

Allianz Holdings plc controls the principal insurance operations of Allianz SE in Great Britain. Through its subsidiary companies Allianz Holdings is one of the country's leading general insurance groups. The Company is not required to prepare an Operating and Financial Review as recommended as best practice by the Accounting Standards Board. However, the Board of the Company is conscious of its position as a major financial services provider and includes in the following Strategic Report details of its performance, some of the key influences on its business in 2017 and the prospects for 2018.

The Strategic Report does not purport to meet the requirements of an Operating and Financial Review. It should be read in conjunction with the Chief Executive's Report and the other sections in the Annual Report, including the Notes to the Accounts.

## Nature of Business

Through its insurance subsidiaries the Group is one of the top five general insurers in the United Kingdom measured by gross written premium. The Group offers a wide range of products and has a presence in most general insurance markets. However, it concentrates resources on markets and products which will deliver the best return for shareholders. The Group distributes its products almost entirely in Great Britain.

The Group operates through three regulated insurance companies and is organised as one trading division distributing commercial and personal products under a number of brands, supported by the service divisions such as Technical, Claims, Operations, Finance, HR and IT. An analysis of the 2017 results and the prospects for 2018 are set out in the Business Report below.

A number of the Group's subsidiaries are regulated by the Financial Conduct Authority and/or the Prudential Regulation Authority.

## Business Strategy and Overview of 2017 Results

The Group in recent years has pursued a strategy of proactively managing the insurance cycle to maximise the return for shareholders whilst carefully managing its capital base. This strategy has been highly successful and the underlying profitability of the companies that comprise the Group has been very satisfactory in recent years. 2017 maintained strong profitability levels in light of continuing tough market conditions and regulatory change.

The Group's overall performance and investment in a number of market leading initiatives has been widely recognised both within and beyond the insurance industry and a number of awards have been won over the last few years. Throughout 2016 and continuing into 2017, awards were won in many areas, including 'Most Trusted Pet Insurer', marketing, claims and underwriting excellence.

The insurance market is subject to pricing cycles as capacity expands and contracts driven by fluctuating returns. Within personal lines, motor market rates began to rise in 2015 and continued throughout 2016, primarily as a result of IPT increases and the increasing impact of insurance fraud. The trend continued into 2017 with the announcement of the reduction in the Ogden discount rate. This lessened in the second half of the year after the Government published draft reforms to revise how the Ogden rate should be set. With the impact of Brexit on the Government, timescales and magnitude of any change remain highly uncertain.

| Key Performance Indicators – before quota share | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|
| Gross written premium | 2,186.3 | 2,141.2 | 2,218.7 |
| Net written premium | 2,072.7 | 2,023.2 | 2,085.8 |
| Underwriting results | 44.5 | 15.7 | (54.3) |
| Operating profit | 121.3 | 96.2 | 36.3 |
| Profit before tax | 194.9 | 102.7 | 52.2 |
| Claims ratio | 69.1% | 69.9% | 72.9% |
| Expense ratio | 28.7% | 29.3% | 29.7% |
| Combined ratio | 97.8% | 99.2% | 102.6% |
| UK employee turnover | 16.5% | 19.5% | 16.7% |

Source – Management Accounts. Prior years have not been restated for any change in accounting standards.

In Personal lines the motor and home broker accounts were impacted by tough market conditions, however remedial action will result in an improved performance in 2018. Continuing action is being taken on the loss-making Corporate Partners accounts. More detail can be found in the Chief Executive's Report.

In Commercial Lines rate strength continued to fall behind target and consequently current accident year loss ratios are below acceptable levels for many classes. Despite the difficulties of obtaining adequate rate strength, strict underwriting discipline has been maintained to minimise the impact of the insurance cycle. More detail can be found in the Chief Executive's Report.

Gross written premiums for the Group were £2,186m, a 2.1% increase over last year, with Commercial Lines growing by 5.7% which was aided by rating action in response to the Ogden changes and Personal Lines shrinking by1.8% as a result of the remedial action taken on the broker motor and home portfolios due to tough market conditions. Operating profit at £121.3m, which includes a £22m current year charge due to the change in the Ogden rate, was a strong result in the context of the year in which interest rates remained at low levels, and market rate strength was appreciably behind Plan. Operating profit is profit before tax adjusted for realised gains, impairments and other income on an Allianz SE Group basis. Profit before tax was £177.2m compared with £81.8m in 2016.

## Future Outlook

Premium income at a gross level is expected to remain flat in 2018, with the underlying growth in Animal Health and Commercial business being offset by the net impact of the Personal and Commercial renewal rights transfers to and from LV= General Insurance business (LVGIG). These transfers will take place through 2018 and into 2019. The insurance company entered into a quota share reinsurance agreement in 2015 and further increased the quota share from 20% to 40% in 2016. It will remain at 40% for 2018, 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 by the continuation of the current difficult market and by the impact of the economy on our customers. Profitability is expected to improve through 2018 as the changes in 2017 take effect and the benefits of the continuing investment in Technical Excellence are realised. The Company remains very vigilant with respect to claims fraud. By definition, insurance is an uncertain business and profitability in 2018 could also be influenced by a higher than expected level of major claims or weather events.

## Risk and Capital Management

### Risk Governance

The Board delegates oversight of risk management to the Chief Risk Officer (CRO) and the Board Risk Committee. In 2017 the Board opted to raise the profile of the CRO role. A new CRO was appointed in October 2017. The CRO is now a member of the Management Board and a standing invitee to the Board. The CRO is supported by the Risk Department – a team of qualitative and quantitative experts. The existence of a Risk Department does not mean that responsibility for risk management passes away from the business units and management. Managers in the business units are responsible for managing risk in their own areas.

### Risk Management Framework

The Risk Department is independent of normal business activities. It assists the Board and Management Board with the development of risk policies and the identification, assessment, investigation and monitoring of risks together with the design of the control framework. To ensure risk management is fully embedded in the business and effective control is maintained, each key risk is owned by a member of the Management Board.

Allianz SE, the ultimate parent company, has adopted risk standards which the Group must adopt. The Group complies with these standards in all material respects.

The key internal operational and financial controls are regularly tested by Internal Audit. A comprehensive programme of risk based reviews is conducted. Key issues from individual audit reports are summarised to form a regular assessment of the control climate across the business and reported to the Audit Committee. Internal Audit maintains a close working relationship with the Allianz SE Internal Audit Department. The audits performed in 2017 confirmed that the risk management framework is compliant with internal and external requirements.

All the key controls operated by the business that guard against financial mis-statement have been reviewed during the year. Documentation has been updated and the controls have been subjected to management, internal audit or external audit testing. No material weaknesses or significant deficiencies have arisen in 2017.

### Internal Risk Capital Framework

We define internal risk capital as the capital required to protect us against unexpected extreme economic losses and forms the basis for determining our Solvency II regulatory capitalisation and the associated risk profile. We calculate internal risk capital on a quarterly basis and monitor more frequently in periods of market turmoil.

We adapt the Allianz Group internal model to our UK specific requirements to measure risk capital. Model approval was obtained by the Prudential Regulation Authority (PRA) and the College of Supervisors in 2015 for commencement on January 1, 2016. Subsequent model changes have been approved in 2017, including a change to better align our pension risk modelling with our accounting approach, resulting in a reduction to our risk capital of £125m. A further change implemented at the end of 2017 allowed for the possibility that interest rates may become negative in future.

We validate the model and parameters through sensitivity analyses, independent internal peer reviews and, where appropriate, independent external reviews and summarise these activities in an annual validation report. For 2017 the model was found to be fully appropriate. Nevertheless, as with any model there are some limitations, including the reliance on historical data to characterise possible future outcomes, which may not capture unprecedented market conditions or events.

The model is used internally for determining capital adequacy and requirements. Capital is allocated to lines of business based upon the underlying risks the business presents. Each line of business is required to make a minimum return on its allocated capital. The minimum returns on allocated capital are incorporated into the trading division's objectives and the personal performance targets of senior management to ensure that the underlying business operations are run and managed in a manner consistent with the Board's appetite for risk, and with the capital available.

Our Solvency Capital Requirement (SCR) for Allianz Insurance plc as at December 31, 2017 was £741m[(1)] compared with own funds of £1,139m [(1)], leading to a solvency coverage ratio of 154% [(1)] (prior to approved interim dividend payment). This compares to a ratio of 131% [(1)] as at December 31, 2016. The main reasons for the movement were the introduction of the model changes described above and market movements over the year.

## Share Capital

On December 27, 2017, Allianz Holdings plc issued 499,800,000 ordinary shares at par to Allianz (UK) Limited in relation to the LVGIG investment. Allianz Holdings plc owns 100% of all its subsidiaries and 49% of LVGIG. Allianz Holdings plc is expected to buy a further 20.9% stake in LVGIG in 2019 through an agreed forward purchase. LV= has a put option under which it can sell all or part of its remaining holding in LVGIG to Allianz Holdings plc at any time up until the date of second completion. Allianz SE has committed to fund these purchases through the issue of further share capital if required.

## Group Organisation

The Group's insurance, non insurance and policy servicing activities are undertaken in a number of specialist companies. Allianz Holdings plc is the holding company. Allianz Insurance plc is the main insurance company with the non regulated activities being carried out in a number of specialist companies. During the year the largest were Allianz Engineering Inspection Services Limited and Allianz Management Services Limited. Allianz Cornhill Information Services Private Limited (ACIS) was sold to another Allianz Group company at the beginning of 2017. The services provided by ACIS to the Group remain unchanged.

The Group employs around 4,500 people in the UK and continues to utilise ACIS (now an independent offshore service centre in India) where around 1,100 people are dedicated to the UK business. This offshore service centre principally provides IT and administration services to the Group's businesses.

## Employees

The Group continues to invest in the development of its employees and believes that it will deliver superior returns through investing in market leading technical, customer, sales and leadership skills. Technical employees continue to undergo development through either the Underwriting Academy or the Claims Academy initiatives, and there are a range of professional development programmes covering other aspects of the business. All managers are enrolled in a leadership programme which is regularly enhanced. The Group has a comprehensive management and development training programme. The Group is an Investor in People, and has been accredited at the Gold level.

## Research and Development

Through a series of dedicated teams the Group researches and invests in new initiatives and technologies. Resources are dedicated to minimise the cost of insurance fraud, develop new protocols for injury management, improve existing products/ services and devise new ones.

[(1)] Unaudited figures

We've renewed our successful sponsorship partnership with Saracens until at least 2021. We're proud to partner with a wide range of teams, organisations, cultural figures, sporting venues, and educational programmes. Our sports and culture partnerships help us continually expand our reach into new segments of society and people of all abilities and interests.





# Non-Financial Information Statement

## About the report

While Allianz Holdings plc is not required to publish a non-financial statement, as it is covered by that of the Allianz Group, this report aims to bring transparency in regards to our approach to non-financial matters.

### Corporate Social Responsibility Governance and Strategy

At Allianz, we aim to create sustainable economic value through a long-term approach to corporate governance, social responsibility and environmental stewardship. We have sought to develop the culture, systems and processes that enable us to do that. This is critical to our business success as we commit to deliver on our promises to customers, to investors, to communities and to society as a whole.

Our social responsibility strategy aligns with our business mission to be a trusted partner, enabling people to move on and up in life and business, which we believe will make a positive difference to our customers, our employees, the environment and the communities in which we operate.

We adhere to Allianz Group's corporate responsibility policy and embed the principles throughout the business.

### 1. Environmental Matters

As part of our Corporate Responsibility Strategy we address climate change and environmental issues as one of the most material risks and megatrends. Climate change remains our number one environmental risk across the entire value chain and we are committed to tackling the climate challenge and related health risks by managing emissions from our operations and other environmental impacts of our business.

#### Climate Change

Allianz is committed to playing a lead role in supporting the development of a low-carbon economy and has a longstanding climate change strategy, with the aim that we use our resources more efficiently to minimise waste and pollution.

Allianz Insurance is a founding member of ClimateWise, the insurance industry initiative to tackle climate change. Through ClimateWise, we work individually and with others in our industry to reduce the long-term economic and social risk of climate change.

## Environmental

Allianz has a long-standing policy of providing a safe and healthy workplace for its employees and is committed to conducting its business in a manner that safeguards health, protects the environment and conserves valuable materials and resources. As part of this we strive to continually improve the environmental performance of our operations. Specifically we seek to:

- reduce the amount and carbon intensity of the energy we use for our operations,
- reduce the environmental impact of our business travel,
- operate in a resource-efficient way, particularly regarding our use of paper and water,
- minimise the environmental impact of the waste we produce through avoidance, reduction, re-use and recycling.

Our participation and use of the Group-wide Environmental Management System (EMS) provides standards and controls, supports environmental data collection and promotes transparent reporting of environmental impacts across our operations. It guides us in monitoring and managing our resource use. The EMS reporting is audited externally at Group level.

## KPIs, Targets & Achievements

### Greenhouse Gas emissions per employee

**Achievement:**
In 2017 we achieved a 33% reduction, against a 2010 baseline, through energy efficiency measures, increasing the use of renewable energy and promoting low carbon travel.

**Target:**
2020 target to reduce carbon emissions by 33% per employee against a 2010 baseline achieved early. Seek to further improve.

### Energy consumption from office buildings per employee

**Achievement:**
In 2017 we achieved a 32.5% reduction, against a 2010 baseline.

**Target:**
Achieve a 42% reduction in energy consumption per employee by 2020, against a 2010 baseline.

### Renewable Energy

**Achievement:**
In 2017 all of our electricity where we have control over the supply was 100% renewable. Including electricity where we do not have control, 33% of the energy used came from renewable sources.

**Target:**
Achieve 100% renewable energy.


Through regular communication and employee engagement activities, we promote the importance of wellbeing throughout the year.

## 2. Employee Matters

We depend on having the best people in place and keeping them motivated and engaged to successfully deliver our business strategy and goals. Our approach is based on managing and rewarding talent, promoting inclusivity and employee rights, and supporting wellbeing and engagement. This is underpinned by strategic HR frameworks, principles and tools such as our People Attributes (Customer and Market Excellence, Collaborative Leadership, Entrepreneurship and Trust). These attributes play a key part in our people value chain, from recruiting and talent management to learning and performance management. The Allianz Engagement Survey (AES) has established itself as a valuable employee feedback platform. Employee engagement is high priority at Allianz as we strive to build a committed workforce that performs with integrity and delivers a strong customer focus.

We monitor employee satisfaction, loyalty, advocacy and pride within the organisation through the Employee Engagement Index (EEI) which forms part of the AES. Another key measure is progress towards a culture where both people and performance matter which we measure through the Inclusive Meritocracy Index (IMIX). This covers the areas of leadership, performance and corporate culture.

The Chief HR Officer is responsible for all people-related activities, and reports directly to the CEO. AES results are also directly linked to the performance objectives of the Management Board.

Our Management Board is committed to enhancing diversity and inclusion at Allianz. We have a management board member on the Allianz Global Inclusion Council that develops and drives the global strategy. Our local Diversity & Inclusion Steering Committee which is sponsored by our CEO complements this with a strategy and action plan for our UK business. Particular focus has been on improving the gender balance in management roles, providing more support for individuals with disabilities and establishing platforms to better represent the views and interests of specific groups.

This clear focus has led to achievement of gender-balanced representation on our leadership talent programmes and participation in several targeted networks including Allianz Women in the City network.

Specific initiatives introduced aimed at achieving gender balance and equal opportunities include:

- JET UK programme, a new initiative to support non-executive women in driving their career development.
- Mentoring programme for British Paralympic Association to encourage athlete-to-business mentoring for athletes and para-athletes.
- Adopted HM Treasury's Women in Finance Charter.

## KPIs, Targets & Achievements

### Allianz Engagement Survey:

**Achievement:**
71% EEI score in 2017, improved from 65% in 2016.
75% IMIX score in 2017, improved from 69% in 2016.
69% Work Well Index in 2017, improved from 63% in 2016.

**Target:**
To maintain and seek improvement of engagement scores in comparison to the previous year.

### Diversity:

**Achievement:**
32.7% females in management positions as per December 31, 2017.

**Target:**
35% females in management positions by 2020 (HMT Women in Finance Charter).

## 3. Social Matters

### Social Inclusion

As a committed Corporate Citizen we invest in local communities and support causes that align with our purpose and values. We also have an interest in creating empowerment and access to employment for members of society, which in turn creates the talented and diverse workforce we rely on.

Internally, we support social inclusion through our diversity and well-being programmes, and by supporting groups such as women in management and people with disabilities. We also encourage and support our employees to volunteer in their local communities. Each employee is able to take ten hours of paid time annually to support a local charity or organisation. We also work with charities, community organisations and social enterprises through two of our personal development and leadership programmes which help to develop our employees' skills, whilst also benefiting society.

Our sponsorship and support to the ParalympicGB team also demonstrates our commitment to diversity and inclusion. We actively use the partnership to support local communities.

Our social contributions consist of time, skills and money.

Our Chief Operating Officer, Stephanie Smith presented at the UK insurance industry's International Women's Day event in London alongside Kate and Helen Richardson-Walsh, Gold winners from Team GB's women's hockey team who spoke about creating a culture that enables high-performing teams.

## Dare to Believe Program

In 2017 Allianz formed a partnership with Youth Sport Trust to deliver 'Dare to Believe' Festivals throughout the UK, an initiative created to continue the legacy following the Paralympic games. These were designed to positively influence the attitudes and perceptions to special needs and disability among young people and also promote diversity and inclusion within schools and communities. The festivals involved many Allianz employees, brokers and local communities coming together to run inclusive, multi-sport events.

## Association of Air Ambulances

In February 2016, we launched a new corporate partnership with the Association of Air Ambulances Charity. This long term partnership will positively impact on the ability of air ambulances to reach critically injured and ill people across the country.

Midlands Air Ambulance.


## KPIs, Targets & Achievements

### Dare to Believe Programme

**Achievement:**
As part of our commitment to the Paralympic legacy, we held 20 Dare to Believe Festivals around the UK which enabled 2,580 young people to learn about and access Paralympic sports. These festivals were designed to promote diversity and inclusion within schools and communities.

**Target:**
Continue the Paralympic legacy by holding 20 Dare to Believe Festivals throughout 2017.

### Association of Air Ambulance Charities partnership

**Achievement:**
In 2017 we raised £358,000 through employee fundraising and company contributions. This brought the total raised to date to £662,000 by the end of 2017.

**Target:**
Raise £1m for the Association of Air Ambulance Charity by the end of 2018.

### Employee volunteering

**Achievement:**
In 2017, 658 employees gave 5,387 hours of their time to their local communities. This equates to 15% of employees using their volunteering time.

**Target:**
Percentage of employees using their volunteering hours to exceed 30% by end of 2018.

## Consumer/Responsible Sales

Our positive reputation is built on the trust that customers, shareholders, employees and the general public have in our integrity. This trust depends on the quality of our products, the way we inform and advise our customers, and on the personal conduct and capability of our sales employees and representatives.

The globally binding Allianz Code of Conduct for Business Ethics and Compliance specifies: Employees of Allianz Group must not, either by their action or statements, seek to mislead the market or customers; and when establishing a customer relationship or providing financial services to a client, appropriate care shall be taken to ensure that the customer receives information that is necessary for a reasonable decision to be taken by the customer.

A responsible approach to sales is more likely to lead to customer satisfaction and loyalty. We measure loyalty through the Net Promoter Score (NPS), which captures customer and brokers' willingness to recommend us and is benchmarked against our competitors.

Social media, customer review sites and complaints are also important sources of customer feedback and we analyse them closely to identify potential improvements. We ensure quality standards for handling complaints are met and that customers are treated fairly.

## KPIs, Targets & Achievements

### Net Promoter Score performance – Commercial:

**Achievement:**
Achieved joint Loyalty Leader in 2017.

**Target:**
Achieve sole Loyalty Leader by 2019.

### Net Promoter Score performance – Engineering:

**Achievement:**
Achieved Loyalty Leader In 2017.

**Target:**
Maintain sole Loyalty Leader.

### Net Promoter Score performance – Pet:

**Achievement:**
Achieved Above Market in 2017.

**Target:**
Achieve sole Loyalty Leader by 2020.

## Data Privacy

We enforce robust security and privacy controls to offer our customers and employees the peace of mind that their personal data is safe and secure. The Allianz Privacy Framework which is in place includes: a global standard for data privacy; a privacy risk management process; integration with information security core functions; and training for employees on the appropriate processing of the personal data belonging to our customers, employees and third party partners. All measures are subject to regular audit and assurance oversight.

The Allianz Standard for Data Protection and Privacy defines rules and principles for collecting and processing personal data. It sets out privacy principles that all employees are expected to observe in relation to the collection and management of personal data.

Of equal importance is the security of the personal data we handle. Our robust Information Security Framework applies strict security processes, standards and tools, and defines minimum requirements.

We keep abreast of regulatory and industry developments and aim to reflect these in our operational and governance processes and procedures. We have established a cross-functional project to address upcoming changes in the E.U. General Data Protection Regulation (GDPR) which will come into effect in May 2018.

We have strengthened employee engagement and understanding of privacy requirements. Our Digital Privacy Guidelines provide guidance on privacy-related topics impacting digital projects – both privacy by design (as part of new product and service design processes) and privacy by default (so that where individuals are given choices around the use and onward sharing of their personal data, the initial settings restrict disclosure).

## KPIs, Targets & Achievements

### General Data Protection Regulation

**Achievement:**
Project established to implement GDPR guidelines.

**Target:**
Compliance with the E.U. General Data Protection Regulation (GDPR) by May 2018.

## 4. Respect for Human Rights

We actively support employee rights and we strive to apply core human rights principles. We also encourage our vendors to sign a Vendor Code of Conduct, which stipulates what our vendors must fulfil with regards to fair labour practices, including modern slavery in the supply chain and human rights.

At Allianz, we're committed to working with suppliers who meet our high standards of sustainability, data security and financial health. Allianz has zero tolerance towards human rights violations and is committed to having an ethical and sustainable supply chain. Allianz therefore wholeheartedly supports the Modern Slavery Act, which aims to drive out all forms of modern day slavery and human trafficking from business practices.

The latest Allianz Holdings plc Group Modern Slavery statement can be found at https://www.allianz.co.uk

## 5. Anti-Corruption & Bribery Matters

Allianz's Compliance Management System aims at ensuring adherence with international and locally recognised laws, rules and regulations to promote a culture of integrity in order to safeguard our reputation.

Compliance is firmly embedded in Allianz's corporate governance and the standards of conduct required by the Allianz Group's Code of Conduct for Business Ethics and Compliance ("Code of Conduct") are obligatory for all employees.

These are detailed via the Allianz Standards and include:

- Anti-Corruption Policy
- Compliance with Economic Sanctions and Related Guidance
- Prevention of Money Laundering and Terrorism Financing
- Antitrust Code (competition)
- Conflicts of Interest Policy
- Gifts & Entertainments Policy
- Third Party Due Diligence
- Maintenance of Books and Records

As part of our compliance programme, we follow international standards and applicable UK laws related to anti-corruption and bribery including money laundering, terrorism financing, trade and financial sanctions, capital markets compliance and other relevant risk areas.

Aimed at both employees and third parties with whom we do business, the programme includes policies and minimum standards which prohibit the offer, acceptance, payment or authorisation of any bribe, or any other form of corruption. Anti-corruption training is compulsory for all employees.

Management are expected to act as role models in demonstrating ethical leadership on a daily basis through their decisions and actions. To reinforce this expectation during 2017 Allianz Insurance plc ran a training programme called Leaders in Integrity for all senior managers who were then required to cascade the content in turn to more junior management.

Anti-corruption and bribery risks are included amongst the operational risks identified within Allianz's Integrated Risk and Control System. To ensure continuous oversight and improvement, all risks are assessed and monitored annually and reported using a global Compliance Issue Management system. This online tool provides consistent management of cases and facilitates internal reporting. All Allianz companies are required to perform an annual Internal Risk Control assessment.

# Business Report

All figures below are shown before the Group's quota share reinsurance arrangement.

## Commercial Lines

We provide a comprehensive range of commercial and engineering inspection and insurance products distributed principally through the intermediated market.

The commercial lines business provides a full range of commercial insurance products to a range of clients from sole traders to large commercial organisations. The business is distributed principally through intermediaries but there is a small proportion of business sold direct.

In aggregate, Allianz Commercial net written premiums increased to £1,092.3m, driven by rate increases following the change in the Ogden rate and modest growth in underlying volumes. The underwriting profit was £56.0m, with benign weather conditions and improved performance in relation to prior years helping to mitigate large losses and Ogden related claims inflation running ahead of price increases. The underwriting result is an improvement from a £44.3m profit in 2016, which included a £38.3m charge due to the Ogden rate change.

Allianz is one of the top five commercial insurers in the UK market. Despite a negative market rating environment, rate increases and growth in underlying volumes saw net written premiums grow by 5.7%. Rate increases across the motor and liability lines, partially driven by pricing for the Ogden rate change, were offset to some degree by reductions in the property and engineering insurance accounts. In aggregate, rate increases were behind claims inflation and so were not at the levels needed to sustain market profitability.

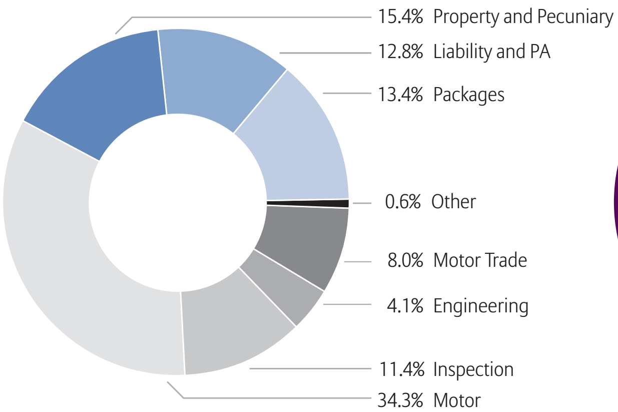
Further rate strength is needed across all insurance lines of business with a return to rate increases for property and engineering.

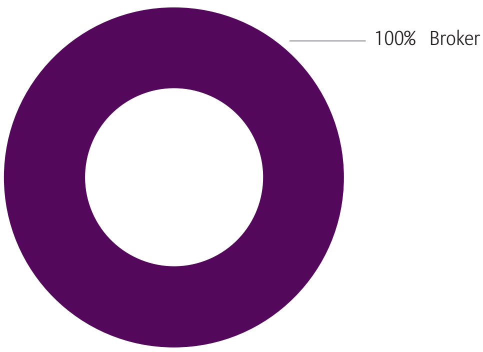
The motor account continued to perform very well, with good profitability despite rate increases being below claims inflation, including that needed to cover the Ogden change. An increase in the number of large losses on the property dominated accounts were partially offset by low levels of weather-related claims however profitability was marginal, following the benign weather and strong profits for 2016. Despite a continuing competitive market for liability business, continued focus on smaller risks and the effect of underwriting actions taken in earlier years have kept the account in profit.

The engineering insurance and inspection business is distributed through intermediaries and is among the largest specialist engineering insurers in the UK. In the core insurance account premiums grew by 7.2% supported by the launch of the new construction offering. Rate increases and increases in the underlying volumes within the inspection business drove premium growth of 3.6%. In aggregate, premiums in the engineering business were 5.1% above the prior year. The business delivered another year of very satisfactory underwriting profit at £13.5m, in a highly competitive market. As market leader with unrivalled standards and levels of service to clients, the business is well positioned to maintain its market leading performance despite continuing competitive trading conditions.

Allianz Business Services Limited is an intermediary which focuses on the distribution of SME and personal lines products. This business provides an advised broking service to direct clients placing risks with both Allianz and other insurers.

**Products and Distribution by Net Written Premiums (after quota share)**



## Personal Lines

We provide a wide range of personal lines products distributed through brokers, retailers, affinity partners and veterinary practices.

In aggregate, Allianz Personal net written premiums reduced by 1.0% in 2017 to £980.4m. This reduction was largely driven by the remaining effects of the 2016 withdrawal from Direct motor and household insurance, and a reduction in Broker Household business. Animal Health business continued to grow strongly, with a 10.2% increase in net written premium.

The underwriting result was a loss of £1.2m compared to a loss of £35.7m reported last year, when the Ogden rate change resulted in a £20m charge. The result was impacted heavily by losses in the Broker business (Motor and Household) and Corporate Partner Motor.

Volumes in the private car accounts were deliberately curtailed in light of market conditions and the unacceptable loss ratios. Corporate partner profitability remains an issue though corrective actions on key schemes should lead to improved performance in future years. Net written premiums in the household business were reduced by 15.4% in 2017 as measures were taken to improve profitability, however poor claims experience drove a loss of £24.8m. Work continues on improving the position for 2018.

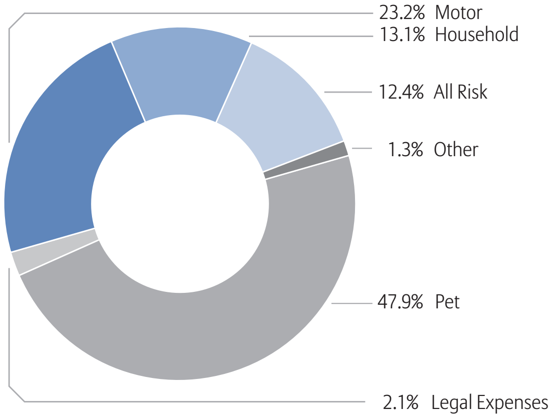
The warranty and creditor accounts continue to shrink as they run-off. The All Risks account (mostly mobile phone) also reduced in volume, but remains profitable.

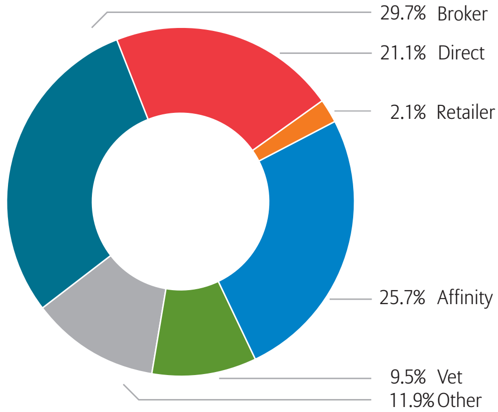
The Group is the clear market leader in the provision of small animal and equine insurance for the leisure market through the widely recognised and well established Petplan brand. Although the small animal segment remains extremely competitive, net written premiums rose by 10.2% and attractive returns continue to be made. Profits were also strong in the market-leading specialist musical insurance account with slightly increased premium volumes despite increased competition from on-line and digitally optimised new entrants.

The legal protection business has a leading position in the After the Event market. Before the Event policies are also written on a strictly controlled basis. Net written premiums were up 2.8% on 2016 but the underwriting result was a loss of £5.5m following deterioration in prior year claims for some schemes.

Home & Legacy is a specialist insurance intermediary that distributes tailored products to mid and high net worth customers via both the intermediary and direct channels. The major product is household insurance.

### Products and Distribution by Net Written Premiums (after quota share)



## Investments

Investment strategy has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. The allocation to equities and property remains as a small proportion of total assets in order to control risk. Cash and short-term investments were maintained at low levels with returns in these classes remaining low. The allocation to high quality corporate and securitised bonds remained overweight to enhance returns. A small allocation to emerging market sovereign debt and global investment grade credit was added to further diversify the portfolio. Allianz Holdings continues to use the expert investment management facilities available within the wider Allianz Group, particularly in managing the fixed interest portfolio.

Assets backing technical reserves continued to be invested in cash and government securities, with limited and controlled exposure to corporate and securitised bonds. The duration of the fixed interest portfolio is monitored in comparison with the duration of the insurance liabilities and strict limits are set on any variation from this benchmark.

Small amounts of cash and short-term investments are in place for liquidity management. The holdings are well diversified with a limited number of strong counterparties. The portfolio of gilts and cash also give a high degree of liquidity. The return on the fixed interest portfolio for the year was higher than the benchmark due to spread tightening and tactical allocation to global credit exposure.

The Group owns a small commercial property portfolio consisting of well diversified investments in office, retail and industrial properties. The quality of the portfolio, the length of leases and extremely low void ratio continued to support a strong income stream.

The portfolio outperformed the Investment Property Databank (IPD) benchmark over the year driven by stable rental income and successful rent reviews.

As the majority of the Group's business is undertaken in the UK, the major part of the investment portfolio is in sterling denominated assets. Exposures to the US dollar and the Euro were further reduced to reflect the decrease in overseas technical reserves and other liabilities.

Investment income in 2017 was £71.7m compared to £79.5m in 2016. The decline in investment income was mainly due to the early repayment of a high yielding loan from Allianz SE as well as lower market yields. Realised gains amounted to £74.1m, compared to £10.4m in 2016. The realised gains included the compensation for the loan's early repayment and the gains from sales of our Indian offshore service company (ACIS). Looking ahead, pure investment income will continue to be impacted by lower returns as new cash flows and maturing funds are reinvested at lower yields.

Jonathan Dye

J M Dye
Director

# Governance

## Non-Executive Directors

**R. O. Hudson** (Acting Chairman)

**C. W. T. Dinesen**

**R. M. Murison**

**D. A. Torrance**

**A. G. Theis**
(resigned 31.12.17)

**B. Bovermann**
(resigned 31.03.17)

## Executive Directors

**J. M. Dye**
(Chief Executive)

**M. J. Churchlow**

## Management Board

**J. M. Dye**

**J. B. I. Abboud**

**M. J. Churchlow**

**N. A. Clutterbuck**

**P. J. Gennoy**

**G. A. Gibson**

**S. C. McGinn**

**S. Smith**

**Dr. K. Schreiber**
(appointed 05.10.17)

**K. P. Wenzel**
(resigned 31.12.17)

## Secretary

**S. J. Hutchings**

## Auditors

**KPMG LLP**
**15 Canada Square**
**London E14 5GL**

## Registered Office

**57 Ladymead**
**Guildford**
**Surrey GU1 1DB**
**Registered No. 5134436**

# Management Board

**Jon Dye**,
Chief Executive Officer

Age 51. Joined Allianz in 2003 as Director, Claims then appointed General Manager, Retail in 2007. Previously held senior Claims Management positions in insurance.

**Jacob Abboud**,
Chief Information Officer

Age 57. Joined Allianz in 2015 as CIO. Previously held various C-level IT leadership roles in insurance and banking.

**Mark Churchlow**,
Chief Financial Officer

Age 59. Joined Allianz in 1989 and held a number of positions, including Appointed Actuary in Life division, before becoming Chief Actuary in 1998 and Chief Financial Officer in 2010.

**Neil Clutterbuck**,
Chief Underwriting Officer

Age 51. Joined Allianz in 2003 as Regional Manager London. Appointed Chief Underwriting Officer in 2016. Previously held underwriting positions in the insurance industry.

**Philip Gennoy**,
Chief HR Officer

Age 59. Joined Allianz in 1999. Previously held senior HR and Sales and Marketing positions in the oil and dairy industries.

**Graham Gibson**,
Chief Claims Officer

Age 51. Joined Allianz in 2008 having previously held senior positions in Claims in the insurance industry.

**Simon McGinn**,
General Manager, Commercial & Personal

Age 47. Joined Allianz in 2004 as North and Midlands Trading Director. Appointed Director of Commercial Broker Markets in 2008. Previously held senior positions in the insurance industry.

**Stephanie Smith**,
Chief Operating Officer

Age 49. Joined Allianz as IT Senior Manager in 2009. Appointed Retail Operations Director in 2010 and COO in 2015. Previously held senior management positions at British Airways and Deloitte Consulting.

**Dr. Karina Schreiber**,
Chief Risk Officer

Age 43. Joined the Allianz Group in Munich in May 2012, heading Group Actuarial Non-Life. Appointed Chief Risk Officer in Allianz UK in October 2017. Previously held senior management positions at consultancies.

# The Group is committed to high standards of corporate governance

The Group is not publicly quoted and consequently does not have to meet the requirements of the Corporate Governance Code. However, the Board is conscious of the Group's position as a substantial provider of financial services in Great Britain and is committed to high standards of corporate governance.

## The Board and its Committees

Until March 31, 2017, the Board comprised a non executive Chairman, five non executive directors and two executive directors. On March 31, 2017, one of the non executive directors resigned. The Chairman, who resigned on December 31, 2017, and the non executive director who resigned on March 31, 2017 were representatives of the shareholder. With effect from January 1, 2018 one of the current independent non executive directors became Chairman, subject to regulatory approval. From that date the appointment of a representative of the shareholder, as a non executive director, has also been subject to regulatory approval. To maintain the balance of independence on the Board and its Committees, a search is being conducted for an additional independent non executive director who will then be appointed. The Chief Risk Officer and Allianz SE Head of Business Division (Global Lines & Anglo Markets) are standing guests for Board meetings.

The Board is responsible for organising and directing the affairs of the Group in the best interests of stakeholders. The Board's responsibilities include strategy, internal control, the overall operation of the Group and meeting legal and regulatory requirements.


We identified four People Attributes with three underlying target behaviours as being essential to achieving our Renewal Agenda ambitions. They are our guiding principles for how each and every one of us should act and we recruit, develop, promote and reward those who live these People Attributes.

The Board has established a Statement of Business Principles to provide guidance on the standards expected from all employees when conducting business on behalf of the Group. The Board has established a number of Committees and a system of internal control to ensure the efficient and effective operation of the business. The Board, its main Committees and membership of those Committees for the year ended December 31, 2017 are detailed below:

## Board and Committee Attendance 2017

| | | | | | | | | | | | | | | | Loss Reserve Committees | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Board | Management Board | Compensation Committee | Audit Committee | Nomination Committee (i) | Finance Committee | Board Risk Committee | Model Committee | Operational Risk Committee | Underwriting Committee | Investment Committee | Reinsurance Panel | Financial Reporting Committee | Financial Reporting & Disclosure Committee | Commercial & Personal | Run-off |
| Number of Meetings | 12 | 13 | 4 | 3 | 5 | 2 | 5 | 6 | 4 | 4 | 4 | 2 | 4 | 4 | 4 | 4 |
| A G Theis – resigned 31.12.17 | 7 | | | 2 | | 0 | 3 | | | | | | | | | |
| B Bovermann – resigned 31.03.17 | 2 | | 2 | 1 | | 1 | 1 | | | | | | | | | |
| C W T Dinesen | 12 | | | 3 | 5 | | 5 | | | | | | | | | |
| R O Hudson | 12 | | | 3 | 5 | | 5 | | | | | | | | | |
| R M Murison | 11 | | 4 | 3 | 5 | | 5 | | | | | | | | | |
| D A Torrance | 12 | | | 3 | | | 5 | | | | | | | | | |
| M J Churchlow | 11 | 12 | | | | 2 | 5 | 6 | | | 4 | 2 | 4 | 3 | 4 | 4 |
| J M Dye | 11 | 13 | | | | 2 | | | | | 4 | 2 | 4 | | 4 | 4 |
| J B I Abboud | | 11 | | | | | | | 3 | | | | | | | |
| N A Clutterbuck | | 12 | | | | | | 3 | | 4 | | 1 (ii) | | | 1 | |
| P J Gennoy | | 11 | 4 | | | | | | 4 | | | | | | | |
| G A Gibson | | 11 | | | | | | | 3 | | | | | | 2 | 4 |
| S C McGinn | | 13 | | | | | | | 0 (iii) | 4 | | 2 | | | 3 | |
| K Schreiber – appointed 05.10.17 | | 2 | | | | | 1 | | 1 | 0 | | | | 1 | | |
| S Smith | | 11 | | | | | | | 2 | | | | | | | |
| K P Wenzel – resigned 31.12.17 | | 11 | | | | | | 6 | | | | | 2 | 3 | 3 | 3 |

The shaded area indicates the individual's Board and Committee memberships and the number of respective meetings they attended during the year.
(i) Nomination Committee – first meeting January 10, 2017
(ii) became a Member of the Reinsurance Panel March 31, 2017
(iii) ceased to be a Member of Operational Risk Committee on October 4, 2017

The Management Board is the principal executive Committee of the Board. Membership of the Management Board comprises the Chief Executive Officer who acts as Chairman and the Chief Financial Officer together with the General Manager and the Executives who run the trading and service functions. The Chief Risk Officer, who was a standing guest for all Management Board meetings, became a member of the Management Board with effect from October 5, 2017. The Chief Actuary ceased to be a Management Board member on December 31, 2017. The Management Board meets monthly to monitor business performance, compliance and risk management, discuss developing issues, monitor and develop strategy and to provide a forum for making important operational decisions. The Management Board holds additional meetings periodically to discuss strategic and operational matters where time does not permit full discussion during monthly meetings.

The Audit Committee is a Committee of the Board. Membership of the Committee comprises a non executive director who acts as Chairman and all the other non executive directors. A representative from the external auditors, the Head of Internal Audit, a representative from the Internal Audit Department of Allianz SE, the Allianz SE Head of Business Division (Global Lines & Anglo Markets), the Group Compliance Officer, the Chief Executive Officer, the Chief Risk Officer and the Chief Financial Officer are standing guests for Committee meetings. The Committee monitors the integrity of the financial statements, financial reporting developments, financial controls and the system of internal control. Reports on these matters are provided to the Committee by the external auditors and Internal Audit as appropriate.

The Board Risk Committee is a Committee of the Board. Membership of the Committee comprises a non executive director who acts as Chairman, all the other non executive directors, the Chief Financial Officer and the Chief Risk Officer. The Chief Executive Officer, the Group Compliance Officer, the Head of Internal Audit, the Allianz SE Head of Business Division (Global Lines & Anglo Markets) and the Allianz SE Group Risk Coverage Officer are standing guests. The Committee is responsible for oversight of risks, the links between different risks, the Enterprise Risk Management Framework within which the Company manages those risks, and the activities of the Risk Department.

The Board Risk Committee is also responsible for oversight of its sub-Committees: the Operational Risk Committee, the Underwriting Committee and the Model Committee. These sub-Committees facilitate the bringing together of expertise for meetings focused on particular risk types and subjects, respectively: operational risk, insurance risk and internal model related matters.

The Operational Risk Committee membership is comprised of the Chief Risk Officer who acts as Chairman, the Chief Operating Officer, the Chief Information Officer, the Chief Claims Officer, the Chief HR Officer, the Director of Commercial & Personal Broker Markets (from October 4, 2017 onwards), the Group Compliance Officer, the Chief Legal Officer and Company Secretary and the Head of Enterprise Risk Management. The General Manager was a Committee member up to October 4, 2017. The following are standing guests: the Head of Internal Audit, the Group Communications Manager and the Allianz SE Group Risk Coverage Officer.

The Underwriting Committee is comprised of the Chief Underwriting Officer (CUO) who acts as Chairman, the General Manager, the Chief Risk Officer, the Directors of Technical for Commercial and Personal Lines, the Head of Technical and Business Standards, the Head of Underwriting Data and MI, the Chief Actuary (from January 1, 2018 onwards), the Group Compliance Officer and the Head of Technical Claims. The Director, Actuarial was a Committee member up to December 31, 2017. The following are standing guests: the Head of Internal Audit, the Allianz SE Group Risk Coverage Officer, the Enterprise Risk Manager and the Executive Assistant to the CUO.

The Model Committee membership is comprised of the Chief Financial Officer who acts as Chairman, the Chief Actuary, the Chief Underwriting Officer and the Chief Investment Officer. The Chief Risk Officer is a standing guest. Differences apply when the Model Committee is reviewing technical provisions, as opposed to internal model related matters: the Chief Risk Officer replaces the Chief Actuary in the membership and the Chief Actuary is a standing guest.

The Finance Committee is a Committee of the Board and is responsible for investment strategy, approval of mergers and acquisitions and other non-routine transactions, investments in derivatives and options together with the approval and monitoring of the implementation of investment strategy. Membership of the Finance Committee comprises the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Investment Officer, the Regional Chief Investment Officer of Allianz Investment Management SE, and a Board member of Allianz SE. The Chief Risk Officer is a standing guest.

The Investment Committee is a sub-Committee of the Finance Committee. Membership comprises the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Investment Officer and the Regional Chief Investment Officer of Allianz Investment Management SE. The Chief Risk Officer is a standing guest. The role of the Investment Committee is to monitor portfolio performance and, after taking into account anticipated economic trends, recommend investment strategy to the Finance Committee. It is also responsible for investment-related risk matters: market risk, credit risk (investments), liquidity risk and all pension-related risk (including longevity) and reports to the Board Risk Committee on these investment-related risks.

It is intended that the Finance Committee and Investment Committee will be merged into a single Finance and Investment Committee in 2018.

The Reinsurance Panel is a sub-Committee of the Management Board. Membership of the Committee is comprised of the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Underwriting Officer (from March 31, 2017 onwards), the Chief Actuary (up to March 31, 2017 and from January 1, 2018 onwards), the Chief Accountant, the General Manager and the Reinsurance Manager. The Directors of Technical for Commercial and Personal Lines were Committee members up to March 31, 2017 and the Director, Actuarial was a Committee member up to December 31, 2017. The Chief Risk Officer is a standing guest. The Reinsurance Panel monitors the performance of the Group's reinsurance programme and reinsurance security and determines future reinsurance purchasing policy after taking into account business requirements, risk appetite, cost, capital implications and developments in the insurance market.

The Financial Reporting Committee is a sub-Committee of the Management Board. Membership of the Committee comprises the Chief Executive Officer who acts as Chairman, the Chief Financial Officer who acts as Deputy Chairman, the Chief Accountant and the Chief Actuary. The Group Accountant will attend and will deputise for the Chief Accountant if necessary. The Committee is responsible for reviewing the draft annual and interim financial statements before they are submitted to the Financial Reporting and Disclosure Committee and for considering the overall level of reserves held.

The Financial Reporting and Disclosure Committee is a sub-Committee of the Management Board. Membership of the Committee comprises the Chief Financial Officer who acts as Chairman, the Chief Accountant who acts as Deputy Chairman, the Chief Actuary, the Chief Risk Officer and the Chief Legal Officer and Company Secretary. The Head of Tax and the Head of Internal Audit also attend meetings by invitation. The purpose of the Committee is to assist the Chief Executive Officer and the Chief Financial Officer to fulfil their obligations to ensure that financial reports and related information, particularly that required by the parent company, are fully and accurately reported on a timely basis.

The Compensation Committee is a Committee of the Board and is responsible for compensation strategy, and the structure and the amount of compensation for the Directors and senior executives of the Company. Membership of the Committee comprises two non executive directors of the Company, one of whom acts as Chairman, and the Chief HR Officer. The Chairman of the Board and the Chief Executive Officer are standing guests of the Committee. The Chief Legal Officer and Company Secretary acts as Secretary of the Committee.

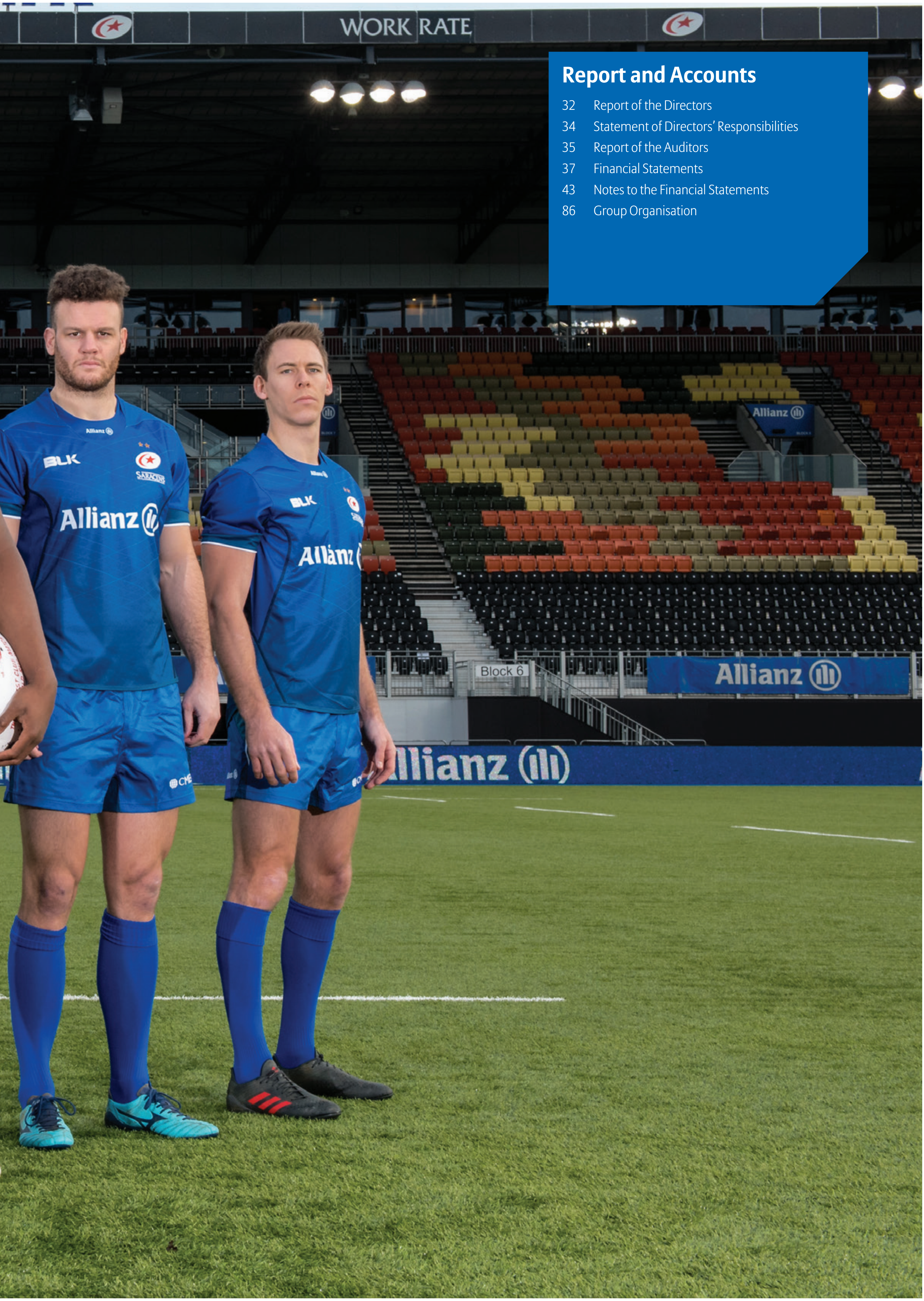
The remuneration of the Management Board members comprises a combination of basic salary, appropriate benefits and a performance related bonus paid in a combination of cash and Allianz Group Equity Incentives. Details of the share based payments are disclosed in Note 12 on page 56. The performance related bonus is based upon a combination of Group performance against target and personal performance against specific objectives, broadly the same arrangements that apply to all employees. Notice periods for members of the Management Board are consistent with other senior managers in the Company.

The Commercial & Personal Loss Reserve Committee is a sub-Committee of the Management Board and its membership is comprised of the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Actuary, the General Manager, the Chief Claims Officer and the Chief Underwriting Officer. The Director, Actuarial was a Committee member up to December 31, 2017. The Chief Risk Officer is a standing guest. The Committee considers and recommends to the executive directors, loss reserves for the Commercial and Personal Division business at the end of each quarter.

The Run-Off Loss Reserve Committee is a sub-Committee of the Management Board and its membership is comprised of the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Actuary, and the Chief Claims Officer. The Director, Actuarial was a Committee member up to December 31, 2017. The Chief Risk Officer is a standing guest. The Committee considers and recommends to the executive directors, loss reserves for run-off business that is not part of the trading division at the end of each quarter.

The Nomination Committee is a Committee of the Board. Membership of the Committee comprises at least three directors, a majority of whom must be independent non executive directors. Currently the Committee comprises three non executive directors. The Chief HR Officer is a standing guest and the Chief Legal Officer and Company Secretary attends as Secretary. The Committee is responsible for identifying non executive director candidates for Board approval, and for ensuring that robust succession plans are in place for directors, non executive directors and Management Board members. No senior management appointment is made without the applicant undertaking a comprehensive assessment to determine the level of his or her management skills.


HONESTY
SARACENS
Allianz
Block 3
BLK
SARACENS
Allianz
CME Group




## Report and Accounts

The Directors present their report and the audited financial statements for the year ended December 31, 2017.

## Principal Activity and Review of the Business

Allianz Holdings plc is a holding company which owns the principal insurance operations of Allianz Societas Europaea in Great Britain. The principal activity of its subsidiary undertakings continues to be the transaction of most classes of general insurance business.

A review of the Group's trading activities, approach to capital management and prospects is included in the Chief Executive's Report and the Group Strategic Report on pages 2 to 22 and should be read in conjunction with this Report.

## Results and Dividends

The business results are outlined in the Chief Executive's Report and the Group Strategic Report beginning on page 2.

The Group results are set out in the Financial Highlights on page 1 and in the Group Statement of Comprehensive Income on page 37. The Group Balance Sheet is set out on page 38.

On March 27, 2018, the Directors approved the payment of an interim dividend of £175m in respect of the year ended December 31, 2017 (2016 £nil). The Directors are not recommending the payment of a final dividend for the year ended December 31, 2017 (2016 £nil).

## Basis of Preparation

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

## Directors

The names of the current Directors and those in office during the year are shown on page 23. All served throughout this period, save for B Bovermann and A G Theis who served until their resignations on March 31, 2017 and December 31, 2017 respectively.

## One.Finance

In 2016, Allianz SE 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 Allianz Holdings plc group has established parallel workstreams in the UK supporting the overall group project.

## Charitable Donations

During the year donations to charities have been made amounting to £419,019 (2016 £274,162). No political donations were made.

## Employees

Throughout the Group, consultative procedures are in operation to enable management and staff to discuss matters of mutual interest. Efforts are made through consultative bodies, departmental channels, including team briefings, and the regular employee newsletter and ongoing intranet news to keep staff well informed about the affairs of their Group. Under the procedural agreement with the recognised trade union, the Group holds regular meetings on topics raised by both parties; this is in addition to the normal negotiating processes. Participation in share schemes is available and encourages involvement in Allianz Group's performance. The Group employs persons regardless of their background or needs and promotes diversity within its workforce and inclusion of all people. Employee learning and development opportunities are provided and such provision has been accredited with the Investors in People standard. The Group's employment policy continues to include encouraging the employment, training and advancement of disabled persons and we have been granted 'Disability confident' employer status by the Department for Work and Pensions.

Further details of the Group's employee-related policies, practices and initiatives are detailed in the "Employee Matters" section of the Non-Financial Information Statement on page 14.

## Financial Instruments

The Group's policies in respect of financial instruments and risk management are given in Note 34 to the Financial Statements on page 73.

## Directors Responsibility to the Auditor

So far as the Directors are aware, there is no relevant audit information of which the Company auditor is 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 auditor is aware of that information.

## Auditor

Pursuant to the 2017 Allianz UK group audit tender process, KPMG LLP will resign as auditor of the Company on completion of their statutory and regulatory audits of the Allianz UK group for the financial year ended December 31, 2017, and PricewaterhouseCoopers LLP will be appointed as auditor of the Company for the financial year ending December 31, 2018 in their place.

By order of the Board
S J Hutchings
Secretary
Allianz Holdings plc
Registered Number: 5134436
March 27, 2018

## Statement of Directors' Responsibilities in Respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the Parent Company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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 Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that their financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements on pages 37 to 85, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the financial position of the Group and Parent Company and profit of the Group; and
- the Strategic Report on pages 2 to 22 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the Group face.

# Independent Auditor's report to the Members of Allianz Holdings plc

## Opinion

We have audited the financial statements of Allianz Holdings plc ("the Company" or "the Parent Company") for the year ended December 31, 2017 which comprise the Group Statement of Comprehensive Income, Group and Parent Company Balance Sheet, Group and Parent Company Statement of Cash Flows and Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at December 31, 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

## Strategic report and Directors' report

The Directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

## Directors' responsibilities

As explained more fully in their statement set out on page 34, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the Group and Parent 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 they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

## The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

*Chartered Accountants*
15 Canada Square
London
E14 5GL

March 27, 2018

| Continuing operations | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| Gross earned premiums | 3 | 2,172.3 | 2,184.9 |
| Reinsurers' share of gross earned premiums | 3 | (910.4) | (918.7) |
| Net insurance revenue | | 1,261.9 | 1,266.2 |
| Reinsurance commission | | 155.7 | 176.5 |
| Net investment income | 4 | 71.7 | 79.5 |
| Net realised gains | 5 | 74.1 | 10.4 |
| Net fair value gains | 6 | 19.0 | - |
| Other revenue | | 320.5 | 266.4 |
| Total revenue | | 1,582.4 | 1,532.6 |
| Gross insurance claims paid | | (1,394.5) | (1,502.5) |
| Reinsurers' share of gross insurance claims paid | | 554.9 | 297.6 |
| Gross change in insurance liabilities | | (26.6) | (9.9) |
| Reinsurers' share of gross change in insurance liabilities | | 5.2 | 338.3 |
| Net insurance claims | | (861.0) | (876.5) |
| Commission | | (373.7) | (359.7) |
| Net fair value losses | 6 | - | (10.6) |
| Other operating and administrative expenses | 7 | (170.5) | (204.0) |
| Other expenses | | (544.2) | (574.3) |
| Total claims and expenses | | (1,405.2) | (1,450.8) |
| Profit before tax | | 177.2 | 81.8 |
| Income tax charge | 10 | (26.8) | (13.5) |
| **Profit for the year** | | 150.4 | 68.3 |
| **Profit for the year attributable to:** | | | |
| Equity holders | | 150.4 | 68.3 |
| Other comprehensive income | | | |
| Net change in fair value of available for sale financial assets | | 6.3 | 64.2 |
| Net change in fair value of available for sale financial assets transferred to profit or loss | | (12.0) | (3.0) |
| Loss on pension fund | | (40.8) | (46.0) |
| Foreign currency translation adjustments | | (0.5) | (0.6) |
| | | (47.0) | 14.6 |
| Tax on fair value movements | | 2.6 | (8.8) |
| Tax on loss on pension fund | | 6.9 | 4.9 |
| Other comprehensive income for the year, net of tax | | (37.5) | 10.7 |
| Total comprehensive income for the year | | 112.9 | 79.0 |
| Total comprehensive income attributable to: | | | |
| Equity holders | | 112.9 | 79.0 |

The notes on pages 43 to 85 are an integral part of these financial statements.

| | Notes | 2017 £m | Restated[2] 2016 £m |
|---|---|---|---|
| **ASSETS** | | | |
| Intangible assets | 15 | 156.4 | 92.7 |
| Property and equipment | 17 | 27.4 | 28.0 |
| Investment properties | 18 | 157.1 | 142.4 |
| Deferred acquisition costs | 19 | 213.9 | 206.5 |
| Deferred tax | 21(b) | 17.9 | 24.1 |
| Reinsurance assets | 22 & 30 | 1,329.8 | 1,321.6 |
| Prepayments and accrued income | 23 | 31.2 | 30.4 |
| Financial assets: | | | |
| Available for sale financial assets[1] | 24(a) | 2,741.7 | 2,322.5 |
| Loans | 24(b) | 68.4 | 350.6 |
| Investment in associated undertaking | 14 | 534.4 | - |
| Insurance receivables | 25 | 793.7 | 778.4 |
| Other receivables[2] | 26 | 160.5 | 167.0 |
| Cash and cash equivalents[2] | 27 | 20.9 | 100.6 |
| Assets classified as held for sale | 14(b) | - | 32.9 |
| Total assets | | 6,253.3 | 5,597.7 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 28 | 1,327.8 | 828.0 |
| Fair value reserve | | 85.5 | 88.6 |
| Retained earnings | | 1,112.9 | 996.9 |
| Capital reserve | | (650.5) | (650.5) |
| Total equity | | 1,875.7 | 1,263.0 |
| **LIABILITIES** | | | |
| Defined benefit pension plan deficit | 16 | 112.1 | 107.3 |
| Provisions for other liabilities and charges | 29 | 3.0 | 3.1 |
| Insurance contracts liabilities | 30 | 2,876.5 | 2,833.7 |
| Reinsurers' share of deferred acquisition costs | 19 | 84.1 | 81.3 |
| Insurance related payables | 32 | 1,083.5 | 1,027.1 |
| Derivative liabilities | | 37.3 | - |
| Tax payable | 21(a) | 7.8 | 3.4 |
| Accruals and other payables | 33 | 173.3 | 258.4 |
| Liabilities classified as held for sale | 14(b) | - | 20.4 |
| Total liabilities | | 4,377.6 | 4,334.7 |
| | | | |
| Total equity and liabilities | | 6,253.3 | 5,597.7 |

[1] Included within available for sale financial assets are £103.2m (2016 £105.3m) of lent securities. See note 24.
[2] Refer to note 27.

The notes on pages 43 to 85 are an integral part of these financial statements.

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **ASSETS** | | | |
| Investment in group undertakings | 14 | 931.1 | 929.6 |
| Investment in associated undertaking | 14 | 534.4 | - |
| Subsidiary held for sale | 14 | - | 2.0 |
| Tax receivable | 21(a) | 0.1 | 0.2 |
| Financial assets: | | | |
| Loans | 24(b) | 1.2 | 1.5 |
| Amounts due from group undertakings | 26 | 130.6 | 76.7 |
| Cash and cash equivalents | 27 | - | 80.0 |
| Total assets | | 1,597.4 | 1,090.0 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 28 | 1,327.8 | 828.0 |
| Retained earnings | | 149.3 | 105.6 |
| Total equity | | 1,477.1 | 933.6 |
| **LIABILITIES** | | | |
| Loans from group undertakings | | 20.0 | 20.0 |
| Provisions for other liabilities and charges | 29 | 0.5 | 0.5 |
| Derivative liabilities | | 37.3 | - |
| Accruals and other payables | 33 | 62.5 | 135.9 |
| Total liabilities | | 120.3 | 156.4 |
| Total equity and liabilities | | 1,597.4 | 1,090.0 |

The notes on pages 43 to 85 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on March 27, 2018 and signed on its behalf by:

J M Dye
Director

| | Notes | 2017 £m | Restated[1] 2016 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 177.2 | 81.8 |
| Non cash items | 37 | (109.2) | 27.7 |
| Changes in working capital[1] | 37 | 1.0 | (37.8) |
| Income tax paid | 10(c) | (7.4) | (6.0) |
| **Net cash (outflow)/inflow from operating activities** | | 61.6 | 65.7 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 17 | (4.1) | (8.6) |
| Proceeds from sale of property and equipment | 17 | 1.6 | 1.9 |
| Proceeds from sale of subsidiary | 14(b) | 49.1 | - |
| Proceeds from sale of renewal rights | | 1.0 | - |
| Proceeds from early redemption fees on loans receivable | | 26.8 | - |
| Intangible assets cost capitalised | 15 | (14.5) | (12.0) |
| Intangible goodwill capitalised | 15 | (1.2) | - |
| Intangible other assets acquired | 15 | (52.0) | - |
| Proceeds from sale of Investment Property | 18 | 19.2 | 2.3 |
| Purchase of investment property | | (28.4) | - |
| Purchase of available for sale financial assets | | (1,501.4) | (782.5) |
| Proceeds from sale of available for sale financial assets | | 1,077.1 | 794.3 |
| Purchase of associated undertaking | 14(c) | (534.4) | - |
| Increase in financial liabilities | | 37.3 | - |
| Decrease/(increase) in loans | | 282.2 | (5.4) |
| Proceeds from sale of foreign exchange forward contracts | 18 | - | 2.4 |
| **Net cash outflow from investing activities** | | (641.7) | (7.6) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 28 | 499.8 | - |
| **Net cash inflow from financing activities** | | 499.8 | - |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (80.3) | 58.1 |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 27 | 100.6 | 48.0 |
| Effects subsidiary held for sale | 14(b) | - | (3.9) |
| Effects of exchange rate changes on cash and cash equivalents | | 0.6 | (1.6) |
| | | | |
| **Cash and cash equivalents at the end of the year** | 27 | 20.9 | 100.6 |

[1] Refer to note 27.

The notes on pages 43 to 85 are an integral part of these financial statements.

| | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before tax | | 48.7 | (0.5) |
| Non cash items | 37 | (44.4) | - |
| Changes in working capital | 37 | (127.3) | 82.2 |
| Income tax paid | 21(b) | (4.9) | (0.2) |
| **Net cash outflow from operating activities** | | (127.9) | 81.5 |
| | | | |
| **Cash flows from investing activities** | | | |
| Investment in group undertaking | | (1.5) | - |
| Investment in associated undertaking | | (499.8) | - |
| Proceeds from sale of subsidiary | | 49.1 | - |
| Decrease/(increase) in loans | | 0.3 | (1.5) |
| **Net cash inflow from investing activities** | | (451.9) | (1.5) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 499.8 | - |
| **Net cash outflow from financing activities** | | 499.8 | - |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (80.0) | 80.0 |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 27 | 80.0 | - |
| | | | |
| **Cash and cash equivalents at the end of the year** | 27 | - | 80.0 |

The notes on pages 43 to 85 are an integral part of these financial statements.

| Group | Note | Share capital £m | Fair value reserve £m | Retained earnings £m | Capital reserve £m | Total equity £m |
|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent | | | | |
| Balance as at January 1, 2016 | | 828.0 | 36.2 | 970.3 | ( 650.5) | 1,184.0 |
| Net change in fair value of available for sale financial assets | | - | 64.2 | - | - | 64.2 |
| Net change in fair value of available for sale financial assets transferred to profit or loss | | - | (3.0) | - | - | (3.0) |
| Loss on pension fund | | - | - | (46.0) | - | (46.0) |
| Foreign currency translation adjustments | | - | - | (0.6) | - | (0.6) |
| Tax on fair value movements | | - | (8.8) | - | - | (8.8) |
| Tax on loss on pension fund | | - | - | 4.9 | - | 4.9 |
| Net profit for the year | | - | - | 68.3 | - | 68.3 |
| Total recognised income and expense for the year | | - | 52.4 | 26.6 | - | 79.0 |
| Dividends paid during the year | 13 | - | - | - | - | - |
| Balance as at December 31, 2016 | | 828.0 | 88.6 | 996.9 | (650.5) | 1,263.0 |
| Net change in fair value of available for sale financial assets | | - | 6.3 | - | - | 6.3 |
| Net change in fair value of available for sale financial assets transferred to profit or loss | | - | (12.0) | - | - | (12.0) |
| Loss on pension fund | | - | - | (40.8) | - | (40.8) |
| Foreign currency translation adjustments | | - | - | (0.5) | - | (0.5) |
| Tax on fair value movements | | - | 2.6 | - | - | 2.6 |
| Tax on loss on pension fund | | - | - | 6.9 | - | 6.9 |
| Net profit for the year | | - | - | 150.4 | - | 150.4 |
| Total recognised income and expense for the year | | - | (3.1) | 116.0 | - | 112.9 |
| Issue of ordinary share capital | | 499.8 | - | - | - | 499.8 |
| Dividends paid during the year | 13 | - | - | - | - | - |
| Balance as at December 31, 2017 | | 1,327.8 | 85.5 | 1,112.9 | (650.5) | 1,875.7 |

| Company | Note | Share capital £m | Fair value reserve £m | Retained earnings £m | Total £m |
|---|---|---|---|---|---|
| Balance as at January 1, 2016 | | 828.0 | - | 106.1 | 934.1 |
| Net loss for the year | | - | - | (0.5) | (0.5) |
| Total recognised income and expense for the year | | - | - | (0.5) | (0.5) |
| Dividends paid during the year | | - | - | - | - |
| Balance as at December 31, 2016 | | 828.0 | - | 105.6 | 933.6 |
| Net profit for the year | | - | - | 43.7 | 43.7 |
| Total recognised income and expense for the year | | - | - | 43.7 | 43.7 |
| Issue of ordinary share capital | | 499.8 | - | - | 499.8 |
| Dividends paid during the year | | - | - | - | - |
| Balance as at December 31, 2017 | | 1,327.8 | - | 149.3 | 1,477.1 |

The notes on pages 43 to 85 are an integral part of these financial statements.

# 1. ACCOUNTING POLICIES

## 1.1. Company and its operations

Allianz Holdings plc is a public limited company registered in England and Wales, whose shares are not publicly quoted. The Group transacts most classes of general insurance business. Products offered include motor, household, commercial, business interruption and liability insurance.

The registered office of the Company is 57 Ladymead, Guildford, Surrey, GU1 1DB, United Kingdom. The consolidated financial statements of Allianz Holdings plc for the year ended December 31, 2017 were authorised for issue in accordance with a resolution of the Directors on March 27, 2018.

The consolidated financial statements of the Company for the year ended December 31, 2017 comprise the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its group.

## 1.2. Statement of Compliance

The consolidated financial statements of Allianz Holdings plc have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). These financial statements do not include a statement of comprehensive income for the parent company as the Company has taken advantage of the exemption conferred by Section 408(4) 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:

- Investment properties
- Own use properties
- Financial assets classified as available for sale
- Financial liabilities

These financial statements are compiled on a going concern basis. The functional and presentational currency is British Pounds.

In the current year, the group has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2017. The new effective requirements are:

- IAS 7: Amendment: Disclosure Initiative (EU effective date: January 1, 2017); and
- IAS 12: Amendment: Recognition of deferred tax assets for unrealised losses (EU effective date: January 1, 2017).

A number of new standards and interpretations adopted by the EU which are not mandatorily effective, have not been applied in preparing these financial statements. The group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of EU endorsement. The group is still reviewing the upcoming standards to determine their impact:

- IFRS 9: Financial instruments (EU effective date: January 1, 2018, deferred in line with implementation of IFRS17);
- IFRS 15: Revenue from contracts with customers (EU effective date: January 1, 2018);
- IFRS 16: Leases (EU effective date: January 1, 2019); and
- IFRS 17: Insurance contracts (EU effective date: January 1, 2021).

Allianz Insurance plc, Trafalgar Insurance PLC and British Reserve Insurance Company Limited have all taken advantage of the deferral option available under IFRS 9 Financial Instruments and will apply the new standard with effect from January 1, 2021. The other companies within the Group are required to adopt IFRS 9 from January 1, 2018. The financial assets of the companies adopting the standard in 2018 are already stated at fair value and the Group does not believe any significant changes will be necessary due to the new classification requirements. IFRS 9 introduces a forward looking "expected credit loss" (ECL) model, this will require judgement about how changes in economic factors affect ECLs which will be determined on a probability weighted basis. Based on the assessment undertaken to date, no material impact to the consolidated financial statements is anticipated in either net income or equity.

IFRS 15 Revenue from contracts with customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. For the Group, this standard does not apply to either its insurance premiums or investment income. The standard is applicable to only a small element of other fee and commission income which is already recognised as services were performed. The Group does not anticipate any impact of adopting this standard on either net income or equity.

# 1. ACCOUNTING POLICIES (CONTINUED)

## 1.4. Summary of significant accounting policies

Allianz Holdings plc 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 provisions, deferred acquisition costs, the ascertainment of fair values of financial assets and liabilities and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgments based on information and financial data that may change in future periods.

Since these involve the use of assumptions and subjective judgments as to future events and are subject to change, the use of different assumptions or data could produce materially different results. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material 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) Basis of consolidation*

The consolidated financial statements comprise the financial statements of Allianz Holdings plc and its subsidiaries that are controlled by the Group. All the financial statements included are uniformly prepared in conformity with IFRS and adopting consistent accounting policies as at December 31, 2017.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. As explained in the following paragraph, the financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

In the consolidated financial statements, the acquisition by the Company of Allianz Insurance plc in 2005, which was a common control transaction, was accounted for by using the consolidated book values of the assets and liabilities of Allianz Insurance plc. The consolidated financial statements are presented as if the companies had always been combined and include a capital reserve of £650.5m.

Investments in subsidiaries are carried at cost less impairment in the parent company accounts.

### *(b) Property and equipment*

Motor vehicles and computer equipment are initially recognised at cost and are depreciated on a straight line basis over two to four years, so as to reduce cost to the estimated residual value at the time of disposal. The residual value, if not insignificant, is reassessed annually.

Owner occupied 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. Depreciation has not been charged as the amounts are deemed to be immaterial.

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) Investment properties*

Property held for long term rental yields and for capital appreciation is classified as investment property.

Investment properties are initially measured at cost. Subsequently, at each balance sheet date such properties are 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. Investment properties are derecognised when they are disposed of or when permanently withdrawn from use and no future benefit is expected from their disposal.

Gains or losses arising from changes in the fair values are recognised in the statement of comprehensive income in the period in which they arise.

If an item of property and equipment becomes an investment property because its use has changed, any difference arising between the net book value and the fair value of the item at the date of transfer is recognised as a fair value gain in equity and is subsequently treated under the normal policies for investment properties.

### *(d) Intangible assets*

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

#### Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstance indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash generating unit (group of cash generating units), to which the goodwill relates. Where the recoverable amount of the cash generating unit (group of cash generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit (group of cash generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash generating unit retained.

#### Customer relationships acquired in business combinations

Customer relationships that arise because the acquiree company has a practice of establishing insurance contracts with its customers but where no contract exists at the date of the business combination are measured at fair value at the date of business combination. The fair value of customer relationships is determined using a discounted cash flow analysis. Best estimate assumptions for renewal rates, claims experience and expenses are used in calculating the fair value.

The cost of acquiring customer relationships is amortised over 10 years, the period over which benefits are expected to be derived from these relationships. Customer relationships are reviewed annually for impairment.

# 1. ACCOUNTING POLICIES (CONTINUED)

### Software

Expenditure on research activities is recognised in the statement of comprehensive income as an expense as incurred.

Costs associated with the development of software for internal use, are capitalised only if the software is technically feasible for sale or use on completion and the Group has both the intent and sufficient resources to complete the development. Subsequent expenditure is capitalised only if the asset can be reliably measured, will generate future economic benefits and there is an ability to use or sell the asset. The cost is amortised over the expected useful life of the intangible asset on a straight line basis. The useful life is between two and five years.

The cost of externally generated software is amortised on a straight line basis over the expected useful life of the intangible asset. This has been set between two and five years.

### Renewal Rights

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. The Group has assessed the useful life of the renewal rights to be eight years.

For all intangible assets that are impaired, the carrying value is reduced to the estimated recoverable amount, and the impairment loss is recognised immediately in the statement of comprehensive income.

### *(e) Deferred acquisition costs*

Commission and other acquisition costs (both 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 relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised on a straight line basis. All other acquisition costs are recognised as an expense when incurred. The deferred acquisition cost 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.

### *(f) 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 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.

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.

### *(g) 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. Premiums ceded and claims reimbursed are presented on a gross basis.

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 Group 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.

### *(h) Fair values of financial assets and liabilities*

Financial assets and liabilities are initially stated at fair value. Listed investments are stated at the bid market price at the close of business on the balance sheet date. The unlisted investments are unit trusts and are stated using the relevant unit price quoted by the unit trust manager. Subsequent remeasurement of the financial assets is in accordance with the financial assets accounting policy (j).

### *(i) 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.

### *(j) Financial assets*

The Group classifies its investments as either available for sale financial assets or loans.

All purchases and sales of financial assets are recognised on the trade date i.e. the date the Group 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 other 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.

#### Securities lending

The Group 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 Group retains the risks and rewards associated with ownership of these securities, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities' borrowers.

#### Loans

Loans are financial assets with fixed or determinable payments and are not quoted on an active market. Loans that do not have a fixed maturity and that have a fixed rate of interest are measured at cost.

#### 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 Group'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.

# 1. ACCOUNTING POLICIES (CONTINUED)

## *(k) Reserves*

### Fair value reserve

The fair value reserve relates to fair value gains and losses on investments classified as available for sale, fair value gains on own use properties and fair value gains on properties under construction. Fair value losses on own use properties and properties under construction are taken to the statement of comprehensive income.

### Capital reserve

The capital reserve represents the difference between the nominal value of the shares issued by the Company in 2005 on its common control combination with Allianz Insurance plc, and the nominal value of the shares of Allianz Insurance plc that were acquired. The nominal value of the shares issued of £828.0m was equivalent to the book value of the Allianz Insurance plc group's assets and liabilities at the date of the common control transaction.

## *(l) Insurance receivables*

Insurance receivables are recognised in a manner consistent with the premium income recognition as detailed in the revenue recognition accounting policy (s). 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.

## *(m) 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.

## *(n) 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.

## *(o) Provision for other liabilities*

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which if 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 material, the provisions are 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 risks specific to the liability.

The Group 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.

## *(p) Insurance contracts liabilities*

### Insurance contracts liabilities

Insurance contracts 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.

### Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium over the duration of the insurance contracts and amortised on a straight line basis. 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.

### Liability adequacy test

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.

### *(q) 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.

### *(r) Pension benefit obligation*

The Group sponsors two pension schemes:

- The Allianz Retirement and Death Benefits Fund ("ARDBF") – this is defined benefit only. It is operated jointly by a subsidiary Company and a trustee board.
- A Group Personal Pension Plan ("GPPP") – this is defined contribution only. It is operated by Friends Life.

The defined benefit section of the ARDBF was closed to new entrants on April 1, 2001 from which date a defined contribution section was established.

Both sections of the ARDBF were closed to future accrual on July 1, 2015 from which date all future accrual of benefits has been via the GPPP. Benefits built up in the defined contribution section of the ARDBF were transferred into the GPPP (this was completed in 2016), leaving only the defined benefit section in the ARDBF, in respect of benefits built up before July 1, 2015.

### *(s) 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 the appropriate portion is included in premiums earned.

#### Reinsurance commission

A proportionate amount of reinsurance ceded to the reinsurers is paid back to the Group as commission for undertaking the business. This commission is accounted for according to the reinsurance contract entered on individual class 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.

Rental income from investment property is recognised in the statement of comprehensive income on a straight line basis over the term of the lease.

#### Realised gains and losses recorded in the statement of comprehensive income

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.

#### Unrealised gains and losses recorded in the statement of comprehensive income

Unrealised gains and losses relating to investment properties and derivative financial instruments are recognised immediately in the statement of comprehensive income.

### *(t) Claims*

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.

## 1. ACCOUNTING POLICIES (CONTINUED)

### *(u) Finance cost*
Interest payable is recorded in the period in which it is incurred.

### *(v) Foreign currency translation*
The Group'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.

### *(w) Off setting of financial instruments*
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to off set the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

### *(x) Current, non current disclosure*
For each asset and liability line item, amounts expected to be recovered or settled within twelve months after the balance sheet date, are classified as current at the balance sheet date and the remaining balance as non current.

### *(y) Dividends*
Dividends payable are accounted for as soon as there is an obligation on the Company.

### *(z) Non-current assets held for sale and discontinued operations*
A non-current asset or a group of assets containing a non-current asset (a disposal group) is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property, which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

## 2. USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The Group 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.

### *(a) Claims liability arising from insurance contracts*

Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty for some types of policies. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. Further details of the claims estimation process are described in note 31. 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 periodic payments.

The carrying value at balance sheet date for these general insurance contracts is £2,876.5m (2016 £2,833.7m).

### *(b) Fair value measurement 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.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and represent actual and regularly occurring market transactions on an arm's length basis.

Assets are measured at bid prices. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

**Investments in equity securities.** The fair value of quoted equity securities and interests in pooled investment funds is determined by reference to their closing prices at the reporting date.

The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers.

**Investments in debt securities.** The fair value of fixed interest securities is based on quoted market prices at the reporting date, where the quotes are binding and reflect the price of recent transactions in an active market.

Independent pricing services will normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through to the reporting date based upon available market observable information. Some debt securities are valued by assessing the credit quality of the underlying borrowers and the credit spreads on comparable quoted debt securities to derive a suitable discount rate relative to government securities.

**Investment properties.** Investment properties are initially measured at cost. Subsequently, at each balance sheet date such properties are 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.

### *(c) Surplus or deficit on defined benefit pension scheme*

Any surplus or deficit on the scheme is calculated based on the fair value of the assets and liabilities in the scheme. Fair values of the scheme assets are based on quoted market prices for the specific instrument, comparisons with other highly similar financial instruments, or the use of valuation models. The cost of providing benefits under the plan is determined by using the projected unit credit method. The valuation of the obligation is performed at each reporting year end by an independent qualified actuary. The pension benefit obligation is accounted for in the manner detailed in accounting policy (r).

### *(d) Deferred tax asset*

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Based on current legislation, there are no restrictions on the ability to utilise the deferred tax asset. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## 3. NET INSURANCE REVENUE

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| (a) Gross written premiums | | | |
| Direct insurance | | 2,183.7 | 2,141.1 |
| Assumed reinsurance | | 2.6 | 0.1 |
| Total gross written premiums | 30 | 2,186.3 | 2,141.2 |
| Gross change in unearned premium provision | 30 | (14.0) | 43.7 |
| *Total gross earned premiums* | | 2,172.3 | 2,184.9 |
| (b) Reinsurers' share of gross written premiums | | | |
| Direct insurance | | (911.4) | (1,099.4) |
| Assumed reinsurance | | - | (0.1) |
| Total reinsurers' share of gross written premiums | 30 | (911.4) | (1,099.5) |
| Reinsurers' share of change in unearned premium provision | 30 | 1.0 | 180.8 |
| *Total reinsurers' share of gross earned premiums* | | (910.4) | (918.7) |
| Total net insurance revenue | | 1,261.9 | 1,266.2 |

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

## 4. INVESTMENT INCOME

| | 2017 £m | 2016 £m |
|---|---|---|
| Available for sale financial assets | | |
| Interest income | 60.5 | 55.4 |
| Dividend income | 3.4 | 3.2 |
| Impairment of equity securities | (1.5) | - |
| Interest income from loans | 4.5 | 19.5 |
| Cash and cash equivalents interest income | 3.5 | 5.4 |
| Rental income from investment properties | 10.5 | 10.2 |
| Ceded investment income | (9.2) | (14.2) |
| Total investment income | 71.7 | 79.5 |

## 5. NET REALISED GAINS RECORDED IN THE STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| Available for sale financial assets | | | |
| Realised gains | | | |
| Equity securities | | 0.1 | - |
| Debt securities | | 17.8 | 9.7 |
| Realised losses | | | |
| Debt securities | | (2.2) | (0.3) |
| Investment properties | | | |
| Realised gains | | - | 0.4 |
| Realised losses | | (6.0) | - |
| Loans | | | |
| Early redemption fee | | 26.8 | - |
| Subsidiaries | | | |
| Sale of ACIS | 14 | 36.6 | - |
| Renewal rights | | | |
| Sale of personal lines renewal rights | | 1.0 | - |
| Financial liabilities | | | |
| Realised gains/(losses) | | - | 0.6 |
| Total net realised gains recorded in the statement of comprehensive income | | 74.1 | 10.4 |

## 6. NET FAIR VALUE GAINS/(LOSSES)RECORDED IN THE STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| Net gain/(loss) on investment properties | 18 | 11.5 | (10.0) |
| Net gain/(loss) on own use properties | | 0.5 | (1.5) |
| Net gain on financial liabilities | | 7.0 | 0.9 |
| Total net fair value gain/(loss) recorded in the statement of comprehensive income | | 19.0 | (10.6) |

## 7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

| | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| Acquisition costs | | 89.7 | 70.7 |
| Movement in deferred acquisition costs | 19 | (4.6) | 48.7 |
| Administration expenses | | 80.0 | 75.1 |
| Restructuring charges | 29 | 4.5 | 8.6 |
| Unwind of discount on PPO claims reserves | | 0.9 | 0.9 |
| Total other operating and administrative expenses | | 170.5 | 204.0 |

## 8. EMPLOYEE RELATED COSTS

| | 2017 £m | 2016 £m |
|---|---|---|
| Wages and salaries | 170.2 | 177.2 |
| Social security costs | 20.9 | 20.9 |
| Pension costs – defined benefit scheme | 2.3 | 2.6 |
| Pension costs – GPPP | 27.1 | 24.9 |
| Total employee related costs | 220.5 | 225.6 |

| | 2017 | 2016 |
|---|---|---|
| The average monthly number of employees including executive directors during the year was: | | |
| Management | 460 | 525 |
| Underwriting and claims | 3,539 | 3,968 |
| Finance and administration | 467 | 2,618 |
| Total | 4,466 | 7,111 |

The Company itself does not have any employee related costs.

## 9. AUDITOR'S REMUNERATION

| | 2017 £m | 2016 £m |
|---|---|---|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 0.1 | 0.1 |
| Fees payable to the company's auditor for other services: | | |
| The audit of the company's subsidiaries pursuant to legislation | 0.4 | 0.5 |
| Audit-related assurance services | 0.3 | 0.3 |
| Total auditor's remuneration | 0.8 | 0.9 |

The Group has paid £25,500 for non-audit services (2016 £44,500).

## 10. INCOME TAX

| *(a) Income tax recognised in profit or loss* | 2017 £m | 2016 £m |
|---|---|---|
| Current tax: | | |
| In respect of the current year | 15.5 | (8.3) |
| In respect of prior years | (1.8) | (1.6) |
| Total current tax charge/(credit) | 13.7 | (9.9) |
| Deferred tax: | | |
| In respect of the current year | 14.9 | 26.6 |
| In respect of prior years | (0.8) | (0.2) |
| Adjustments to deferred tax attributable to changes in tax rates and laws | (1.0) | (3.0) |
| | 13.1 | 23.4 |
| Total income tax expense recognised in the current year relating to continuing operations | 26.8 | 13.5 |

## 10. INCOME TAX (CONTINUED)

| The income tax expense for the year can be reconciled to the accounting profit as follows: | 2017 £m | 2016 £m |
|---|---|---|
| Profit before tax from continuing operations | 177.2 | 81.8 |
| Income tax expense calculated at 19.25% (2016: 20.0%) | 34.1 | 16.4 |
| Effect of expenses not deductible for tax purposes | 0.9 | 0.6 |
| Effect of franked investment income | (2.0) | (0.7) |
| Effect of unrealised movement on real estate | (1.9) | - |
| Effect of capital gains | (5.9) | (0.1) |
| Effect of prior year adjustment | (2.6) | (1.8) |
| Effect of overseas tax | 5.1 | 2.1 |
| Effect of changes in statutory tax rate | (1.0) | (3.0) |
| Effect of imputed transfer pricing adjustments | 0.1 | - |
| Income tax expense recognised in profit or loss (relating to continuing operations) | 26.8 | 13.5 |

The tax rates used for the 2017 and 2016 reconciliations above are 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 19.0% for 2018.

| *(b) Income tax recognised in other comprehensive income* | 2017 £m | 2016 £m |
|---|---|---|
| Current tax | (2.6) | 8.8 |
| Deferred tax | (6.9) | (4.9) |
| Total income tax recognised in other comprehensive income | (9.5) | 3.9 |

| *(c) Tax paid for cash flow purposes* | Group 2017 £m | Group 2016 £m |
|---|---|---|
| Current tax payable at January 1 | 5.0 | 12.1 |
| Amounts charged to the statement of comprehensive income | 26.8 | 13.5 |
| Amounts charged to other comprehensive income | (9.5) | 3.9 |
| Movements in deferred tax in the statement of comprehensive income | (13.0) | (23.4) |
| Movements in deferred tax to other comprehensive income | 6.9 | 4.9 |
| Other movements | (0.9) | - |
| Tax paid during the year | (7.4) | (6.0) |
| Current tax payable at December 31 | 7.8 | 5.0 |

## 11. DIRECTORS' EMOLUMENTS

| | 2017 £ | 2016 £ |
|---|---|---|
| Emoluments | 1,982,013 | 2,581,149 |
| The amounts in respect of the highest paid Director are as follows: | | |
| Emoluments | 942,130 | 992,236 |

The highest paid Director and one other Director were eligible for discretionary awards under the Mid Term Bonus element of the Allianz SE Group's Allianz Sustained Performance Plan ("ASPP") for the 3 year period ended December 31, 2018.

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 defined contribution retirement scheme).

Two Directors waived their right to receive emoluments.

## 12. SHARE BASED PAYMENTS

Members of the Management Board and other Executives participate in the Allianz Societas Europaea ("Allianz SE") Equity Incentive scheme. The scheme comprises Restricted Stock Units (RSUs).

RSUs constitute the right to receive the value of an Allianz SE share equivalent to the stock market price at the time of exercise. RSUs are subject to a vesting period of four years (up to 2010 five years) and Allianz SE exercises them uniformly for all participants.

The fair value of the RSUs (equal to the market price of one Allianz SE share less expected future dividends) is expensed over the respective vesting periods. The fair value is remeasured at each reporting period. The amount debited through the statement of comprehensive income was £3.9m (2016 £1.8m). The liability recorded in the financial statements in respect of the RSUs as at December 31, 2017 was £7.3m (2016 £7.3m).

RSUs are allocated annually. The number of RSUs allocated to an individual is based upon a combination of Allianz SE performance against Plan, Group performance against Plan and individual performance against predefined targets, the same rules that apply throughout the Allianz group. During 2017, RSUs were allocated to members of the Management Board and other executives.

### RSU plan awards granted, forfeited and exercised as of December 31, 2017

| Grant Date | Vesting period years | RSUs granted | RSUs forfeited | RSUs exercised | RSUs transferred[1] (out)/in |
|---|---|---|---|---|---|
| **March 2013** | 4 | 27,837 | - | 23,720 | (4,117) |
| **March 2014** | 4 | 24,229 | 1,900 | 3,363 | - |
| **March 2015** | 4 | 20,938 | 1,523 | 3,469 | - |
| **March 2016** | 4 | 15,510 | 967 | 2,456 | 115 |
| **March 2017** | 4 | 15,190 | 502 | 931 | 189 |

[1] In 2013, an Executive's employment was transferred to a fellow group undertaking outside the Allianz Holdings plc group of companies, along with their respective RSUs. In 2017 an Executive's employment was transferred from a fellow group undertaking along with their respective RSUs for 2016 and 2017.

## 13. DIVIDENDS

| | 2017 £m | 2016 £m |
|---|---|---|
| Dividends on ordinary shares: | | |
| Interim dividends paid of nil per share (2016 £nil) | - | - |
| Total | - | - |

## 14. INVESTMENT IN GROUP UNDERTAKINGS

### (a) Subsidiary undertakings of Allianz Holdings plc

| Group undertakings | Country of incorporation | Primary business operation | Percentage holding |
|---|---|---|---|
| Allianz Insurance plc | England | General Insurance | 100 |
| Three Pillars Business Solutions Limited | England | Policy Administration | 100 |
| Allianz Management Services Limited | England | Management Services | 100 |
| Allianz Engineering Inspection Services Limited | England | Engineering Inspections | 100 |
| Home and Legacy Insurance Services Limited | England | Insurance Intermediary | 100 |
| Allianz Business Services Limited | England | Insurance Intermediary | 100 |
| Allianz International Limited | England | Investing in Equity Shares | 100 |
| The MI Group Limited | England | Dormant | 100 |
| Vet Envoy Limited | England | IT Data Services | 100 |
| Held by Allianz Insurance plc: | | | |
| British Reserve Insurance Company Limited | England | General Insurance | 100 |
| Trafalgar Insurance Public Limited Company | England | General Insurance | 100 |
| Allianz Equity Investments Limited | England | Investing in Equity Shares | 100 |
| Pet Plan Limited | England | Insurance Intermediary | 100 |
| Allianz Properties Limited | England | Investing in real estate | 100 |
| Allianz Pension Fund Trustees Limited | England | Pension Fund Trustee | 100 |

All of the above shareholdings were also held at December 31, 2016 with the exception of Vet Envoy Limited which was acquired in May 2017. The figures for percentage holdings all relate to the ordinary share capital of the subsidiaries.

For transactions with and balances from and to related parties, refer to note 38.

### (b) Non-current assets held

The sale of Allianz Cornhill Information Services Private Limited to a fellow Allianz SE subsidiary company completed in January 2017 for a consideration of £49.1m and a pre-tax gain of £36.6m was recorded. Details of the assets and liabilities classified as held for sale are as follows:

| Assets classified as held for sale | 2017 £m | 2016 £m |
|---|---|---|
| Property and equipment | - | 3.5 |
| Deferred tax | - | 2.1 |
| Prepayments and accrued income | - | 0.7 |
| Available for sale financial assets | - | 14.7 |
| Other receivables | - | 8.0 |
| Cash and cash equivalents | - | 3.9 |
| | - | 32.9 |

| Liabilities classified as held for sale | 2017 £m | 2016 £m |
|---|---|---|
| Tax payable | - | 1.6 |
| Accruals and other payables | - | 18.8 |
| | - | 20.4 |

### (c) Investment in associated undertaking

On August 4, 2017 Allianz and LV= agreed to launch a joint venture and a longer-term strategic partnership in the UK.

Allianz paid £499.8m in exchange for a 49% stake in the LV= General Insurance business (LVGIG). Cost of investment in associate also includes non-cash consideration of £34.6m in the form of option rights afforded to the seller. The second stage of the transaction is expected to take place within two years and will see Allianz pay £213m for a further 20.9% stake through an agreed forward purchase based on a total valuation of £1,093m for 100% of LVGIG. LV= has a put option under which it can sell all or part of its remaining shares to Allianz at any time.

## 15. INTANGIBLE ASSETS

| Group | Goodwill £m | Software £m | Other intangible assets £m | Total £m |
|---|---|---|---|---|
| *Cost* | | | | |
| At January 1, 2016 | 76.3 | 34.0 | 32.4 | 142.7 |
| Additions arising from internal development | - | 12.0 | - | 12.0 |
| Disposals | - | (0.1) | - | (0.1) |
| At December 31, 2016 | 76.3 | 45.9 | 32.4 | 154.6 |
| Additions | 1.2 | - | 52.0 | 53.2 |
| Additions arising from internal development | - | 14.5 | - | 14.5 |
| Disposals | - | (0.9) | - | (0.9) |
| At December 31, 2017 | 77.5 | 59.5 | 84.4 | 221.4 |
| *Accumulated amortisation and impairment* | | | | |
| At January 1, 2016 | 2.9 | 23.6 | 32.2 | 58.7 |
| Amortisation charge for the year | - | 3.1 | 0.2 | 3.3 |
| Disposals | - | (0.1) | - | (0.1) |
| At December 31, 2016 | 2.9 | 26.6 | 32.4 | 61.9 |
| Amortisation charge for the year | - | 4.0 | - | 4.0 |
| Disposals | - | (0.9) | - | (0.9) |
| At December 31, 2017 | 2.9 | 29.7 | 32.4 | 65.0 |
| *Carrying amount* | | | | |
| At December 31, 2016 | 73.4 | 19.3 | - | 92.7 |
| At December 31, 2017 | 74.6 | 29.8 | 52.0 | 156.4 |

None of the goodwill reported above arose from the acquisition of Allianz Insurance plc.

Other intangible assets includes customer relationships acquired in business combinations and renewal rights.

Amortisation charges have been included within other operating and administrative expenses.

The Company itself does not have any intangible assets.

Goodwill is tested annually for impairment at the relevant cash generating unit (CGU) level, this is the lowest level that it is monitored at for internal management purposes. The Group is considered to be a single CGU.

The carrying value (including goodwill) of the CGU is compared to the discounted future pre-tax cashflows of that CGU. The cashflows are discounted at the Group's cost of capital rate, 7.9% and are based on the annual 3 year plan figures, with no assumed growth beyond this period. The plan figures are based on the Group's expectation of future performance taking account of past performance. The recoverable amount is a value in use calculation.

The result of the 2017 test indicated that no impairment was required to the carrying value of goodwill in the CGU as at December 31, 2017. The estimated recoverable amount of the CGU exceeded its carrying amount by approximately £202m (2016: £250m). Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

- Discount rate +1.6%;
- Budgeted growth rate -2.3%.

If actual cashflows were to fall to a level of 10% below those assumed in the plan, there would be no impact on the decision not to impair the goodwill in the CGU.

During the year, the Group acquired renewal rights to commercial lines business from the Liverpool Victoria Friendly Society Group for consideration of £52m.

## 16. PENSION BENEFIT OBLIGATION

The Group sponsors two pension schemes:

- The Allianz Retirement and Death Benefits Fund ("ARDBF") – this is defined benefit only. It is operated jointly by a subsidiary Company and a trustee board.
- A Group Personal Pension Plan ("GPPP") – this is defined contribution only. It is operated by Friends Life.

The Group accounts for pensions in accordance with IAS19 and the disclosures given are those required by that standard.

For the ARDBF the cost of providing benefits is determined using the projected unit credit method. For the GPPP the cost of providing benefits is determined as the contributions payable during the year.

Contributions payable to the ARDBF do not affect the measurement of the defined benefit liability or asset recognised on the Group balance sheet on the grounds that the Group has an unconditional right to a refund, assuming the gradual settlement of ARDBF liabilities over time until all members have left. In considering this, the Group has taken into account that the trustees do not have unilateral powers to wind up the ARDBF or modify benefits.

### Group Personal Pension Plan

The assets of the GPPP are held separately in independently administered funds. The cost of providing benefits in the GPPP is determined as the contributions payable during the year and so for 2017, was £26.8m (2016 £24.9m).

### Allianz Retirement and Death Benefits Fund

Following the GPPP being established, and benefits no longer building up in the ARDBF, the defined contribution section of the ARDBF was transferred to the GPPP in 2015 and 2016. Given these changes to the ARDBF, figures in the following disclosures exclude the assets and liabilities of the defined contribution section. The assets and liabilities of the defined contribution section are equal and so this treatment has no net effect on the figures.

The ARDBF is a Registered Scheme under the provisions of Schedule 36 of the Finance Act 2004.

The trustee board of the ARDBF is required by law to act in the best interests of members and is responsible for settling certain policies (e.g. investment and contribution policies). The ARDBF is funded by the Group based on an actuarial valuation with an effective date of March 31, 2014. At that date, the market value of the assets in the ARDBF was £731m. Based on the assumptions used for funding purposes, the value of the assets was sufficient at that date to cover 73% of the value of the benefits that members had accrued. The actuarial method used for this assessment was the Projected Unit method. The assumptions used are set out in the 'Statement of Funding Principles' document agreed by the trustee board and Group, but the key assumptions were:

- an investment return of 4.65% p.a. initially, linearly reducing from March 1, 2015 to September 1, 2015 to 3.95% p.a.; and
- RPI inflation of 3.6% p.a.

These assumptions used for funding purposes are different from those used in this disclosure for IAS19 purposes.

As a result of the deficit in the ARDBF at March 31, 2014, the trustee board and the Group agreed a recovery plan of £40m p.a. payable annually until March 31, 2022. The more recent actuarial valuation is currently underway with an effective date of March 31, 2017. As part of this valuation, a new recovery plan may be agreed.

The amount of Group contributions paid into the ARDBF during 2017 was £40.0m (2016 £40.0m). Group contributions to the ARDBF over 2018 are expected to be £40.0m (based on the current recovery plan).

The assets of the ARDBF are held in separate trustee administered funds. In consultation with the Group, the trustee board regularly reviews the investment strategy of the ARDBF with the aim of meeting benefit payments as they fall due and maintaining the funding position at an appropriate level subject to an appropriate level of risk. These broad principles have led to the investment strategy below. There is no exact matching of assets and liabilities in the form of insurance policies or derivatives.

The strategic benchmark allocation of the ARDBF at the reporting date is as follows:

| | |
|---|---|
| Growth assets | 15% |
| Matching assets | 85% |
| | 100% |

## 16. PENSION BENEFIT OBLIGATION (CONTINUED)

A significant part of the assets of the ARDBF are invested so as to mitigate fluctuations in the ARDBF's funding levels due to changes in the value of the liabilities. This is primarily achieved through the use of 'liability driven investments' (LDI), whose main goal is to hedge movements in the liabilities due to changes in interest rate and inflation expectations. Currently, the LDI portfolio targets a high hedging level for interest rates and inflation expectations on a "gilts +" funding measure, as opposed to the IAS19 accounting measure, to both interest rate and inflation expectation changes.

The ARDBF's approach to LDI involves the use of fixed-interest and index-linked government bonds – currently, there is no use of derivatives (such as interest rate, inflation and longevity swaps) or annuities. Given that the purpose of LDI is to hedge corresponding liability exposures, the main risk is that the investments held move differently to the liability exposures. This risk is managed by the trustees, their advisers and the ARDBF's LDI manager, who periodically assess the position.

The liability figures in this disclosure also include figures in respect of a small unfunded post-retirement medical healthcare arrangement and a small unfunded top-up pension benefit arrangement provided to certain senior employees, with a combined IAS19 present value of defined benefit obligation at December 31, 2017 of around £6.5m.

The ARDBF, unfunded post-retirement medical healthcare arrangement and unfunded top-up pension benefit arrangement expose the Group to a number of risks:

| **Risk** | **Detail** |
|---|---|
| Uncertainty in benefit payments | The value of the Group's liabilities for post-retirement benefits will ultimately depend on the amount of benefits paid out. This in turn will primarily depend on the level of inflation (for those benefits that are subject to some form of inflation protection) and how long individuals live. |
| Volatility in asset values | The Group is exposed to future movements in the values of assets held in the ARDBF to meet future benefit payments. |
| Uncertainty in cash funding | Movements in the values of the obligations or assets may result in the Group being required to provide higher levels of cash funding, although changes in the level of cash required can often be spread over a number of years. In addition the Group is also exposed to adverse changes in pension regulation. |

The following table sets out the key IAS19 assumptions used for the ARDBF, the unfunded post-retirement medical healthcare arrangement and the unfunded top-up pension benefit arrangement.

| | **2017** | **2016** | **2015** |
|---|---|---|---|
| Discount rate | 2.4% p.a. | 2.9% p.a. | 3.9% p.a. |
| RPI inflation | 3.2% p.a. | 3.3% p.a. | 3.0% p.a. |
| Life expectancy of male aged 60 at the balance sheet date | 27.4 years | 28.4 years | 28.3 years |
| Life expectancy of male aged 60 at the balance sheet date plus 20 years | 28.9 years | 30.4 years | 30.3 years |
| Life expectancy of female aged 60 at the balance sheet date | 29.4 years | 30.6 years | 30.5 years |
| Life expectancy of female aged 60 at the balance sheet date plus 20 years | 31.0 years | 32.6 years | 32.5 years |

- Discount rate – As at December 31, 2017, a small alteration has been made to the universe of bonds considered in setting the discount rate compared to year-end 2016. This update has decreased the discount rate adopted as at December 31, 2017 by around 0.15% pa, leading to an increase in the defined benefit obligations of approximately £30m.
- RPI Inflation rate – At December 31, 2017, the Group adopted an updated approach to deriving the inflation assumption, where a "term dependant" forward rate inflation risk premium is used. The Group believes that the updated approach is more appropriate given current market distortions in the gilt markets, which was previously used to derive the curve beyond a certain time-horizon. This update has increased the inflation assumption as at December 31, 2017 by around 0.05% pa, leading to an increase in the defined benefit obligations of approximately £7m.
- Life expectancies (for both male and female, current and future) – The Company have updated the mortality assumption as at December 31, 2017 to reflect the scheme-specific mortality experience analysis performed for the Trustee as part of the triennial valuation in 2017 and also the latest available industry wide data for future improvement projections. These changes together led to a decrease in the defined benefit obligations of approximately £45m.

Other IAS19 assumptions used include:

| | **2017** | **2016** | **2015** |
|---|---|---|---|
| Pension increases in deferment | 3.2% p.a. | 3.3% p.a. | 3.0% p.a. |
| Pension increases in payment (RPI up to maximum of 5% p.a.) | 3.1% p.a. | 3.1% p.a. | 2.9% p.a. |
| Pension increases in payment (RPI up to maximum of 2.5% p.a.) | 2.1% p.a. | 2.1% p.a. | 2.0% p.a. |
| Real long-term healthcare inflation | 2.5% p.a. | 2.5% p.a. | 2.5% p.a. |

At December 31, 2017, the weighted average duration of the defined benefit obligation of the ARDBF was 18.2 years (2016 18.8 years).

## 16. PENSION BENEFIT OBLIGATION (CONTINUED)

The actual return on the ARDBF assets over the year was £32.3m (2016 £190.0m). The current allocation of the ARDBF assets is as follows:

| | 2017 £m | 2016 £m | 2015 £m |
|---|---|---|---|
| Assets with a quoted market price in an active market | | | |
| - Equity instruments | - | - | 77.6 |
| - Debt instruments | 863.1 | 770.0 | 570.7 |
| - Other | 6.2 | 65.4 | 13.8 |
| | 869.3 | 835.4 | 662.1 |
| Assets without a quoted market price in an active market | | | |
| - Debt instruments | 31.3 | 61.0 | 44.1 |
| - Property | 100.3 | 93.9 | 92.3 |
| - Other | - | - | 0.8 |
| | 131.6 | 154.9 | 137.2 |
| **Total** | 1,000.9 | 990.3 | 799.3 |

Approximately £0.2m within the fair value of ARDBF assets are invested indirectly in the Group's own financial instruments.

In respect of the ARDBF, the unfunded post-retirement medical healthcare arrangement and the unfunded top-up pension benefit arrangement combined, the following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability (asset) and its components over 2016 and 2017.

| | Liabilities | | Assets | | Total | |
|---|---|---|---|---|---|---|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Balance at January 1 | 1,097.6 | 897.6 | (990.3) | (799.3) | 107.3 | 98.3 |
| Included in profit or loss | | | | | | |
| Interest cost/(income) | 31.0 | 34.2 | (28.7) | (31.6) | 2.3 | 2.6 |
| Total expense included in profit or loss | 31.0 | 34.2 | (28.7) | (31.6) | 2.3 | 2.6 |
| Included in OCI | | | | | | |
| Re-measurement loss (gain): | | | | | | |
| - Actuarial loss (gain) arising from: | | | | | | |
| - demographic assumptions | (45.5) | - | - | - | (45.5) | - |
| - financial assumptions | 81.8 | 213.7 | - | - | 81.8 | 213.7 |
| - experience adjustment | 8.1 | (9.3) | - | - | 8.1 | (9.3) |
| - Return on plan assets excluding interest income on assets | - | - | (3.6) | (158.4) | (3.6) | (158.4) |
| Total loss/(gain) included in OCI | 44.4 | 204.4 | (3.6) | (158.4) | 40.8 | 46.0 |
| Other | | | | | | |
| Contributions by the employer (incl employee contribution via salary sacrifice) | - | - | (40.2) | (41.3) | (40.2) | (41.3) |
| Benefits paid | (60.0) | (38.6) | 60.0 | 38.6 | - | - |
| Total other | (60.0) | (38.6) | 19.8 | (2.7) | (40.2) | (41.3) |
| Administration costs | - | - | 1.9 | 1.7 | 1.9 | 1.7 |
| Balance at December 31 | 1,113.0 | 1,097.6 | (1,000.9) | (990.3) | 112.1 | 107.3 |
| Represented by: Net defined benefit liability | | | | | 112.1 | 107.3 |

## 16. PENSION BENEFIT OBLIGATION (CONTINUED)

Allianz Holdings Plc has entered into a guarantee in favour of Allianz Pension Fund Trustees Limited. The guarantee covers all present and future obligations and liabilities to make payments to the ARDBF (up to a maximum amount equal to the entire aggregate liability of every employer in relation to the fund) should that employer fail to meet an obligation when due.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the estimated amounts shown below had they happened.

| | Defined benefit obligation | |
|---|---|---|
| | Increase £m | Decrease £m |
| Discount rate (0.5% movement) | (96.6) | (93.8) |
| Increases prior to payment (0.25% movement)[1] | 16.4 | 16.0 |
| Increases in payment (0.25% movement)[2] | 24.5 | 24.0 |
| Life expectancy (one-year movement) | 39.9 | 35.2 |

[1]Increases prior to payment include only deferred increases to pensions.
[2]Increases in payment include only increases to pensions after retirement.

## 17. PROPERTY AND EQUIPMENT

| Group | Property £m | Equipment £m | Motor vehicles £m | Total £m |
|---|---|---|---|---|
| *Cost or valuation* | | | | |
| At January 1, 2016 | 17.1 | 7.7 | 20.3 | 45.1 |
| Additions | - | 3.7 | 4.9 | 8.6 |
| Disposals | - | (0.3) | (5.4) | (5.7) |
| Transfer to asset held for sale | - | (11.1) | (0.2) | (11.3) |
| Net fair value losses | (1.7) | - | - | (1.7) |
| At December 31, 2016 | 15.4 | - | 19.6 | 35.0 |
| Additions | - | - | 4.1 | 4.1 |
| Disposals | - | - | (4.4) | (4.4) |
| Net fair value gains | 0.5 | - | - | 0.5 |
| At December 31, 2017 | 15.9 | - | 19.3 | 35.2 |
| *Accumulated depreciation* | | | | |
| At January 1, 2016 | - | 6.6 | 7.2 | 13.8 |
| Depreciation charge for the year | - | 1.1 | 3.7 | 4.8 |
| Disposals | - | - | (3.8) | (3.8) |
| Transfer to asset held for sale | - | (7.7) | (0.1) | (7.8) |
| At December 31, 2016 | - | - | 7.0 | 7.0 |
| Depreciation charge for the year | - | - | 3.6 | 3.6 |
| Disposals | - | - | (2.8) | (2.8) |
| At December 31, 2017 | - | - | 7.8 | 7.8 |
| *Carrying amount* | | | | |
| At December 31, 2016 | 15.4 | - | 12.6 | 28.0 |
| At December 31, 2017 | 15.9 | - | 11.5 | 27.4 |

The Company itself does not hold any property or equipment.

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).

## 18. INVESTMENT PROPERTIES

| Group | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| At January 1 | | 142.4 | 154.3 |
| Acquisitions | | 28.4 | - |
| Disposals | | (19.2) | (2.3) |
| Realised (losses)/gains | 5 | (6.0) | 0.4 |
| Net fair value gain/(loss) | 6 | 11.5 | (10.0) |
| At December 31 | | 157.1 | 142.4 |

Investment properties are stated at fair values. 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 rental income arising from investment properties during the year amounted to £11.3m (2016 £11.3m), which is included in investment income. Direct operating expenses (charged against investment income) arising in respect of such properties during the year amounted to £0.8m (2016 £1.1m).

## 19. DEFERRED ACQUISITION COSTS

| Group | Gross 2017 £m | Reinsurance 2017 £m | Gross 2016 £m | Reinsurance 2016 £m |
|---|---|---|---|---|
| At January 1 | 206.5 | (81.3) | 218.5 | (44.6) |
| Impact of quota share | - | - | - | (42.7) |
| | 206.5 | (81.3) | 218.5 | (87.3) |
| Costs deferred during the year | 494.2 | (279.8) | 465.4 | (186.7) |
| Amortisation charge for the year | (486.8) | 277.0 | (477.4) | 192.7 |
| At December 31 | 213.9 | (84.1) | 206.5 | (81.3) |

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.

## 20. LEASES

| Group | 2017 £m | 2016 £m |
|---|---|---|
| The total of future minimum lease payments under non-cancellable operating leases are set out below: | | |
| Not later than one year | 8.3 | 8.2 |
| Later than one year and not later than five years | 27.7 | 27.3 |
| Later than five years | 18.0 | 20.9 |
| Total | 54.0 | 56.4 |

Operating lease rentals for the year were £8.3m (2016 £8.1m).

| Group | 2017 £m | 2016 £m |
|---|---|---|
| The total of future minimum lease receipts expected to be received under non-cancellable leases at the balance sheet date are set out below: | | |
| Not later than one year | 10.6 | 9.9 |
| Later than one year and not later than five years | 40.1 | 35.5 |
| Later than five years | 13.2 | 40.0 |
| Total | 63.9 | 85.4 |

Lease receipts for the year were £11.5m (2016 £11.5m).

The Group owns two major operational properties. The leases described above relate to other operational properties located throughout Great Britain. There are no individually significant lease arrangements or purchase options attached to these properties.

## 21. TAX ASSETS AND LIABILITIES

| *(a) Current tax assets and liabilities* | Group 2017 £m | Group 2016 £m | Company 2017 £m | Company 2016 £m |
|---|---|---|---|---|
| Current tax assets | - | - | 0.1 | 0.2 |
| Current tax liabilities | 7.8 | 3.4 | - | - |

*(b) Deferred tax balances*

The following is the analysis of deferred tax assets/(liabilities) presented in the group balance sheet:

| | Group 2017 £m | Group 2016 £m | Company 2017 £m | Company 2016 £m |
|---|---|---|---|---|
| Deferred tax assets | 32.2 | 42.4 | - | - |
| Deferred tax liabilities | (14.3) | (18.3) | - | - |
| | 17.9 | 24.1 | - | - |

## 21. TAX ASSETS AND LIABILITIES (CONTINUED)

| 2017 | Group Opening balance £m | Group Recognised in profit or loss £m | Group Recognised in other comprehensive income £m | Group Transfer to asset held for sale £m | Group Closing balance £m |
|---|---|---|---|---|---|
| Deferred tax assets/(liabilities) in relation to: | | | | | |
| Pensions | 18.3 | (6.2) | 6.9 | - | 19.0 |
| Properties | 3.1 | (0.4) | - | - | 2.7 |
| Provisions and other temporary differences | 2.6 | 0.5 | - | - | 3.1 |
| Tax losses | 18.4 | (11.0) | - | - | 7.4 |
| Claims equalisation reserve | (18.3) | 4.0 | - | - | (14.3) |
| | 24.1 | (13.1) | 6.9 | - | 17.9 |

| 2016 | Group Opening balance £m | Group Recognised in profit or loss £m | Group Recognised in other comprehensive income £m | Group Transfer to asset held for sale £m | Group Closing balance £m |
|---|---|---|---|---|---|
| Deferred tax assets/(liabilities) in relation to: | | | | | |
| Pensions | 17.7 | (4.3) | 4.9 | - | 18.3 |
| Properties | 2.1 | 1.0 | - | - | 3.1 |
| Provisions and other temporary differences | 4.2 | 0.5 | - | (2.1) | 2.6 |
| Tax losses | 43.4 | (25.0) | - | - | 18.4 |
| Claims equalisation reserve | (22.7) | 4.4 | - | - | (18.3) |
| | 44.7 | (23.4) | 4.9 | (2.1) | 24.1 |

## 22. REINSURANCE ASSETS

| Group | Note | 2017 £m | 2016 £m |
|---|---|---|---|
| Reinsurers share of insurance contracts liabilities | 30 | 1,329.8 | 1,321.6 |
| **Total reinsurance assets** | | 1,329.8 | 1,321.6 |

For the current and non current split, refer to note 30.

## 23. PREPAYMENTS AND ACCRUED INCOME

| Group | 2017 £m | 2016 £m |
|---|---|---|
| Prepayments | | |
| Prepaid expenses | 0.9 | 0.7 |
| Total prepayments | 0.9 | 0.7 |
| Accrued income | | |
| Interest | 30.3 | 29.7 |
| Total accrued income | 30.3 | 29.7 |
| Total prepayments and accrued income | 31.2 | 30.4 |

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.

## 24. FINANCIAL ASSETS

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

| | Group 2017 £m | Company 2017 £m | Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Available for sale financial assets | 2,741.7 | - | 2,322.5 | - |
| Loans | 68.4 | 1.2 | 350.6 | 1.5 |
| Total financial assets | 2,810.1 | 1.2 | 2,673.1 | 1.5 |

| (a) Available for sale financial assets | Group 2017 £m | Company 2017 £m | Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| At fair value | | | | |
| Managed funds | 265.1 | - | 105.5 | - |
| Total equity securities at fair value | 265.1 | - | 105.5 | - |
| Debt securities | 2,476.6 | - | 2,217.0 | - |
| Total debt securities at fair value | 2,476.6 | - | 2,217.0 | - |
| Total available for sale financial assets at fair value | 2,741.7 | - | 2,322.5 | - |
| At cost | | | | |
| Managed funds | 246.3 | - | 97.8 | - |
| Total equity securities at cost | 246.3 | - | 97.8 | - |
| Debt securities | 2,396.9 | - | 2,120.5 | - |
| Total debt securities at amortised cost | 2,396.9 | - | 2,120.5 | - |
| Total available for sale financial assets at cost | 2,643.2 | - | 2,218.3 | - |

The fair value of the loans made by the Group is £60.9m (2016 £373.8m) and of those made by the Company is £1.2m (2016 £1.5m). Other carrying amounts disclosed above reasonably approximate fair values at year end.

The Group has holdings in collective investment funds of £265.1m (2016 £105.5m). These are included within the unlisted total above, and whilst there are quoted prices for the holdings, only £251.6m (2016 £91.5m) of the holdings is readily realisable.

The Group has entered into securities lending whereby blocks of securities are loaned to third parties. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Group's balance sheet, they continue to be recognised within the appropriate investment classification. At December 31, 2017, the Group had lent £103.2m (2016 £105.3m) and held collateral under such agreements of £104.1m (2016 £116.4m).

## 24. FINANCIAL ASSETS (CONTINUED)

| (b) Loans and receivables | Group 2017 £m | Company 2017 £m | Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Loans to related parties | - | - | 340.0 | - |
| Other loans | 61.4 | 1.2 | 2.9 | 1.5 |
| Deposits with credit institutions | 7.0 | - | 7.7 | - |
| Total loans and receivables | 68.4 | 1.2 | 350.6 | 1.5 |

| | Group 2017 £m | Company 2017 £m | Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Current loans and receivables | 0.6 | 0.4 | 1.2 | 0.4 |
| Non current loans and receivables | 67.8 | 0.8 | 349.4 | 1.1 |

The carrying amounts disclosed above reasonably approximate fair values at year end. The £340.0m 'non current' loan was repaid early on February 28, 2017.

Included within the deposits with credit institutions is £7.0m (2016 £7.7m) which the Group has pledged as collateral relating to the future settlement of insurance contracts liabilities. The collateral is all in the form of letters of credit which attract a commercial rate of interest. The claimants have the right to draw on the funds but would ordinarily be expected to gain prior approval from the Group before doing so.

## 25. INSURANCE RECEIVABLES

| Group | 2017 £m | 2016 £m |
|---|---|---|
| Due from policyholders | 417.0 | 395.7 |
| Due from reinsurers | 1.9 | 4.5 |
| Due from agents, brokers and intermediaries | 374.8 | 378.2 |
| Total insurance receivables | 793.7 | 778.4 |

| Group | 2017 £m | 2016 £m |
|---|---|---|
| Current insurance receivables | 733.5 | 713.2 |
| Non current insurance receivables | 60.2 | 65.2 |

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

## 26. OTHER RECEIVABLES

| | Group 2017 £m | Company 2017 £m | Restated[(1)] Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Amounts due from related parties[(1)] | 113.1 | 130.6 | 125.2 | 76.7 |
| Other | 47.4 | - | 41.8 | - |
| Total other receivables | 160.5 | 130.6 | 167.0 | 76.7 |

| | Group 2017 £m | Company 2017 £m | Restated[(1)] Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Current other receivables[(1)] | 160.5 | 130.6 | 167.0 | 76.7 |
| Non current other receivables | - | - | - | - |

[(1)] Refer to note 27.

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

## 27. CASH AND CASH EQUIVALENTS

| | Group 2017 £m | Company 2017 £m | Restated[(1)] Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Cash at bank[(1)] | 20.8 | - | 41.9 | 80.0 |
| Short-term deposits (including demand and time deposits) | 0.1 | - | 58.7 | - |
| Total | 20.9 | - | 100.6 | 80.0 |

[(1)] Refer to note 27.

Deposits are subject to an average interest rate of 0.5% (2016 0.6%) and have an average maturity of 1 day (2016 1 day). The carrying amounts disclosed above reasonably approximate fair values at year end.

During the year ended December 31, 2011 the Group entered into a cash-pooling arrangement with Allianz SE. Under the terms of the arrangement, the Group was given free and direct access to the cash pool. In the prior years the Group reported these funds within cash and cash equivalents. During the year, the Directors have reviewed the treatment of these funds and concluded that they should have been recorded within other receivables. The 2016 balance sheet and cash flow statement have, therefore, been restated to remove these balances from cash and cash equivalents and include them within other receivables. The restatement had no impact on net assets or equity at 31 December 2016 or 2015, or the Statement of Comprehensive Income for the year then ended. The table below presents the impact of the restatement on the 2016 balance sheet:

| | December 31, 2017 £m | December 31, 2016 as previously reported £m | Restatement £m | December 31, 2016 as restated £m |
|---|---|---|---|---|
| Other receivables | 160.5 | 103.1 | 63.9 | 167.0 |
| Cash and cash equivalents | 20.9 | 164.5 | (63.9) | 100.6 |

## 28. SHARE CAPITAL

| | Issued 2017 £ | 2016 £ |
|---|---|---|
| Ordinary shares of £1 each fully paid | 1,327,796,234 | 827,996,234 |

The ordinary shares entitle the holders to vote at meetings of the Company and grant the right to receive dividends as declared During the year, the Company issued 499,800,000 new ordinary shares of £1 each at par to Allianz (UK) Limited. The new shares were issued to finance the acquisition of LVGIG.

## 29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

| Group | Note | Severance pay £m | IT £m | Indemnities £m | Total £m |
|---|---|---|---|---|---|
| At January 1, 2016 | | - | - | 0.5 | 0.5 |
| Amount charged to the statement of comprehensive income | 7 | 7.6 | 1.0 | - | 8.6 |
| Utilised in the year | | (5.0) | (1.0) | - | (6.0) |
| At December 31, 2016 | | 2.6 | - | 0.5 | 3.1 |
| Amount charged to the statement of comprehensive income | | 4.5 | - | - | 4.5 |
| Utilised in the year | | (4.6) | - | - | (4.6) |
| At December 31, 2017 | | 2.5 | - | 0.5 | 3.0 |

The above provision is all current.

### Restructuring

During 2013, indemnities were transferred to the Company from Allianz UK. These indemnities relate to the sale of M.I. Group Limited to Sanlam Netherlands Holding BV ("Sanlam"), in particular, provisions against pensions mis-selling. Under the indemnity the Company will reimburse Sanlam if the costs of compensation and administrative expenses exceed agreed amounts. There is uncertainty regarding the future payments to be made under these indemnities but the Directors believe that the provision at December 31, 2017 is reasonable, based on the information currently available.

During 2016, the Group made the decision to withdraw from the Direct Motor and Home market. It was necessary to reorganise the structure of the Group into distinct trading and technical areas spanning both Commercial and Personal lines. Restructuring charges were split between severance pay and IT. The reorganisation is expected to be complete in 2018.

During 2017, the Group made the decision to reorganise both the claims and operational teams. The claims reorganisation involved the consolidation process to reduce the number of claims handling centres. The operational team restructure was necessary following changes in the business model for certain lines of business and links into the locations involved in the claims reorganisation. The reorganisation is expected to be complete in 2018.

## 30. INSURANCE CONTRACTS LIABILITIES

| Group | 2017 Insurance contracts liabilities £m | 2017 Reinsurers' share of liabilities £m | 2017 Net £m | 2016 Insurance contracts liabilities £m | 2016 Reinsurers' share of liabilities £m | 2016 Net £m |
|---|---|---|---|---|---|---|
| Provisions for claims reported by policyholders | 1,779.3 | (829.1) | 950.2 | 1,645.4 | (737.4) | 908.0 |
| Provisions for claims incurred but not reported | 0.7 | (33.3) | (32.6) | 105.8 | (117.8) | (12.0) |
| Total claims reported and IBNR | 1,780.0 | (862.4) | 917.6 | 1,751.2 | (855.2) | 896.0 |
| Provision for unearned premiums | 1,096.5 | (467.4) | 629.1 | 1,082.5 | (466.4) | 616.1 |
| Total general insurance contracts liabilities | 2,876.5 | (1,329.8) | 1,546.7 | 2,833.7 | (1,321.6) | 1,512.1 |
| Current general insurance contracts liabilities | 1,384.0 | (607.0) | 777.0 | 1,237.9 | (545.0) | 692.9 |
| Non current general insurance contracts liabilities | 1,492.5 | (722.8) | 769.7 | 1,595.8 | (776.6) | 819.2 |

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

| Group | 2017 Insurance contracts liabilities £m | 2017 Reinsurers' share of liabilities £m | 2017 Net £m | 2016 Insurance contracts liabilities £m | 2016 Reinsurers' share of liabilities £m | 2016 Net £m |
|---|---|---|---|---|---|---|
| At January 1 | 1,751.2 | (855.2) | 896.0 | 1,735.0 | (513.0) | 1,222.0 |
| Foreign exchange adjustment | (1.2) | 0.6 | (0.6) | 2.7 | (1.1) | 1.6 |
| Impact of quota share | - | - | - | - | (304.9) | (304.9) |
| Unwind of discount on PPO claims reserves | 3.4 | (2.6) | 0.8 | 3.6 | (2.8) | 0.8 |
| | 1,753.4 | (857.2) | 896.2 | 1,741.3 | (821.8) | 919.5 |
| Claims incurred in the current accident year | 1,491.1 | (602.0) | 889.1 | 1,556.0 | (637.9) | 918.1 |
| Movement on claims incurred in prior accident years | (70.0) | 41.9 | (28.1) | (43.6) | 2.0 | (41.6) |
| Claims paid during the year | (1,394.5) | 554.9 | (839.6) | (1,502.5) | 602.5 | (900.0) |
| At December 31 | 1,780.0 | (862.4) | 917.6 | 1,751.2 | (855.2) | 896.0 |

The provision for unearned premiums may be analysed as follows:

| Group | Notes | 2017 Insurance contracts liabilities £m | 2017 Reinsurers' share of liabilities £m | 2017 Net £m | 2016 Insurance contracts liabilities £m | 2016 Reinsurers' share of liabilities £m | 2016 Net £m |
|---|---|---|---|---|---|---|---|
| At January 1 | | 1,082.5 | (466.4) | 616.1 | 1,126.2 | (285.6) | 840.6 |
| Impact of quota share | | - | - | - | - | (202.4) | (202.4) |
| | | 1,082.5 | (466.4) | 616.1 | 1,126.2 | (488.0) | 638.2 |
| Premiums written in the year | 3 | 2,186.3 | (911.4) | 1,274.9 | 2,141.2 | (897.1) | 1,244.1 |
| Premiums earned during the year | 3 | (2,172.3) | 910.4 | (1,261.9) | (2,184.9) | 918.7 | (1,266.2) |
| At December 31 | | 1,096.5 | (467.4) | 629.1 | 1,082.5 | (466.4) | 616.1 |

## 31. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

The major classes of general insurance written by the Group include motor, household, commercial property, business interruption and liability. Risks under these policies usually cover a 12 month duration. The Group also writes several more specialist lines of business such as pet insurance, creditor business and mobile phone all risks. Risk durations under these policies can vary.

The Group 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 at least 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 periodic payment orders (PPOs) established under the Courts Act 2003. During 2017 one new settlement was agreed on this basis, making the total number of PPOs 40. Total reserves are £127.8m (2016 £121.7m) gross and £34.7m (2016 £34.1m) net of reinsurance. The corresponding undiscounted amounts are £301.3m (2016 £292.1m) gross and £70.3m (2016 £69.6m) 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 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; and
- 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.

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;
- difference in the complexity of claims;
- the severity of individual claims; and
- differences in the period between the occurrence and the reporting of claims.

Case estimates for large injury claims have been set using Ogden Tables discounted at -0.75% as a base. The Ministry of Justice announced in September 2017 that they plan to legislate to change the mechanism of the Ogden discount rate to take account of investment risk. It was indicated that in current market conditions, a discount rate of between 0% and 1% might be expected. This would serve to decrease the level of future bodily injury claims, but may increase the propensity of claims to settle as PPOs. No estimate of the expected decrease in cost has been included within the booked reserves.

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 Group 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; and
- the emergence of currently unknown latent diseases to a different level from that expected.

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.

There were no significant changes in assumptions during the year. Prior year reserve releases have caused a £67.9m decrease (2016 £40.0m decrease) in gross insurance provisions in respect of the prior period. The net effect after reinsurance is a £27.7m decrease (2016 £40.5m decrease). The major reasons for this change are:

- reductions in the commercial motor, personal motor and liability accounts; partially offset by
- increases in the legal protection and household accounts.

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 Group's historical claim experience, using past volatility as a guide to the future and considering the interaction of the various classes of business and sources of volatility. All sources of volatility are considered together and the biggest sources of uncertainty are the assumptions concerning the interrelationship between the various lines of business.

## Loss development triangle

Reproduced below are tables that 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 end of each accident year.

| | | Accident Year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group<br>Gross of reinsurance | Note | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | 2014<br>£m | 2015<br>£m | 2016<br>£m | 2017<br>£m | Total<br>£m |
| Accident year | | 1,041.2 | 999.0 | 1,061.2 | 1,103.8 | 1,214.3 | 1,196.2 | 1,343.8 | 1,602.3 | 1,556.0 | 1,491.1 | |
| One year later | | 1,005.2 | 1,000.0 | 1,100.9 | 1,107.8 | 1,197.5 | 1,223.5 | 1,374.8 | 1,568.8 | 1,523.1 | | |
| Two years later | | 970.9 | 978.9 | 1,072.2 | 1,102.8 | 1,168.5 | 1,185.8 | 1,376.3 | 1,523.5 | | | |
| Three years later | | 963.4 | 972.6 | 1,068.7 | 1,103.2 | 1,166.5 | 1,179.4 | 1,385.1 | | | | |
| Four years later | | 959.2 | 970.0 | 1,074.4 | 1,084.1 | 1,178.3 | 1,179.9 | | | | | |
| Five years later | | 960.1 | 967.6 | 1,078.2 | 1,077.2 | 1,173.4 | | | | | | |
| Six years later | | 962.3 | 976.1 | 1,076.2 | 1,073.3 | | | | | | | |
| Seven years later | | 959.2 | 957.9 | 1,066.3 | | | | | | | | |
| Eight years later | | 958.3 | 961.1 | | | | | | | | | |
| Nine years later | | 966.3 | | | | | | | | | | |
| Current estimate of cumulative claims | | 966.3 | 961.1 | 1,066.3 | 1,073.3 | 1,173.4 | 1,179.9 | 1,385.1 | 1,523.5 | 1,523.1 | 1,491.1 | 12,343.1 |
| Cumulative payments to date | | 938.7 | 930.2 | 1,038.3 | 1,046.5 | 1,133.2 | 1,121.6 | 1,201.9 | 1,322.7 | 1,193.3 | 867.3 | 10,793.7 |
| Reserve in respect of prior years | | | | | | | | | | | | 230.6 |
| Total gross liability as per the balance sheet | 30 | 27.6 | 30.9 | 28.0 | 26.8 | 40.2 | 58.3 | 183.2 | 200.8 | 329.8 | 623.8 | 1,780.0 |

| | | Accident Year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Group<br>Net of reinsurance | Note | 2008<br>£m | 2009<br>£m | 2010<br>£m | 2011<br>£m | 2012<br>£m | 2013<br>£m | 2014<br>£m | 2015<br>£m | 2016<br>£m | 2017<br>£m | Total<br>£m |
| Accident year | | 1,000.1 | 969.7 | 1,040.7 | 1,096.0 | 1,187.1 | 1,168.5 | 1,314.9 | 1,263.2 | 918.1 | 889.1 | |
| One year later | | 965.0 | 955.1 | 1,074.3 | 1,082.6 | 1,172.8 | 1,193.6 | 1,230.2 | 1,238.6 | 899.0 | | |
| Two years later | | 939.1 | 937.6 | 1,056.6 | 1,081.9 | 1,152.9 | 1,110.7 | 1,222.5 | 1,222.3 | | | |
| Three years later | | 932.9 | 923.1 | 1,052.9 | 1,082.4 | 1,119.3 | 1,108.5 | 1,230.0 | | | | |
| Four years later | | 930.9 | 922.0 | 1,054.3 | 1,047.0 | 1,124.3 | 1,110.9 | | | | | |
| Five years later | | 932.9 | 918.2 | 1,044.1 | 1,043.4 | 1,124.2 | | | | | | |
| Six years later | | 934.1 | 915.7 | 1,042.7 | 1,044.3 | | | | | | | |
| Seven years later | | 924.7 | 910.6 | 1,039.2 | | | | | | | | |
| Eight years later | | 924.1 | 910.4 | | | | | | | | | |
| Nine years later | | 926.1 | | | | | | | | | | |
| Current estimate of cumulative claims | | 926.1 | 910.4 | 1,039.2 | 1,044.3 | 1,124.2 | 1,110.9 | 1,230.0 | 1,222.3 | 899.0 | 889.1 | 10,395.5 |
| Cumulative payments to date | | 913.6 | 902.5 | 1,027.1 | 1,031.0 | 1,102.1 | 1,079.8 | 1,131.6 | 1,103.2 | 723.2 | 531.2 | 9,545.3 |
| Reserve in respect of prior years | | | | | | | | | | | | 67.4 |
| Total net liability as per the balance sheet | 30 | 12.5 | 7.9 | 12.1 | 13.3 | 22.1 | 31.1 | 98.4 | 119.1 | 175.8 | 357.9 | 917.6 |

## 32. INSURANCE RELATED PAYABLES

| Group | 2017 £m | 2016 £m |
|---|---|---|
| Arising out of direct insurance operations | | |
| Third parties | 94.3 | 61.3 |
| | 94.3 | 61.3 |
| Deposits received from reinsurers | | |
| Amounts due to related parties | 922.5 | 901.3 |
| Third parties | 0.1 | 0.1 |
| | 922.6 | 901.4 |
| Arising out of reinsurance operations | | |
| Amounts due to related parties | 20.1 | 9.8 |
| Third parties | 46.5 | 54.6 |
| | 66.6 | 64.4 |
| | | |
| Total insurance related payables | 1,083.5 | 1,027.1 |

| Group | 2017 £m | 2016 £m |
|---|---|---|
| Current insurance related payables | 1,083.4 | 1,027.0 |
| Non current insurance related payables | 0.1 | 0.1 |

## 33. ACCRUALS AND OTHER PAYABLES

| | Group 2017 £m | Company 2017 £m | Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Amounts due to related parties | 5.2 | 62.4 | 97.5 | 135.9 |
| Accrued expenses | 35.4 | - | 36.3 | - |
| Social security and other taxes | 56.5 | - | 43.3 | - |
| Other | 76.2 | 0.1 | 81.3 | - |
| Total accruals and other payables | 173.3 | 62.5 | 258.4 | 135.9 |

The estimated fair values of the amounts payable are the amounts repayable on demand and are the amounts as recorded at year end.

## 34. RISK MANAGEMENT POLICIES

The Group only transacts general insurance business which is written in Great Britain and the majority of risk exposure is confined to the United Kingdom.

### Insurance

The risk under an insurance contract is the risk that an insured event will occur, that the price charged for the risk is inadequate and uncertainty as to the amount and time of any resulting claim. The principal risk that the Group faces under such contracts is that actual claims will exceed the carrying value of insurance contracts 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 contracts liabilities.

Risk exposure is improved by diversification across a large portfolio of similar insurance contracts, as the relative impact of specific events is lower in a more diversified portfolio. Exposure is also improved by careful selection and implementation of underwriting strategies, strict claim review policies to assess all new and on going claims, as well as the careful investigation of possible fraudulent claims.

The price charged by the Group 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 Group's required return on capital. For some products, such as personal lines motor, the market is highly competitive and the rate determined by the application of actuarial techniques will not necessarily be obtainable. In these circumstances the Group 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 Group 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 Group limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition, the Group 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 claims) is limited according to risk appetite, capital requirements and the return on capital. The Group 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 Group buys reinsurance protection for a 1-in-250-year single event. In order to protect its risk capital from extreme events the group also purchases catastrophe reinsurance for a modelled 1-in-500-year loss event.

Effective from 2016, Allianz Insurance plc placed a 40% quota share treaty with the 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 Group's risk appetite as decided by the Board.

As detailed below under Financial risk policy – 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. Members of the Allianz Societas Europaea group of companies are the Group's largest reinsurers.

The Group principally issues 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:

## 34. RISK MANAGEMENT POLICIES (CONTINUED)

| Claims liabilities 2017 | Gross £m | Reinsurers' Share £m | Net £m |
|---|---|---|---|
| Motor | 807.3 | (420.7) | 386.6 |
| Household | 62.9 | (25.6) | 37.3 |
| Property and business interruption | 211.4 | (106.5) | 104.9 |
| Liability | 529.2 | (238.8) | 290.4 |
| Speciality pecuniary | 144.5 | (61.6) | 82.9 |
| Other | 24.7 | (9.2) | 15.5 |
| Total | 1,780.0 | (862.4) | 917.6 |

| Claims liabilities 2016 | Gross £m | Reinsurers' Share £m | Net £m |
|---|---|---|---|
| Motor | 827.4 | (435.6) | 391.8 |
| Household | 68.4 | (27.5) | 40.9 |
| Property and business interruption | 202.6 | (103.5) | 99.1 |
| Liability | 513.0 | (230.2) | 282.8 |
| Speciality pecuniary | 112.2 | (46.2) | 66.0 |
| Other | 27.6 | (12.2) | 15.4 |
| Total | 1,751.2 | (855.2) | 896.0 |

Note 31 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 Group's estimation techniques for claims payments.

### Financial risk

The Group 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 contracts 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 risks comprise market risk, credit risk and liquidity risk.

### a) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign currency exchange rates and equity prices will effect the value of the Group's assets and income. The value of the Group's liabilities have very limited exposure to these movements. The Group is exposed to market risk on all of its available for sale financial assets, and loans and receivables.

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

### (i) Interest rate risk

A substantial part of the Group's available for sale financial assets are invested in 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 Group has available to meet insurance contracts liabilities. None of the Group'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 contracts liabilities. At December 31, 2017 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.4 years (2016 3.3 years) compared with the average duration of the insurance contract liabilities which is estimated to be 4.9 years (2016 2.1 years).

### (ii) Equity risk

As stated in accounting policy 1.4(h), the portfolio is valued at the bid market price. Equity market risk is the risk that the market price of the available for sale financial assets will fall in value as a result of adverse stock market movements. To manage this risk the Group limits its exposure to stock markets to a modest proportion of its total investment portfolio. Stocks held are limited to United Kingdom equities with the maximum investment in any one stock being controlled by the application of strict investment controls. These controls limit the maximum exposure to any one stock or sector of the FTSE 100 index in order to minimise risk. The largest exposure to a single stock holding was £nil (2016 £nil).

### (iii) 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 Group's insurance contracts and insurance risks are either concluded or situated in the United Kingdom.

The Group 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:

| | 2017 £m | 2016 £m |
|---|---|---|
| **US Dollars** | | |
| Assets | 32.9 | 37.2 |
| Liabilities | 30.8 | 33.4 |
| **Euro** | | |
| Assets | 12.3 | 13.5 |
| Liabilities | 16.3 | 10.0 |

### (iv) Sensitivity to market risk

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

| | 2017 Profit or Loss £m | 2017 Equity £m | 2016 Profit or Loss £m | 2016 Equity £m |
|---|---|---|---|---|
| Interest rate risk | | | | |
| +100 basis points shift in yield curves | - | (79.9) | - | (60.6) |
| –100 basis points shift in yield curves | - | 86.0 | - | 67.5 |
| Equity risk | | | | |
| 10% increase in equity prices | - | 26.5 | - | 10.6 |
| 10% decrease in equity prices | - | (26.5) | (2.4) | (10.6) |
| Currency Risk | | | | |
| 10% strengthening of US dollar exchange rate | - | (0.4) | - | (0.4) |
| 10% weakening of US dollar exchange rate | - | 0.4 | - | 0.4 |
| 10% strengthening of Euro exchange rate | - | 0.2 | - | (0.4) |
| 10% weakening of Euro exchange rate | - | (0.2) | - | 0.4 |

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.

## 34. RISK MANAGEMENT POLICIES (CONTINUED)

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 or Loss | | Equity | |
|---|---|---|---|---|
| **2017** | **Gross £m** | **Net £m** | **Gross £m** | **Net £m** |
| Expense ratio | | | | |
| 1% increase in current year | (21.7) | (12.6) | (17.5) | (10.2) |
| 1% decrease in current year | 21.7 | 12.6 | 17.5 | 10.2 |
| Loss ratio | | | | |
| 1% increase in current year | (13.6) | (7.9) | (11.0) | (6.4) |
| 1% increase in all of the last 3 years | (41.5) | (26.8) | (33.5) | (21.6) |
| 1% decrease in current year | 13.6 | 7.9 | 11.0 | 6.4 |
| 1% decrease in all of the last 3 years | 41.5 | 26.8 | 33.5 | 21.6 |

| | Profit or Loss | | Equity | |
|---|---|---|---|---|
| **2016** | **Gross £m** | **Net £m** | **Gross £m** | **Net £m** |
| Expense ratio | | | | |
| 1% increase in current year | (21.8) | (12.7) | (17.4) | (10.2) |
| 1% decrease in current year | 21.8 | 12.7 | 17.4 | 10.2 |
| Loss ratio | | | | |
| 1% increase in current year | (14.2) | (8.1) | (11.4) | (6.5) |
| 1% increase in all of the last 3 years | (41.2) | (31.5) | (33.0) | (26.4) |
| 1% decrease in current year | 14.2 | 8.1 | 11.4 | 6.5 |
| 1% decrease in all of the last 3 years | 41.2 | 31.5 | 33.0 | 26.4 |

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

### b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Group in full when they fall due. Key areas where the Group is exposed to credit risk are:

- Counterparty risk in respect of debt securities, cash and cash equivalents
- Reinsurers' share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance intermediaries and policyholders

The Group manages credit risk for financial assets (other than amounts invested in government securities) and cash and cash equivalents by limiting the amount of exposure to each counterparty. This is achieved through a comprehensive series of limits which have been 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.

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Group's liability as primary reinsurer. If a reinsurer fails to pay a claim for any reason the Group 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 Group's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Group'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, 2017 was £702.0m (2016 £693.6m).

Insurance receivables are closely monitored via the credit control process. For amounts due from brokers credit terms are applied which are determined by a range of factors including the type of business, size of account and financial standing. For policyholders, credit is managed so that the amount due is matched to the unexpired risk. Where amounts fall outside credit terms a full range of credit control procedures are applied. Where these are not successful the debt is impaired.

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

| 2017 | AAA £m | AA £m | A £m | BBB £m | BB £m | Captives not rated £m | Other not rated £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Reinsurance assets | - | 1,190.8 | 11.2 | - | - | - | 127.8 | 1,329.8 |
| Available for sale financial assets | 570.5 | 753.0 | 498.2 | 647.6 | 7.3 | - | 265.1 | 2,741.7 |
| Loans | - | 7.0 | 59.9 | - | - | - | 1.5 | 68.4 |
| Insurance receivables(1) | - | 85.3 | 160.0 | 25.9 | - | - | 522.5 | 793.7 |
| Cash and cash equivalents | - | - | 20.9 | - | - | - | - | 20.9 |
| Total £m | 570.5 | 2,036.1 | 750.2 | 673.5 | 7.3 | - | 916.9 | 4,954.5 |
| Per cent | 11.5 | 41.1 | 15.2 | 13.6 | 0.1 | 0.0 | 18.5 | 100.0 |

| 2016 | AAA £m | AA £m | A £m | BBB £m | BB £m | Captives not rated £m | Other not rated £m | Total £m |
|---|---|---|---|---|---|---|---|---|
| Reinsurance assets | 9.9 | 1,236.4 | 10.9 | 0.1 | - | 0.7 | 63.6 | 1,321.6 |
| Available for sale financial assets | 489.8 | 804.9 | 352.1 | 547.5 | 22.7 | - | 105.5 | 2,322.5 |
| Loans | - | 347.7 | - | - | - | - | 2.9 | 350.6 |
| Insurance receivables(1) | 0.2 | 89.2 | 137.6 | 17.1 | - | - | 534.3 | 778.4 |
| Cash and cash equivalents(2) | - | - | 100.6 | - | - | - | - | 100.6 |
| Total £m | 499.9 | 2,478.2 | 601.2 | 564.7 | 22.7 | 0.7 | 706.3 | 4,873.7 |
| Per cent | 10.3 | 50.8 | 12.3 | 11.6 | 0.5 | 0.0 | 14.5 | 100.0 |

(1) Included in the not rated balance is £417.0m (2016 £395.7m) 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 Financial Conduct Authority.

(2) Refer to note 27.

The available for sale financial assets shown in the above table are made up of equity securities £265.1m (2016 £105.5m) and bonds £2,476.6m (2016 £2,217.0m).

## 34. RISK MANAGEMENT POLICIES (CONTINUED)

The following table provides details of the markets on which the managed funds are listed and the types of bonds held. This analysis is intended to provide an indication of the quality of these holdings.

| Managed funds | AIM £m | Collective investment funds £m | Unlisted £m | Total £m |
|---|---|---|---|---|
| 2017 | - | 265.1 | - | 265.1 |
| 2016 | - | 105.5 | - | 105.5 |

| Bonds | Government £m | Corporate £m | Supranationals £m | Total £m |
|---|---|---|---|---|
| 2017 | 480.9 | 1,897.7 | 98.0 | 2,476.6 |
| 2016 | 495.8 | 1,637.3 | 83.9 | 2,217.0 |

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

| | 2017 £m Reinsurance assets | 2017 £m Insurance receivables | 2016 £m Reinsurance assets | 2016 £m Insurance receivables |
|---|---|---|---|---|
| Neither past due or impaired | 1,328.2 | 661.1 | 1,321.4 | 664.8 |
| Past due but not impaired | - | 131.8 | - | 112.4 |
| Individually impaired | 1.6 | 0.8 | 0.2 | 1.2 |
| Total | 1,329.8 | 793.7 | 1,321.6 | 778.4 |

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

| 2017 | Less than 90 days £m | 90-120 days £m | 120-180 days £m | More than 180 days £m | Total £m |
|---|---|---|---|---|---|
| Policyholders | 3.1 | 0.1 | - | - | 3.2 |
| Brokers | 46.1 | 33.5 | 19.6 | 27.3 | 126.5 |
| Reinsurers | 0.6 | 0.1 | - | 1.4 | 2.1 |
| Total | 49.8 | 33.7 | 19.6 | 28.7 | 131.8 |
| **2016** | | | | | |
| Policyholders | 1.7 | - | - | - | 1.7 |
| Brokers | 41.0 | 22.8 | 13.4 | 33.5 | 110.7 |
| Reinsurers | - | - | - | - | - |
| Total | 42.7 | 22.8 | 13.4 | 33.5 | 112.4 |

The individually impaired reinsurance assets and insurance receivables have been impaired after considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

### Fair value hierarchy

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

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

Level 2: inputs other than quoted prices that are observable either directly or indirectly.

Level 3: inputs that are not based on observable market data.

| Group 2017 | Fair value as of December 31, £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|---|---|---|---|
| Available for sale financial assets | | | | |
| Managed funds | 265.1 | 251.6 | - | 13.5 |
| Government and government agency bonds | 578.9 | 391.2 | 187.7 | - |
| Corporate bonds | 1,897.7 | 32.0 | 1,851.7 | 14.0 |
| Own use properties | 15.9 | - | - | 15.9 |
| Investment properties | 157.1 | - | - | 157.1 |
| Total | 2,914.7 | 561.5 | 2,166.7 | 186.5 |

| Group 2016 | Fair value as of December 31, £m | Level 1 £m | Level 2 £m | Level 3 £m |
|---|---|---|---|---|
| Available for sale financial assets | | | | |
| Managed funds | 105.5 | 91.5 | - | 14.0 |
| Government and government agency bonds | 579.7 | 579.7 | - | - |
| Corporate bonds | 1,637.3 | 13.1 | 1,624.2 | - |
| Own use properties | 15.4 | - | - | 15.4 |
| Investment properties | 142.4 | - | - | 142.4 |
| Total | 2,480.3 | 684.3 | 1,624.2 | 171.8 |

The Company does not hold financial assets held at fair value.

## 34. RISK MANAGEMENT POLICIES (CONTINUED)

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

| 2017 | Fair value as of January 1, £m | Additions £m | Disposals £m | Unrealised gains/(losses) in profit and loss £m | Unrealised gains/(losses) in equity £m | Fair value as of December 31, £m |
|---|---|---|---|---|---|---|
| Group | | | | | | |
| Equity securities | 14.0 | - | - | (1.5) | 1.0 | 13.5 |
| Own use properties | 15.4 | - | - | 0.5 | - | 15.9 |
| Investment properties | 142.4 | 28.4 | (25.2) | 11.5 | - | 157.1 |

| 2016 | Fair value as of January 1, £m | Additions £m | Disposals £m | Unrealised gains/(losses) in profit and loss £m | Unrealised gains/(losses) in equity £m | Fair value as of December 31, £m |
|---|---|---|---|---|---|---|
| Group | | | | | | |
| Equity securities | 16.9 | - | - | - | (2.9) | 14.0 |
| Own use properties | 17.1 | - | - | (1.5) | (0.2) | 15.4 |
| Investment properties | 154.3 | - | (1.9) | (10.0) | - | 142.4 |

Level 3 financial instruments are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market transactions in the same instrument and are not based on observable market data. The Company does not hold any Level 3 financial assets.

### Equity securities

Included in Level 3 is the Group holding in a property fund. The fair value of this holding £13.5m (2016 £14.0m) is based upon the net asset value of the fund.

### Investment properties

Valuation technique:

An all risk yield investment method of valuation has been adopted for estimating the fair value of the investment properties, whereby the rental income stream is capitalised at an appropriate capitalisation rate based on current comparable rental and investment transactions. In considering the evidence the net initial and, where known, equivalent and reversionary yields have been used to inform the valuation, capitalising the income to achieve an appropriate net initial yield, reversionary yield on the Market Rent (MR), and equivalent yield on the full income stream.

Significant unobservable inputs:

| | |
|---|---|
| Rental growth | Factored into the yield applied (location/sector specific) |
| Voids | 0–9 months |
| Occupancy rate | Approximately 97.96% |
| Rent free | 0–18 months upon re-letting |
| Equivalent yields applied | 5.00%–9.35% |

The estimated fair value would increase / (decrease) if:

- expected market rental growth were higher / (lower)
- void periods were shorter / (longer)
- rent free periods were shorter / (longer); or
- the occupancy rate were higher / (lower).

### Own use properties

Valuation technique:
In estimating the fair value, the vacant possession value has been considered (assuming that no rental income is currently received), whereby underlying site values were considered and market assumptions were adopted, as appropriate, for void costs, redevelopment cost 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 | 24–33 months |
| Market Rent (MR) | £12–£32.50 per square foot (refurbished/redeveloped) |
| Rent free | 12–18 months upon re-letting |
| Letting fees | 15% of MR |

The estimated fair value would increase / (decrease) if:

- expected market rental growth were higher / (lower)
- void periods were shorter / (longer)
- rent free periods were shorter / (longer); or
- redevelopment/refurbishment costs were lower/(higher).

### c) Liquidity risk

Liquidity risk is the risk that cash might not be available to pay obligations when they fall due at a reasonable cost. The Group is exposed to daily calls on its available cash 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 Group's available for sale financial assets and loans at December 31, 2017 amounted to £2,810.1m (2016 £2,673.1m) plus cash and cash equivalents including cash pooling to Allianz SE Group of £80.6m (2016 £168.4m). With the exception of the lent securities (see note 24), nearly all of these are readily realisable. As a result, the Group's exposure to potential liquidity risk is extremely low and in the various risk capital models used by the Group no capital is allocated to this risk.

The following tables show information about the estimated timing of the undiscounted cashflows from the Group's available for sale financial assets and insurance contracts liabilities. The analysis provided is by estimating timings of the amounts recognised in the balance sheet.

| Available for sale financial assets | Carrying amount £m | Less than 1 year[(1)] £m | 1-2 years £m | 2-5 years £m | 5-10 years £m | More than 10 years £m |
|---|---|---|---|---|---|---|
| 2017 | 2,741.7 | 481.6 | 309.1 | 704.8 | 715.3 | 530.9 |
| 2016 | 2,337.2 | 374.1 | 161.9 | 610.7 | 623.2 | 567.3 |

[(1)] Includes the Group's investment in equities.

| Insurance liabilities | Carrying amount £m | Less than 1 year £m | 1-2 years £m | 2-5 years £m | 5-10 years £m | More than 10 years £m |
|---|---|---|---|---|---|---|
| 2017 | 1,780.0 | 837.5 | 401.8 | 382.2 | 62.6 | 95.9 |
| 2016 | 1,751.2 | 751.6 | 398.4 | 400.2 | 102.2 | 98.8 |

### Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group'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 Group standards for the management of operational risk.

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

### Capital Management

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

The level of capital required by the Group is determined by its risk appetite, approved by the Board. We adapt the Allianz Group Internal Model to our UK specific requirements to calculate the risk capital required. The model has been approved for use to determine the Solvency Capital Requirement (SCR) under Solvency II for Allianz Insurance plc. This process involves undertaking a comprehensive assessment of the risks in the business and then quantifying the amount and composition of the capital the Group needs to hold to mitigate these risks to an agreed level of confidence.

The Group'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. 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.

Several of the companies in the Group are regulated in respect of prudential requirements (including capitalisation) by the Prudential Regulation Authority (PRA). The Group aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of one of a series of pre-specified financial market and insurance shocks. This risk appetite provides for a buffer above SCR to ensure that the Group is adequately capitalised in most expected circumstances. The Group also aims to be capitalised to a level equivalent to an "A" rating of Standard & Poors. 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.

The Group's capital comprises total shareholders' equity and amounts to £1,875.7m (2016 £1,263.0m) on the basis reported in these accounts.

The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

At December 31, 2017 the own funds for Allianz Insurance plc amount to £964.4m (1) with a surplus of 30% (1) on SCR (2016 own funds £1,082.9m, surplus 31% (1) on SCR).

## 35. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Allianz (UK) Limited, a company registered in England and Wales.

The ultimate parent undertaking, Allianz Societas Europaea, 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 Societas Europaea, Königinstrasse 28, 80802, München, Germany.

## 36. CONTINGENCIES AND COMMITMENTS

### Legal proceedings and regulations

The Group 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 material effect on its results and financial position.

(1) Unaudited figures

## 37. CASH FLOWS FROM OPERATING ACTIVITIES

| Group | Notes | 2017 £m | Restated[1] 2016 £m |
|---|---|---|---|
| **Non cash items** | | | |
| Amortisation of intangible assets | 15 | 3.1 | 3.3 |
| Amortisation of net deferred acquisition costs | 19 | 209.9 | 284.7 |
| Net acquisition costs deferred during the year | 19 | (214.5) | (236.0) |
| Depreciation of property and equipment | 17 | 3.6 | 4.8 |
| Amortisation of available for sale financial assets | | 13.4 | 16.5 |
| Impairment of available for sale assets | | 1.5 | - |
| Net realised gain on disposal of subsidiary | 14(b) | (36.6) | - |
| Net realised gain on disposal of renewal rights | | (1.0) | - |
| Early redemption fees on loans receivable | | (26.8) | - |
| Net realised gains from sale of available for sale financial assets | 5 | (9.7) | (10.4) |
| Net fair value gains on available for sale financial assets | | (40.1) | (45.8) |
| Net fair value (gains)/losses on investment properties | 6 | (11.5) | 10.0 |
| Net fair value (gains)/losses on own use property | 6 | (0.5) | 1.5 |
| Net fair value gains on financial liabilities | 6 | - | (0.9) |
| **Total non cash items** | | (109.2) | 27.7 |
| | | | |
| **Changes in working capital** | | | |
| (Decrease)/increase in provisions for other liabilities and charges | 29 | (0.1) | 2.6 |
| Increase in pension benefit surplus | 16 | 4.8 | 9.0 |
| Increase in reinsurance assets | 22 | (8.2) | (523.0) |
| (Increase)/decrease in prepayments and accrued income | 23 | (0.8) | 1.7 |
| (Increase)/decrease in insurance receivables | 25 | (15.3) | 7.6 |
| Decrease/(increase) in other receivables[1] | 26 | 6.5 | (23.9) |
| Increase/(decrease)in insurance contracts liabilities | 30 | 42.8 | (27.5) |
| Increase in insurance related payables | 32 | 56.4 | 400.1 |
| (Decrease)/increase in accruals and other payables | 33 | (85.1) | 115.6 |
| **Total changes in working capital** | | 1.0 | (37.8) |

[1] Refer to note 27.

The Group classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows, as the purchases are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of benefits and claims incurred for insurance and investment contracts, which are respectively treated under operating activities.

| Company | Notes | 2017 £m | 2016 £m |
|---|---|---|---|
| **Non cash items** | | | |
| Realised gain from sale of subsidiary | | 47.1 | - |
| Change in market value of dervitative | | (2.7) | - |
| **Total non cash items** | | 44.4 | - |
| | | | |
| **Changes in working capital** | | | |
| (Decrease)/increase in other receivables | 26 | (53.9) | 8.1 |
| (Decrease)/increase in accruals and other payables | 33 | (73.4) | 73.6 |
| Increase in provisions for other liabilities and charges | | - | 0.5 |
| **Total changes in working capital** | | (127.3) | 82.2 |

## 38. RELATED PARTY TRANSACTIONS

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

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

| | Group 2017 £m | Company 2017 £m | Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| Purchase of shareholding in associated undertaking | 534.4 | 534.4 | - | - |
| Dividends received from subsidiaries | - | 4.9 | - | - |
| Fee received on early repayment of loan to ultimate parent | 26.8 | - | - | - |
| Interest received on loans to ultimate parent | 3.1 | - | 19.4 | - |
| Sale of renewal rights | 1.0 | - | - | - |
| Purchase of renewal rights | (52.0) | - | - | - |
| Dividends paid to the parent | - | - | - | - |
| Sale of subsidiary | 36.6 | 47.1 | - | - |
| Interest paid on loans from subsidiaries | - | (0.7) | - | (0.7) |
| Reinsurance contracts purchased from other related parties | (863.9) | - | (845.5) | - |
| Reinsurance claim recoveries from other related parties | 541.2 | - | 647.9 | - |

Reinsurance contracts are made on a normal arm's length transaction basis. Transactions with pension benefit plans are detailed in note 16.

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

| | Group 2017 £m | Company 2017 £m | Restated[(1)] Group 2016 £m | Company 2016 £m |
|---|---|---|---|---|
| **Due from related parties at December 31,** | | | | |
| Parent | 50.9 | 47.1 | 50.9 | 47.1 |
| Subsidiaries | - | 83.5 | - | 35.5 |
| Other related parties[(1)] | 815.5 | - | 71.8 | - |
| **Total** | 866.4 | 130.6 | 122.7 | 82.6 |
| **Due to related parties at December 31,** | | | | |
| Subsidiaries | - | 62.4 | - | 61.7 |
| Other related parties | 947.8 | - | 985.3 | 80.0 |
| **Total** | 947.8 | 62.4 | 985.3 | 141.7 |
| **Loans from related parties at December 31,** | | | | |
| Subsidiaries | - | 20.0 | - | 20.0 |
| **Total** | - | 20.0 | - | 20.0 |
| **Loans to related parties at December 31,** | | | | |
| Subsidiaries | - | - | - | - |
| Ultimate parent | - | - | 340.0 | - |
| Total | - | - | 340.0 | - |

(1) Refer to note 27.

### (b) Compensation of key management personnel

Key management personnel of the Group includes all executive and non executive directors, and other members of the Allianz Holdings plc management board. The summary of compensation of key management personnel for the year is as follows:

| | 2017 £m | 2016 £m |
|---|---|---|
| Salaries and other short term employee benefits | 3.5 | 4.4 |
| Post employment pension benefits | - | 1.3 |
| Share based payments | 1.4 | 2.3 |
| **Total compensation of key management personnel** | 4.9 | 8.0 |

### (c) Investment in subsidiaries

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

Other than letters of support provided to subsidiaries with negative net assets, 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.

### (d) Director's interest in contract

During the year, payments totalling £nil (2016 £9,000 (excl. VAT)) were made to Dinesen Associates Ltd in relation to executive coaching services provided by Mr Dinesen (a Director of the Company).

## 39. SUBSEQUENT EVENTS

### Pension fund merger

As per the merger deed signed on February 19, 2018, the AGF Pension and Life Assurance Scheme will merge into the Allianz Retirement and Death Benefits Fund. The first transfer of assets is expected to take place in early April, 2018, with remaining assets expected to be transferred by mid-2018. Upon merging the schemes, Allianz Management Services Limited will pay an additional £60m contribution into the merged scheme.

### Dividends

On March 27, 2018 the Directors of Allianz Insurance plc, a wholly owned subsidiary of the Company, approved the payment of an interim dividends of £175m in respect of the year ended December 31, 2017.

# GREAT BRITAIN

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### Petplan

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