ANNUAL REPORT AND FINANCIAL STATEMENTS

2018

ALLIANZ HOLDINGS PLC

Allianz

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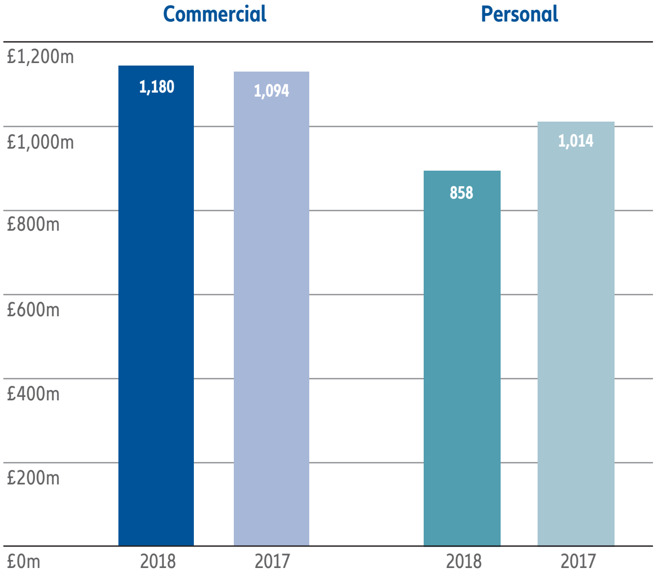
CONTENTS

FINANCIAL HIGHLIGHTS

	2018 £m	2017[2] £m
General insurance contracts premium revenue (Note 3)		
Gross written premiums	2,038.1	2,108.0
Net written premiums	1,147.2	1,196.6
Results		
Total revenue	1,510.2	1,582.4
Total claims and expenses	(1,358.3)	(1,405.0)
Profit before tax	151.9	177.4
Income tax charge	(15.8)	(26.8)
Profit after tax	136.1	150.6
Operating profit[1] before quota share	171.2	121.5
Operating profit[1] after quota share	133.7	98.3
Total equity	1,792.6	1,866.7

[1] Operating profit is on an Allianz SE Group basis. A reconciliation to profit before tax is included in note 40.
[2] Restated. Refer to notes 3 and 32.

GROSS WRITTEN PREMIUMS



CHIEF EXECUTIVE'S REPORT

2018 was a year of transition with strong progress in the development of the strategic joint venture partnership with LV=. Operating profit before quota share to the Allianz Group increased from £122m to £171m, with premiums reducing by 3.3%[1] after business transfers to the joint venture.

LV JOINT VENTURE

The joint venture with LV= has made significant progress since Allianz acquired a 49% stake in the LV= General Insurance business (LVGIG) in December 2017. The transfer of Allianz Insurance plc's personal home and motor business to LVGIG commenced in the second quarter and the transfer of LVGIG's commercial business to Allianz Insurance plc began in September. This has involved new arrangements with 1,600 of our existing brokers and building 167 new broker relationships. By the end of the transfer process, almost 600,000 policy details will have been exchanged between ourselves and LVGIG.

Subject to any acceleration from exercise of the put option held by LV= Friendly Society (LVFS), the second stage of the transaction will take place in December 2019, when Allianz will pay an additional £213m for a further 20.9% stake in LVGIG via an agreed forward purchase based on a total valuation of £1,020m for 100% of LVGIG. After completion of this second stage, consolidated premium income is expected to be in excess of £3 billion and Allianz is predicted to become one of the three largest companies in the UK general insurance market. LVFS has a put option under which it can sell all or part of its remaining share to Allianz at any time, based on a fixed price up until the date of second completion then at market value thereafter.

QUOTA SHARE

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

[1] Refer to note 3.

responsible for optimising the results of the business prior to this quota share. For this reason, and to facilitate comparisons with prior years, the numbers quoted in this commentary are before quota share, unless stated otherwise.

RENEWAL AGENDA

Allianz Insurance looks to leverage the skills, expertise and scale of the wider Allianz Group. In particular, we are heavily committed to the Allianz Group's Renewal Agenda, which focuses on five important themes: customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. On the Capital Markets Day in November, Group announced Renewal Agenda 2.0 which incorporates a simplicity ambition for its operating entities designed to provide an even better service to our customers, reduce complexity, deliver for our employees and make ourselves even more productive. We are already strong in these aspects of our business and we will continue to utilise these themes to drive our business forward.

FINANCIAL RESULTS

On February 27, 2017, the UK Government's Lord Chancellor announced a new discount rate to be used to calculate pecuniary losses in respect of personal injury (the 'Ogden rate'). Consequently the real discount rate used in the UK changed from 2.5% to minus 0.75%. Compensators have since lobbied the Government for a review of the mechanism for setting the rate. As a consequence, on December 20, 2018 the Civil Liabilities Act received Royal Assent and introduced a new mechanism that is more reflective of how damages are actually invested. This new rate will be determined on or before August 6, 2019 and whilst there is uncertainty as to what it will be it is expected to move up from its current position. Accordingly, in our 2018 results the actuarial best estimate for the discount rate has been revised from -0.75% to 0% resulting in a positive claims release of £26.0m before and £15.6m after quota share.

Operating Profit in 2018 was £171.2m before and £133.7m after quota share, an increase from the £121.5m before and £98.3m after quota share achieved in 2017.

Profit after tax was £136.1m (after quota share). This compares to profit after tax of £150.6m in 2017 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. The underlying profit is driven by the strength of our Commercial business and continuing profitable growth in Petplan.

Gross written premium reduced by 3.3%(1) predominantly driven by the transfer of Allianz's personal home and motor business to LVGIG which was only partially offset by commercial business transferring to Allianz. The retained business lines post the LVGIG transfers (primarily Commercial, Animal Health and specialist lines) grew by 6.6% over 2017.

Commercial lines profits increased in 2018 with prior year releases mitigating a number of large losses and claims inflation running ahead of rate increases. Personal lines also returned a profit predominantly driven by continued strong performance in Animal Health and underwriting actions which saw the Motor account return to profit, offsetting losses seen in the Household account.

OPERATING PROFIT IN 2018 WAS £172.9M BEFORE AND £135.4M AFTER QUOTA SHARE, AN INCREASE FROM THE £121.3M BEFORE AND £98.1M AFTER QUOTA SHARE ACHIEVED IN 2017.

Commercial lines gross written premium grew by 7.9%(1) supported by modest rate increases and the business transfers from LVGIG. Motor business continued its record of strong profit performance and the Engineering business delivered very satisfactory profits. Positive prior year claim reserve releases saw the Liability account return profits for a fifth successive year. The Property account suffered a marginal loss with benign weather conditions being insufficient to offset large losses. Similarly, a run of larger claims on the Packages account saw the account return a loss.

Intermediary commissions increased marginally reflecting ongoing consolidation in the Broker Market and a slight shift in overall business mix. Premium rate increases have been below claims inflation and further rate strength is needed across all Commercial lines of business.

The termination of poor performing accounts in 2017 and the transfer of the motor and household business to LVGIG has seen Personal lines gross written premium reduce by 15.4%. Poor claims experience on the Household account, which is now being run down, has resulted in significant losses. The Motor account delivered a profit supported by prior year claims reserve releases.

(1) Refer to note 3.

Our Animal Health business has performed strongly again, delivering profitable growth. The Corporate Partner Animal Health account remained flat in terms of growth following previous underwriting actions which have moved the result into profit. The Corporate Partner All Risks account, which is primarily mobile phone coverage, continues to produce profit but premium reduced by 10%. The Legal Protection business continued to deliver losses due to the deterioration of prior years on some schemes.

Investment returns were impacted by lower interest rates on maturing deposits. The investment strategy remained largely unchanged from last year with only minor variations to asset allocation. In 2018 disinvestments were made from a real estate fund and an emerging market sovereign debt fund due to unfavourable market conditions and poor fund performance. Most of the proceeds were reinvested into gilts. The allocation to equities and property remain as a small proportion of total assets in order to control risk. Operating investment income reduced slightly due to lower reinvestment yields on maturing bonds.

THE TRANSFER OF COMMERCIAL BUSINESS FROM LVGIG HAS BEEN FACILITATED BY THE SUCCESSFUL MAPPING OF E-TRADED PRODUCTS ONTO OUR OWN PRODUCT SUITE AND NEW TAXI AND TRUCK PRODUCTS HAVE BEEN INTRODUCED AND ARE PERFORMING WELL.

CUSTOMER

2018 saw the introduction of a number of new customer propositions. We refreshed our motor fleet products to provide businesses with new and enhanced covers and access to improved risk management services to help reduce costs. The re-brand of our engineering business to Allianz Engineering, Construction and Power was supported by a new renewables suite of products providing comprehensive Construction Risks and Operational Risks cover, with associated Public Liability and Business Interruption available alongside other optional covers. The transfer of commercial business from LVGIG has been facilitated by the successful mapping of e-traded products onto our own product suite, plus new taxi and truck products have been introduced and are performing well.

The Top Down Net Promoter Score (TDNPS) is an important indicator of our broker customer service. Third party researchers ask our broker partners questions about our business and competitors to gain honest and anonymous feedback about our performance. Both our General Commercial and Engineering, Construction and Power businesses remain Loyalty Leaders. For Petplan we speak to our customers and our competitors' customers.

In the latest measurement, we've retained first position, with a score of 24.2%, which is an increase of 6% since last year.

EMPLOYEES

Instrumental to achieving our strategic objectives is the investment in talent, as well as in the leadership and expert skills of our employees. Our well-established Underwriting Academy and Excellence in Claims programmes, as well as other professional skills programmes including the use of apprenticeships, support the continued development of technical insurance and other functional expert skills in our business.

External recognition in 2018 included being named Commercial Lines Insurer of the Year at the British Insurance Awards. Allianz was also named Insurer of the Year and Risk Team of the Year at the Insurance ERM (Enterprise Risk Management) Awards. We achieved individual and team success at the Digital Technology Leaders Awards, Insurance Times Tech and Innovation Awards, Women in IT Awards and our Claims team was granted the Gracechurch Outstanding Quality Marque. Allianz was also named in the top 50 UK inclusive employers, recognising our work on recruitment, training and diversity-related initiatives such as our Paralympic partnership.

CORPORATE SOCIAL RESPONSIBILITY

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, with the aim of raising £1m in three-years. In 2018 we raised a total of £413,000, comprising employee fundraising and company contributions. At the end of the three year partnership we beat our fundraising target by raising £1,075,000. Employees of Allianz Insurance voted to select Mind, the leading mental health charity, and their sister charity SAMH (Scottish Association for Mental Health) as their new charity partner from March 2019, with the aim of raising £1m over another three-year period.

Our successful partnership with Premiership Rugby champions, Saracens, continues. Allianz Park remains an important venue for both the local community and the rugby club and we are the lead partner of the Saracens Sports Foundation, supporting a wheelchair rugby programme that helps young disabled people to experience the sport.

At Allianz Group level, a new worldwide partnership with the International Olympic Committee was announced which will run from 2021-28, alongside the existing partnership with the International Paralympic Committee. In the UK, our partnership with the British Paralympic Association continued. One highlight was the series of four Winter Games themed Dare to Believe sport festivals that brought hundreds of young people (including many with special educational needs), teachers and Allianz volunteers together.

REGULATION

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 Prudential Regulation Authority – PRA). We have continued to respond to the output of various reviews by the FCA, and have completed the implementation of the changes required under the new EU insurance distribution directive and data protection rules. The first phase of preparation work for implementation of the General Data Protection Regulation (GDPR) was completed in May 2018 and included the adoption of the Allianz Privacy Standard which forms the basis of the Allianz Group's Binding Corporate Rules. The second phase of work is underway and focuses on further strengthening key areas including data management and the privacy culture. In October the FCA launched a market study into pricing practices in the retail home and motor insurance markets, and whist the FCA have not asked Allianz to contribute to the study we will be in scope for any findings. With regard to the PRA, firm specific and market wide feedback is reviewed and actioned as a matter of course. During 2018 Allianz received approval for changes to our internal capital model. We continue to maintain open and regular communication with our regulators.

The government has announced a delay to the implementation of its proposed whiplash reforms by a year, to April 2020. This will introduce tariff damages for injuries up to two 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. Allianz's objective has always been to compensate genuinely injured people quickly and fairly without influence from disproportionate legal costs, so we welcome the whiplash claims provisions within the Bill.

INSTRUMENTAL TO ACHIEVING OUR STRATEGIC OBJECTIVES IS THE INVESTMENT IN TALENT, AS WELL AS IN THE LEADERSHIP AND EXPERT SKILLS OF OUR EMPLOYEES.

With the continuing development of autonomous technologies the Automated and Electric Vehicles Act 2018 received Royal Assent on July 19, 2018. This paves the way for insurers to develop products to cover vehicles with these technologies. The Act 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.

A number of high profile events have made it clear that terrorists have adopted new strategies with vehicles being used as weapons. From January 1, 2019, the MIB (Motor Insurers' Bureau) will be liable for compensation related to victims of vehicle-related terrorist events.

Following the Grenfell Tower tragedy, research showed the inadequacy of the tests used to check the fire safety of building materials. The ABI, in its submission to the Hackitt review, called for only non-combustible materials to be used in construction, and reformed testing that replicates real world conditions to provide genuine evidence of how materials perform in a fire. These proposals have been included in the report from the Housing, Communities and Local Government Select Committee which was published on July 18, 2018.

FUTURE OUTLOOK

While uncertainty remains over the precise nature of the UK's withdrawal from the European Union, 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 remains surplus capacity in the insurance market and our customers are rightly as price-conscious as ever, so we expect market conditions to remain extremely competitive. Nevertheless, the 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 continue to be successful in 2019.

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, 2018.

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 2018 and the prospects for 2019.

The Strategic Report does not aim 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 its service divisions – Technical, Claims, Operations, Finance, HR and IT. An analysis of the 2018 results and the prospects for 2019 are set out in the Business Report on page 20.

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 2018 RESULTS

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. In 2018 Allianz won Commercial Lines Insurer of the Year at the British Insurance Awards and was named Insurer of the Year and Risk Team of the Year at the InsuranceERM (Enterprise Risk Management) Awards. Other awards were achieved in many areas, including digital technology, innovation, diversity, underwriting and claims.

In Personal lines the Motor account produced a profit as a result of previous remedial underwriting actions and prior year releases, while the Home business saw poor claims experience returning a loss. From mid-year we ceased writing Personal lines motor and home business, with renewals transferring to LVGIG. More detail can be found in the Chief Executive's Report.

Commercial lines saw modest rate increases, however still below claims inflation, hence further rate strength is needed across all Commercial lines of business. Benign weather conditions and improved performance in relation to prior years helped to mitigate large losses and claims inflation running ahead of price increases.

Gross written premiums reduced to £2,038m from £2,108 in 2017, a 3.3% decrease. Commerical lines grew by 7.9% driven by rate strength and growth in underlying volumes supported by the LVGIG business transfers. Personal lines shrank by 15.4%, largely driven by the transfer of motor and household insurance to LVGIG, as well as the withdrawal from some unprofitable schemes which more than offset the 8.6% increase seen in Animal Health.

Operating Profit increased from £121.5m to £171.2m, which includes a £26.0m favourable release due to the anticipated change to the Ogden discount rate, was a strong result in the context of the year in which interest rates remained at low levels, and market rate strength was inadequate. Operating profit is profit before tax adjusted for realised gains, impairments and other income on an Allianz SE Group basis. Profit before tax was £182.1m compared with £195.1m in 2017.

Key Performance Indicators – before quota share	2018 £m	2017[(1)] £m	2016[(1)] £m
Gross written premium	2,038.1	2,108.0	2,066.7
Net written premium	1,912.1	1,994.4	1,948.7
Underwriting results	70.8	37.2	8.6
Operating profit[(2)]	171.2	121.5	94.7
Profit before tax	182.1	195.1	101.5
Claims ratio	64.8%	67.4%	68.4%
Expense ratio	31.6%	30.7%	31.2%
Combined ratio	96.4%	98.1%	99.6%
UK employee turnover	17.5%	16.5%	19.5%

Source – Management Accounts.

(1) Restated. Refer to notes 3 and 32.

(2) Operating profit is on an Allianz SE Group basis. A reconciliation to profit before tax is included in note 40.

FUTURE OUTLOOK

Premium income at a gross level is expected to increase modestly in 2019 with the underlying growth in the Commercial and Animal Health business continuing to be offset by the net impact of the Personal and Commercial business transfers to and from LVGIG. The quota share reinsurance will remain at 40% for 2019, 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. However, profitability is expected to improve further through 2019 as rate increases are applied and the benefits of the continuing investment in productivity initiatives and Technical Excellence are realised. The Company remains very vigilant with respect to claims fraud. By definition, insurance is an uncertain business and profitability in 2019 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. The CRO is 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. However, 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. All risks to which the business is exposed are subject to a comprehensive process of both qualitative and quantitative risk evaluation. Oversight of risk evaluation is the responsibility of the Risk Department. The main risks are kept under regular review, as are the controls to mitigate those risks. Particular risk types are subject to the supervision of various responsible committees including the Finance and Investment Committee, the Underwriting Committee, the Operational Risk Committee, and the Model Committee.

Allianz SE, the ultimate parent company, has adopted risk standards and the business complies with these standards in all material respects.

The overall effectiveness of the internal control system is monitored by the Internal Audit function. Key issues from individual audit reports are summarised to form a regular assessment of the control climate across the business which is reported to the Audit Committee. Internal Audit maintains a close working relationship with the Allianz SE Internal Audit department.

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 2018.

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. The Prudential Regulation Authority (PRA) and the College of Supervisors approved the model in 2015 to start on January 1, 2016. Subsequent model changes were approved in 2017 and 2018, including a change to better align our pension risk modelling with our accounting approach and a change to allow for the possibility that interest rates may become negative in future.

We validate the model and parameters through sensitivity analysis, independent internal peer reviews and, where appropriate, independent external reviews and summarise these activities in an annual validation report. For 2018 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. In particular during 2018, we used the model to conduct comprehensive scenario analysis about potential Brexit impacts.

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, 2018 was £672m(1) compared with own funds of £1,049m(1), leading to a solvency coverage ratio of 156%(1) (prior to any dividend payment). This compares to a ratio of 154%(1) as at December 31, 2017. Over the year there have been movements in both Own Funds and SCR, but the solvency ratio has remained strong.

Principal Risks and Uncertainties

We continually assess the principal risks and uncertainties facing our business monitoring potential impacts and where necessary implement mitigation and management solutions. Details of our principal risks and uncertainties can be found in note 35 on page 79.

Brexit

The outcome and timing of Brexit remains uncertain and we continue to monitor the potential impacts on our business. With operations based in the UK and minimal risk exposure outside the UK we feel that we are well placed to respond to any potential outcome.

Going Concern

We are confident in the company's ability to continue as a going concern. The business is well placed in managing risk, has a strong financial, trading and capital position and is backed by one of the largest property and casualty insurers in the world.

SHARE CAPITAL

There were no changes in capital structure or issued share capital of the Company during the year. 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. LVFS 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, based on a fixed price up until the date of second completion then at market value thereafter. 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.

The Group employs around 4,500 people in the UK and continues to utilise 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.

(1) Unaudited figures

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 leadership and management development programme. The Group has been accredited with the Investors in People standard on 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.

The **70/20/10** model highlights research indicating where people tend to get their learning and development from. In addition to all of the activities on offer within this brochure, you are encouraged to consider what alternative learning routes you could take.

20%

LEARN AND DEVELOP THROUGH **OTHERS**

- Feedback
- Coaching
- Mentoring
- Peer / group coaching
- Team building
- Job shadowing
- Networks
- Social learning
- Observation
- Facilitated group discussion
- Working with role models
- Asking for advice
- Membership to a professional association
- Reading
- Working with external organisations (eg charities)[(1)]

70%

LEARN AND DEVELOP THROUGH **EXPERIENCE**

- Presenting to senior stakeholders
- Problem solving
- Project work
- Stepping up
- Secondments
- Project reviews
- Research
- Increased decision making
- Customer visits
- Covering leave
- Cross-functional working
- Stretch assignments

10%

LEARN AND DEVELOP THROUGH **WORKSHOPS AND PROGRAMMES**

- Seminars
- e-learning
- Workshops
- Bite-size learning – face-to-face or virtual
- Accreditations
- Formal training and education
- Qualifications
- Masterclasses
- Conferences
- Webinars

[(1)] Working with a charity or other external organisation could be a viable method of supporting your personal development needs. Please remember that independent of your three personal development days, Allianz has a commitment to allow you up to ten working hours per year purely to support a charitable cause.

NON-FINANCIAL INFORMATION STATEMENT

About the report

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

CORPORATE SOCIAL RESPONSIBILITY GOVERNANCE AND STRATEGY

Allianz is committed to operating as a socially responsible business and to be the trusted partner of our stakeholders. Our Corporate Social Responsibility (CSR) strategy is based on three pillars, being a responsible business, protecting the environment and helping society and the communities we operate in.

We know that by acting responsibly we can provide products and services that meet our customers' needs, be a great place to work that attracts the best talent, reduce operating costs by being environmentally efficient and work in partnerships to address the challenges that our communities face.

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

1 ENVIRONMENTAL MATTERS

Protecting the environment is a key part of our CSR strategy and we aim to minimise our carbon footprint and support the development of a low carbon economy. We manage emissions from our operations and other environmental impacts of our business through energy efficiency, sourcing renewable energies, low-carbon travel alternatives and efficient resourcing.

We not only focus on our own impact on the environment through reducing our carbon footprint, but we also help our clients through the provision of sustainable products and services.

Allianz remains the highest ranked insurer worldwide in the Dow Jones Sustainability Index in 2018.

Climate Change

As a business that deals with risk, managing the impact on environmental matters is an important part of our approach. Climate change remains a major risk for the communities in which we operate and also directly impacts our business. Our corporate strategy includes systematically leveraging opportunities for financing a low-carbon and climate-resilient future, eg by investing in renewable energy, energy efficiency in real estate or electric vehicle infrastructure, and by providing insurance solutions for physical climate impacts and low-carbon business models.

Allianz works hard to manage its most significant environmental impacts...

Environmental

Allianz is committed to providing a safe and healthy workplace for its employees and conducting business in a way that safeguards health, protects the environment and conserves valuable materials and resources. Allianz works hard to manage its most significant environmental impacts, including the prevention of pollution, and strives to continually improve the environmental performance of its 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 AND ACHIEVEMENTS

Greenhouse Gas emissions per employee

Achievement:
In 2018 we achieved a 41% reduction, against a 2010 baseline, through energy efficiency measures, increasing the use of renewable energy and promoting low carbon travel.

Target:
We achieved our 2020 target to reduce carbon emissions by 33% per employee against a 2010 baseline early. However, we continue to look for ways to further improve.

Energy consumption from office buildings per employee

Achievement:
In 2018 we achieved a 34% 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 2018 all of our electricity, where we have control over the supply, was 100% renewable. If we include electricity where we don't have control, 50% of the overall total came from renewable sources.

Target:
Achieve 100% renewable energy, accross all sites by 2023.

2 EMPLOYEE MATTERS

We want to be the UK's No. 1 insurer by reputation, profitability and people. We aim to have the most engaged and qualified team in the industry to successfully deliver our business strategy and goals. Our approach is based on managing and rewarding talent, promoting diversity, inclusion and employee rights, as well as supporting wellbeing and engagement. This is underpinned by strategic HR frameworks, principles and tools including our People Attributes (Customer and Market Excellence, Collaborative Leadership, Entrepreneurship and Trust) that 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 and indicator of our corporate culture. Employee engagement is a high priority at Allianz as we strive to build a committed workforce that performs with integrity and delivers excellent outcomes for our customers. 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 aspects of leadership, performance, collaboration, trust and respect. The Work Well Index (WWI) covers aspects of the quality of the work environment and practices.

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.

We monitor employee satisfaction, loyalty, advocacy and pride...

Our Management Board is committed to enhancing diversity and inclusion at Allianz. We have a management board member on the 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 employee-led networks to better support the views and interests of specific diversity and inclusion topic areas including working families, LGBT+, cultural and ethnic diversity, life phases and mental wellbeing.

Specific initiatives started or continued to promote a culture of inclusion include:

- #timeforinclusion initiative which invites employees to share via video message on our intranet what inclusion means to them personally.
- Events and workshops around gender balance by our Allianz Women in the City network, open to all employees.
- Local and international mentoring programmes for women to support their career development.
- Gender-balanced representation on our leadership talent programmes.
- Launch of Allianz Pride network in the UK to support the LGBT+ community and allies.
- Mentoring programme for British Paralympic Association and for athletes and para-athletes.
- Continued membership of employer networks committed to enhancing diversity and inclusion, like the Business Disability Forum and Inclusive Companies.
- Signatory of the HM Treasury's Women in Finance Charter and of the CEO pledge for Inclusive Behaviours in Insurance.

The Returners@Allianz programme offers opportunities for individuals to re-enter the workplace after taking a career break.

3 SOCIAL MATTERS

We invest in our local communities and support causes that align with our company purpose and values. We also have an interest in empowering members of our society and giving access to employment, which in turn creates the talented and diverse workforce we rely on.

Social Inclusion

Our partnership with ParalympicsGB team shows our commitment to diversity and inclusion and is part of Allianz's global programme to support Paralympic sport. This commitment is also reflected in the work we do internally to create an inclusive workplace. Our diversity and wellbeing programmes create a culture where diversity of thought is valued and our range of employee networks support colleagues and ensure that we listen to their specific needs. In summary, we believe that a diverse workforce improves our business.

As principal partners of the Saracens Sports Foundation we also help to inspire local communities and promote the values of sport to provide opportunities as a catalyst for positive change.

Our employee volunteering programme gives employees 10 hours a year to help local and national charities. Activities range from professional skill sharing and mentoring through to more practical help such as maintaining gardens and buildings.

KPIs, TARGETS AND ACHIEVEMENTS

Allianz Engagement Survey:

Achievement:

72%
EEI score in 2018,
improved from 71% in 2017.

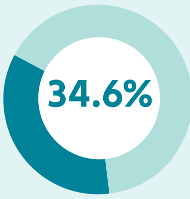
75%
IMIX score in 2018,
maintained from 75% in 2017.

70%
WWI score in 2018,
improved from 69% in 2017.

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

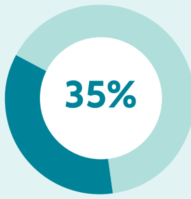
Diversity:

Achievement:



females in management positions
(at 31 December 2018).

Target:



females in management positions by December 2020.
(HMT Women in Finance Charter)

KPIs, TARGETS AND ACHIEVEMENTS

Association of Air Ambulance Charities partnership

Achievement:
In 2018 we raised £413,000 through employee fundraising and company contributions. The total raised over the three years to the end of 2018 was £1,075,000.

Target:
Raise £1m for Mind by the end of 2021.

Employee volunteering

Achievement:
In 2018, we recorded that 697 employees gave 4,315 hours of their time to their local communities. This equates to 17% of employees using their volunteering time.

Target:
One million volunteering minutes by end of 2019.

Dare to Believe programme

Achievement:
As part of our commitment to the Paralympic legacy, we held four Dare to Believe Festivals around the UK during the Winter Games. These festivals were designed to promote diversity and inclusion within schools and communities.

Corporate Charity Partnerships

Our corporate charity partnership with the Association of Air Ambulances Charity, which we launched in 2016, entered its third and final year. This long-term charity partnership positively impacts on the ability of air ambulances to reach critically injured and ill people across the country. The partnership raised over £1m during the three-year period with Allianz matching all money employees raised.

Mind, the leading mental health charity and their sister charity SAMH (Scottish Association for Mental Health), were chosen by Allianz employees as our new charity partner. The partnership, starting on March 1, 2019, will initially last three years and will see local fundraising activities take place at Allianz offices across the UK to support the charity's work. This will help Mind's campaign to improve services, raise awareness and promote understanding of mental health.

Dare to Believe Programme

In its second year, the partnership with Youth Sport Trust enabled our Dare to Believe programme to hold more festivals in schools during the Winter Paralympic Games. The festivals allowed 423 children, with and without special educational needs, to experience Paralympic sports with the aim of encouraging them to actively think about inclusivity. The festivals were run by the Youth Sports Trust along with 36 Allianz employee volunteers.

Allianz also made donations to Brake, Back Up, Transform Housing and the British Paralympic Association.

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.

Our positive reputation is built on the trust that customers, shareholders, employees and the general public have in our integrity.

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 and service 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. Customer feedback from multiple sources including surveys, complaints and review sites are analysed alongside operational measures for key risks and opportunities. Our governance includes a monthly cross-functional insight meeting which informs business activities and makes strategic recommendations to the relevant customer experience boards.

We also ensure quality standards for handling complaints are met and that customers are treated fairly.

KPIs, TARGETS AND ACHIEVEMENTS

Net Promoter Score performance – Commercial:

Achievement:
Achieved Loyalty Leader In 2018.

Target:
Achieve sole Loyalty Leader by 2019.

Net Promoter Score performance – Engineering:

Achievement:
Achieved Loyalty Leader In 2018.

Target:
Maintain sole Loyalty Leader.

Net Promoter Score performance – Pet

Achievement:
Achieved Above Market in 2018.

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, as well as 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 Privacy Standard (APS) 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. The standard applies to all Allianz Group companies and forms the basis of the Allianz Group's Binding Corporate Rules. We have implemented measures to ensure we meet the requirements of the APS.

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. A significant programme of work was undertaken during 2018 to implement the changes necessary to ensure compliance with the EU General Data Protection Regulation (GDPR) and Data Protection Act 2018.

We continue to strengthen 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

Data Protection

Achievement:
Completion of phase 1 of the Allianz Privacy Renewal Programme (APRP) established to implement GDPR requirements.

Target:
Continue work on phase 2 of APRP to implement data management principles as noted in the Allianz Standard for Information and Document Management, ongoing management of third party contracts and strengthening the privacy by design culture.

4 RESPECT FOR HUMAN RIGHTS

Concepts

We actively support employee rights and we strive to apply core human rights principles. We also expect our suppliers to agree to a Code of Conduct, which stipulates what they must fulfil with regards to fair labour practices, including adherence to the Modern Slavery Act 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.

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 the third parties we do business with, 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.

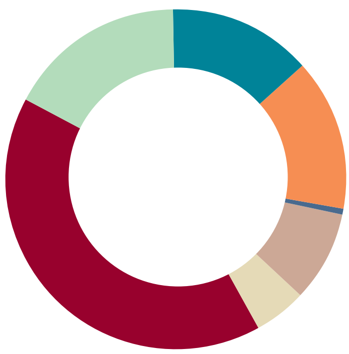
Our leaders are expected to act as role models in demonstrating ethical leadership on a daily basis through their decisions and actions. To reinforce this expectation during 2018 Allianz Insurance plc ran a series of workshops for all senior managers. Attendees at these workshops were in turn required to cascade the content to more junior management. Senior Manager and Certification Regime training was also provided to all relevant employees in preparation for the new regime coming into effect.

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 Tool. This online system provides consistent management of cases and facilitates internal reporting. All Allianz companies are required to perform an annual Internal Risk Control assessment.

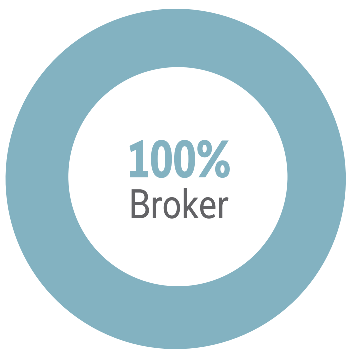
BUSINESS REPORT

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

PRODUCTS AND DISTRIBUTION BY NET WRITTEN PREMIUMS (AFTER QUOTA SHARE)



Property and Pecuniary	**16.9%**
Liability and PA	**13.7%**
Packages	**14.3%**
Other	**0.6%**
Motor Trade	**8.9%**
Engineering	**5.0%**
Motor	**40.6%**



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. From 2018, our Engineering Inspection business is reported separately and not within the underwriting result. Within this Business Report, comparisons to the prior year on the insurance business are on a like for like basis having excluded the 2017 Inspection income and results.

In aggregate, Allianz Commercial net written premiums increased to £1,085.3m from £1,013.9m[1] in 2017, driven by rate increases and growth in underlying volumes supported by the LVGIG business transfers. The underwriting profit was £54.8m, with benign weather conditions and improved performance in relation to prior years helping to mitigate large losses and claims inflation running ahead of price increases. The underwriting result is an improvement from a £48.5m[1] profit in 2017.

Allianz is one of the top five commercial insurers in the UK market. Despite a competitive market-rating environment, rate increases and growth in underlying volumes saw net written premiums grow by 7.9%[1]. Rate increases were achieved across all accounts other than 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.

The Motor account continued to perform very well, with good profitability despite rate increases being below claims inflation. An increase in the number of large losses on the property-dominated accounts were partially offset by low levels of weather related claims, however these accounts returned a loss. Despite a continuing competitive market for liability business, 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. The Insurance account premiums grew by 15.0%, supported by the new construction offering, and delivered

[1] Refer to note 3.

an underwriting profit of £11.1m. This is an improvement from a £6.0m profit in 2017. Engineering Inspection business income, which is no longer reported as written premium within the insurance accounts, grew by 5.5% due to increases in rates and underlying volumes. In aggregate, the engineering business delivered another year of very satisfactory profit 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 products. This business provides an advised broking service to direct clients placing risks with both Allianz and other insurers.

PERSONAL LINES

During 2018 we provided a wide range of personal lines products distributed through brokers, retailers, affinity partners and veterinary practices. From mid-year we commenced the transfer of Motor and Household business to LVGIG.

In aggregate, Allianz Personal net written premiums were £826.8m, a 15.7% reduction from £980.4 in 2017. This reduction was largely driven by the withdrawal from some unprofitable schemes and the transfer of motor and household insurance to LVGIG. Animal Health business continued to grow strongly, with an 8.6% increase in net written premium.

The underwriting result was a profit of £19.9m compared to a loss of £1.2m reported last year, when the result was impacted by losses in the Motor and Household business. The 2018 result continued to be impacted by losses in the Household account.

As a result of previous underwriting actions and releases from prior year claim reserves the Motor business returned to profit in 2018. We ceased writing Broker Motor risks during the year with the business transferring to LVGIG. The Corporate Partner Motor account saw premiums reduce significantly as actions were taken to return the account to profit. Net written premium on the household business reduced to £49.0m, down from £125.0m in 2017, reflecting the measures taken to improve profitability and the mid-year transfer of the business to LVGIG, however poor claims experience drove a loss of £32.9m. The underwriting result in 2017 was a loss of £24.8m

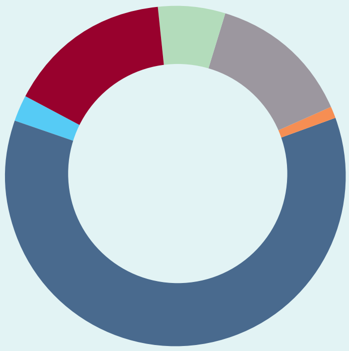
The warranty and creditor accounts continue to shrink as they run-off. The All Risks account (mostly mobile phone) also reduced in volume, but remains profitable.

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 8.6% and the business continued to provide attractive returns. Profits were also strong in the market-leading specialist musical insurance account with slightly reduced premium volumes reflecting increased competition from on-line and digitally optimised new entrants.

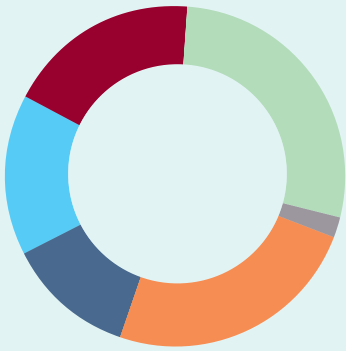
The Legal Protection business has a leading position in the After the Event market. Before the Event policies are also written on a strictly controlled basis. Net written premiums were down 3.2% on 2017 and deterioration in prior year claims for some After the Event schemes produced on underwriting loss of £4.9m, compared to a loss of £5.5m in 2017.

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 DISTRIBUTUION BY NET WRITTEN PREMIUMS (AFTER QUOTA SHARE)



Motor	15.8%
Household	6.3%
All Risk	13.5%
Other	1.1%
Pet	60.9%
Legal Expenses	2.4%



Broker	18.5%
Direct	27.8%
Retailer	2.0%
Affinity	24.4%
Vet	12.1%
Other	15.2%

INVESTMENTS

Investment strategy has continued to concentrate on minimising risk to the core insurance operations that give us our investment cash flows. The allocation to equities and property remain 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 in order to enhance returns. Disinvestments were made from a real estate fund and an emerging market sovereign debt fund due to unfavourable market conditions and poor fund performance. The proceeds were mainly reinvested into gilts. 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. The total return on the fixed interest portfolio for the year was lower than the benchmark due to spread widening and credit selection within the finance sector.

The Group's small commercial property portfolio consists of investments in office, retail and industrial properties. The quality of the portfolio was improved during the year with the disposal and reinvestment into properties with a more diversified income and stronger tenant covenants. The portfolio performed in line with the Investment Property Databank benchmark over the year, driven by stable rental income and successful rent reviews. Rental income is expected to remain a key contributor to performance going forward.

As the majority of the Group's business is undertaken in the UK, the investment portfolio is in sterling denominated assets.

Investment income in 2018 was £82.3m compared to £71.7m in 2017. Realised gains amounted to £3.4m in 2018, compared to £74.1m in 2017. The realised gains were much higher in 2017 owing to the sale of ACIS and compensation from early loan repayments. Looking ahead, pure investment income will likely be impacted by lower returns due to low reinvestment yields and the de-risking of the property portfolio.

F K Dyson
Director

The quality of the portfolio was improved during the year with the disposal and reinvestment into properties...

GOVERNANCE

NON-EXECUTIVE DIRECTORS

R O Hudson
(Chairman)

C W T Dinesen

R M Murison

D A Torrance

D J Larnder
(appointed 15.11.18)

EXECUTIVE DIRECTORS

J M Dye
(Chief Executive)

M J Churchlow
(resigned 31.12.18)

MANAGEMENT BOARD

J M Dye

J B I Abboud
(resigned 31.01.19)

M J Churchlow
(resigned 31.12.18)

N A Clutterbuck

P J Gennoy

G A Gibson

Dr K Schreiber

S Smith

S C McGinn

F K Dyson
(appointed 01.01.19)

SECRETARY

S J Hutchings

AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

REGISTERED OFFICE

57 Ladymead
Guildford
Surrey GU1 1DB
Registered No. 5134436

MANAGEMENT BOARD

JON DYE
Chief Executive Officer

Age 52. Joined Allianz in 2003 as Director, Claims then appointed General Manager, Retail in 2007. Previously held senior Claims Management positions in insurance.

FERNLEY DYSON
Chief Financial Officer

Age 54. Joined Allianz in 2019 as Chief Financial Officer. Previously held positions in professional and financial services, including in the insurance sector.

NEIL CLUTTERBUCK
Chief Underwriting Officer

Age 52. 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 60. 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 52. Joined Allianz in 2008 having previously held senior positions in Claims in the insurance industry.

SIMON MCGINN
General Manager Commercial & Personal

Age 48. 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 50. 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 44. 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

THE BOARD IS RESPONSIBLE FOR ORGANISING AND DIRECTING THE AFFAIRS OF THE GROUP IN THE BEST INTERESTS OF STAKEHOLDERS.

The Board currently comprises a non-executive Chairman, five non-executive directors and two executive directors (one of whom was appointed on April 11, 2019 following receipt of regulatory approval). The previous Chairman, who was a representative of the shareholder, resigned on December 31, 2017 and was replaced as Chairman by one of the independent non-executive directors on January 1, 2018 subject to regulatory approval (received on March 19, 2018). From 1 January, 2018 the appointment of a representative of the shareholder as a non-executive director was subject to regulatory approval.Following this approval he became director of the Company with effect from February 7, 2019. To maintain an appropriate balance of independence on the Board and its Committees, an additional independent non-executive director was appointed on November 15, 2018. The Chief Risk Officer and the Allianz SE Head of Business Division (Global Lines & Anglo Markets) are non-voting 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.

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, 2018 are detailed below:

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, the Chief Financial Officer, the General Manager Commercial & Personal, the Chief Risk Officer and the Executives who run the trading and service functions. The Management Board meets monthly to monitor business performance, compliance and risk

															Loss Reserve Committees	
	Board	Management Board	Compensation Committee	Audit Committee	Nomination Committee	Finance & Investment Committee (i)	Board Risk Committee	Model Committee	Operational Risk Committee	Underwriting Committee	Investment Committee (ii)	Reinsurance Panel	Financial Reporting Committee	Financial Reporting & Disclosure Committee	Commercial & Personal	Run-off
Number of Meetings	7	13	4	4	1	3	4	9	4	4	1	2	4	4	4	4
R O Hudson	7			4	1		4									
C W T Dinesen	7		2	4	1		4									
R M Murison	6		4	4	1		4									
D A Torrance	6			4			4									
D J Larnder – appointed 15.11.18	1			1			1									
M J Churchlow – resigned 31.12.18	6	13				2	3	7			1	2	4	4	4	4
J M Dye	7	13				3					1	2	4		4	4
J B I Abboud		13							2							
N A Clutterbuck		11								4		1			4	
P J Gennoy		12	4						3							
G A Gibson		13							4						3	3
S C McGinn		10								2		1			3	
K Schreiber (iii)		12							4	2(ii)				4		
S Smith		10							4							

The shaded area indicates the individual's Board and Committee memberships and the number of respective meetings they attended during the year.
(i) Finance & Investment Committee – first meeting 11 May 2018
(ii) Investment Committee – last meeting 1 March 2018
(iii) K Schreiber ceased to be a Member of the Underwriting Committee 25 June 2018

The Audit Committee monitors the integrity of the financial statements, financial reporting developments, financial controls and the system of internal control.

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 Management Board is also responsible for the oversight of its sub-Committees which include: the Operational Risk Committee, the Underwriting Committee and the Model Committee (responsibility for these Committees was transferred from the Board Risk Committee during the year). 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. Other Management Board sub-Committees are referred to below.

The Operational Risk Committee membership is comprised of the Chief Risk Officer who acts as Chairman, the Chief Operating Officer, the Chief Claims Officer, the Chief HR Officer, the Director of Commercial & Personal Broker Markets, the Group Compliance Officer, the Chief Legal Officer and Company Secretary and the Head of Qualitative Risk Management (who acts as Deputy Chairman). The following are non-voting 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 who acts as Chairman, the General Manager Commercial & Personal, the Directors of Underwriting and Technical for Commercial Lines (who acts as Deputy Chairman) and Personal Lines, the Head of Technical and Business Standards, the Head of Underwriting Data and MI, and the Head of Technical Claims or Senior Claims representative. The following are non-voting standing guests: the Chief Risk Officer, the Head of Internal Audit, the Group Compliance Officer and the Chief Actuary.

The Model Committee membership is comprised of the Chief Financial Officer who acts as Chairman, the Chief Actuary (who acts as Deputy Chairman), the Chief Underwriting Officer and the Chief Investment Officer. The Chief Risk Officer is a non-voting 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 non-voting standing guest.

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 non-voting 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 an independent 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 General Manager – Commercial and Personal, 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 non-voting 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.

In prior years the Board maintained a Finance Committee and an Investment Committee (as a sub-Committee). As previously indicated the Board concluded that the two Committees should be merged and the last meeting of the Finance Committee was held on October 5, 2017, with the last meeting of the Investment Committee on March 1, 2018. The combined Finance & Investment Committee then met for the first time on May 11, 2018.

The Finance & Investment Committee is a sub-Committee of the Board with responsibility for overseeing/managing the investment portfolios of Allianz Holdings plc and its subsidiaries (together the "Companies") and for overseeing their investment-related risks. The Committee also has responsibilities concerning and reporting by exception on investment risk matters to the Board Risk Committee. In addition to its investment portfolio responsibilities, the Committee's objectives include overseeing the planning and development of the Companies' asset allocation and investment income, overseeing the Companies' capital structure and liquidity position and approving individual investment transactions with significant impact for one or more of the Companies. Membership of the Finance & Investment Committee comprises the Chief Executive Officer as Chairman, the Chief Financial Officer (who acts as Deputy Chairman), the Chief Investment Officer and the Regional Chief Investment Officer of Allianz Investment Management SE. The Chief Risk Officer and the Allianz SE Head of the Business Division (Global Lines and Anglo Markets) are non-voting standing guests and the respective Allianz Investment Management SE Investment Manager is an invitee.

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. An Allianz SE representative and the Chief Executive Officer are non-voting 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 60. 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 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 non-voting standing guest. Other individuals, such as the Chief Executive Officer and External Advisers, may be invited to attend. 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.

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, the Chief Accountant, the General Manager Commercial & Personal and the Reinsurance Manager. The Chief Risk Officer and the Chief Actuary are non-voting standing guests. 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 Senior Tax Manager, the AGF Accountant 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 those required by the parent company, are fully and accurately reported on a timely basis.

The Commercial & Personal Loss Reserving 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 Commercial & Personal, the Chief Claims Officer and the Chief Underwriting Officer. The Chief Risk Officer is a non-voting standing guest. The Committee considers and recommends loss reserves for the Commercial and Personal Division business to the executive directors at the end of each quarter.

The Run-Off Loss Reserving 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 Chief Accountant, and the Chief Claims Officer. The Chief Risk Officer is a non-voting 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.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REPORT AND ACCOUNTS

The Directors present their report and the audited financial statements for the year ended December 31, 2018.

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 Allianz Holdings plc Group's ('Group') trading activities, approach to capital management and prospects, together with likely future developments and research and development activities, is included in the Chief Executive's Report and/or 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.

No interim dividend has been paid in respect of the year ended December 31, 2018 (2017: £175m paid on March 28, 2018). The Directors are not recommending the payment of a final dividend for the year ended December 31, 2018 (2017 £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 Directors of the Company who were in office during the year are shown on page 23. Following the year end, N C Peiris and F K Dyson were appointed as Directors with effect from February 7, 2019 and April 11, 2019 respectively.

D J Larnder, N C Peiris and F K Dyson having been appointed since the last Annual General Meeting retire and offer themselves for re-appointment at the next Annual General Meeting.

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 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 £314,540 (2017 £419,019). No political donations were made.

EMPLOYEES

The Group acknowledges that its employees are the core of its business success and it ensures that its processes, policies and procedures are tailored to ensure it attracts, develops and retains a talented workforce.

Our employment policy continues to include encouraging the employment, training and advancement of disabled persons and it has been granted 'Disability confident Employer' status by the Department for Work and Pensions. Job candidates will be assessed solely on their suitability for that position. The Group is dedicated to ensuring it is able to meet any specific needs for disabled candidates. As part of the Group's commitment, provided a candidate has made it aware they are disabled and meet the minimum requirements of the vacancy, they will be offered an interview for that position.

The Group employs persons regardless of their background or needs and promotes diversity within its workforce and inclusion of all people. We promote the active participation of staff to further improve inclusive working and recognise diversity. Employee learning and development opportunities are provided and such provision is accredited with the Investors in People Gold standard.

The Group aims to ensure that the health, safety and wellbeing of its staff is a core responsibility of its managers. It monitors and reports accidents and puts in place corrective actions to prevent reoccurrences. The Group ensures that where occupational health or risk assessments identify workplace adaptations are required, these are implemented.

The staff are offered participation in a range of benefits, including participation in share schemes, which encourages involvement in Allianz Groups' performance as well as contributing to the wellbeing of staff.

Throughout the Group, consultative procedures are in operation to enable management and staff to discuss matters of mutual interest. Staff are kept informed about the affairs of the Group through departmental channels, team briefings or via consultative bodies and information disseminated electronically including via regular employee newsletters and ongoing intranet news.

Under the procedural agreement with the recognised trade union, the Group hold regular meetings on topics raised by both parties; this is in addition to the normal negotiating processes.

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 35 to the Financial Statements on page 79.

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 resigned as auditor of the Company during the year and was replaced by PricewaterhouseCoopers LLP. Having expressed their willingness to continue in office as auditor, a resolution proposing the re-appointment of PricewaterhouseCoopers LLP will be submitted at the Annual General Meeting.

By order of the Board
S J Hutchings
Secretary
Allianz Holdings plc
Registered Number: 5134436
April 18, 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business.

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

By order of the Board
F K Dyson
Director
April 18, 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ALLIANZ HOLDINGS PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Allianz Holdings plc's group financial statements and parent company financial statements (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, 2018 and of the group's profit and the group's and the parent company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and parent company balance sheets as at December 31, 2018; the group statements of comprehensive income, the group and parent company statements of cash flows, and the group and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and parent company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended December 31, 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Annual Report, Strategic Report, the Directors' Report and the Financial Statements set out on page 34, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the 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 the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

- we have not received all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
April 18, 2019

Continuing operations	Notes	2018 £m	Restated[1] 2017 £m
Gross earned premiums[1]	3	2,084.6	2,095.4
Reinsurers' share of gross earned premiums	3	(912.0)	(910.4)
Net insurance revenue	3	1,172.6	1,185.0
Reinsurance commission		139.1	155.7
Net investment income	4	82.3	71.7
Net realised gains	5	3.4	74.1
Net fair value gains	6	32.1	19.0
Other income[1]		80.7	76.9
Other revenue		337.6	397.4
Total revenue		1,510.2	1,582.4
Gross insurance claims paid[1]		(1,342.6)	(1,332.2)
Reinsurers' share of gross insurance claims paid		559.7	554.9
Gross change in insurance liabilities		71.3	(26.6)
Reinsurers' share of gross change in insurance liabilities		(47.6)	5.2
Net insurance claims		(759.2)	(798.7)
Commission[1]		(335.5)	(366.3)
Other operating and administrative expenses[1]	7	(263.6)	(240.0)
Other expenses		(599.1)	(606.3)
Total claims and expenses		(1,358.3)	(1,405.0)
Profit before tax		151.9	177.4
Income tax expense	10	(15.8)	(26.8)
Profit for the year		136.1	150.6
Profit for the year attributable to:			
Equity holders		136.1	150.6
Other comprehensive income			
Items that may be reclassified to profit and loss			
Net change in fair value of available for sale financial assets		(51.7)	6.3
Net change in fair value of available for sale financial assets transferred to profit or loss		(20.6)	(12.0)
Items that will not be reclassified to profit and loss			
Gain/(loss) on pension fund		31.0	(40.8)
Prior year reinsurance recovery		5.1	-
Prior year dilapidations		(1.9)	-
Recognition of contract liability		(1.2)	-
Foreign currency translation differences arising on revaluation of equity		-	(0.5)
		(39.3)	(47.0)
Tax on fair value movements		9.8	2.6
Tax on gain/(loss) on pension fund		(5.3)	6.9
Tax on prior year dilapidations		0.4	-
Tax on recognition of contract liability		0.2	-
Tax on prior year reinsurance recovery		(1.0)	-
Other comprehensive income for the year, net of tax		(35.2)	(37.5)
Total comprehensive income for the year		100.9	113.1
Total comprehensive income attributable to:			
Equity holders		100.9	113.1

[1] Refer to note 3.

The notes on pages 43 to 92 are an integral part of these financial statements.

	Notes	2018 £m	Restated[2][3] 2017 £m	Restated[3] 2016 £m
ASSETS				
Intangible assets	15	153.5	156.4	92.7
Defined benefit pension plan surplus	16	20.4	-	-
Investment in associated undertaking	14	570.6	534.4	-
Property and equipment	17	30.1	27.4	28.0
Investment properties	18	186.9	157.1	142.4
Deferred acquisition costs[2]	19	189.4	210.9	203.3
Deferred tax asset	21(b)	9.8	17.9	24.1
Reinsurance assets	22 & 30	1,264.2	1,329.8	1,321.6
Financial assets:				
Available for sale financial assets[1]	24(a)	2,399.0	2,741.7	2,322.5
Loans	24(b)	38.1	68.4	350.6
Prepayments and accrued income[2]	23	33.0	36.3	33.6
Assets classified as held for sale		-	-	32.9
Insurance receivables	25	802.0	793.7	778.4
Other receivables	26	159.2	160.5	167.0
Cash and cash equivalents	27	36.5	20.9	100.6
Total assets		5,892.7	6,255.4	5,597.7
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	28	1,327.8	1,327.8	828.0
Fair value reserve		23.0	85.5	88.6
Retained earnings		1,092.3	1,103.9	987.7
Capital reserve		(650.5)	(650.5)	(650.5)
Total equity		1,792.6	1,866.7	1,253.8
LIABILITIES				
Defined benefit pension plan deficit	16	-	112.1	107.3
Provisions for other liabilities and charges	29	17.8	3.0	3.1
Insurance contracts liabilities[2]	30	2,727.7	2,841.0	2,833.7
Reinsurers' share of deferred acquisition costs	19	75.0	84.1	81.3
Insurance related payables	32	1,058.0	1,094.6	1,038.4
Derivative liabilities	34	7.7	37.3	-
Current tax liabilities	21(a)	4.0	5.7	1.3
Accruals and other payables[2]	33	209.9	210.9	258.4
Liabilities classified as held for sale		-	-	20.4
Total liabilities		4,100.1	4,388.7	4,343.9
Total equity and liabilities		5,892.7	6,255.4	5,597.7

[1] Included within available for sale financial assets are £102.4m (2017 £103.2m) of lent securities. See note 24.

[2] Refer to note 3.

[3] Refer to note 32.

The notes on pages 43 to 92 are an integral part of these financial statements.

	Notes	2018 £m	Restated[1] 2017 £m
ASSETS			
Investment in group undertakings	14	931.1	931.1
Investment in associated undertaking	14	570.6	534.4
Property and equipment	17	0.2	-
Current tax asset	21(a)	-	0.1
Financial assets:			
Loans	24(b)	0.8	1.2
Amounts due from group undertakings	26	127.7	130.6
Total assets		1,630.4	1,597.4
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	28	1,327.8	1,327.8
Retained earnings		72.2	(21.9)
Total equity		1,400.0	1,305.9
LIABILITIES			
Loans from group undertakings		20.0	20.0
Provisions for other liabilities and charges	29	140.2	171.7
Derivative liabilities	34	7.7	37.3
Accruals and other payables	33	62.5	62.5
Total liabilities		230.4	291.5
Total equity and liabilities		1,630.4	1,597.4

[1] Refer to note 29.

The parent company profit after tax in the year was £269.2m (2017 £21.3m).

The notes on pages 43 to 92 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on April 18, 2019 and signed on its behalf by:

F K Dyson
Director

	Notes	2018 £m	Restated[1] 2017 £m
Cash flows from operating activities			
Profit before tax		151.9	177.4
Non cash items	38	46.0	(109.4)
Changes in working capital	38	(206.7)	1.0
Income tax paid	10(c)	(5.1)	(7.4)
Net cash (outflow)/inflow from operating activities		(13.9)	61.6
Cash flows from investing activities			
Purchase of property and equipment	17	(8.5)	(4.1)
Proceeds from sale of property and equipment	17	1.6	1.6
Proceeds from sale of subsidiary		-	49.1
Proceeds from sale of renewal rights		-	1.0
Proceeds from early redemption fees on loans receivable		0.3	26.8
Intangible assets cost capitalised	15	(12.0)	(14.5)
Intangible goodwill capitalised	15	-	(1.2)
Intangible other assets acquired	15	-	(52.0)
Proceeds from sale of investment property	18	20.2	19.2
Purchase of investment property	18	(49.1)	(28.4)
Purchase of available for sale financial assets		(839.1)	(1,501.4)
Proceeds from sale of available for sale financial assets		1,097.0	1,077.1
Purchase of associated undertaking	14(b)	(36.2)	(534.4)
Increase in financial liabilities		-	37.3
Decrease in loans		30.3	282.2
Net cash inflow/(outflow) from investing activities		204.5	(641.7)
Cash flows from financing activities			
Proceeds from issue of shares	28	-	499.8
Dividend paid		(175.0)	-
Net cash (outflow)/inflow from financing activities		(175.0)	499.8
Net increase/(decrease) in cash and cash equivalents		15.6	(80.3)
Cash and cash equivalents at the beginning of the year	27	20.9	100.6
Effects of exchange rate changes on cash and cash equivalents		-	0.6
Cash and cash equivalents at the end of the year	27	36.5	20.9

[1] Refer to note 32.

The notes on pages 43 to 92 are an integral part of these financial statements.

	Notes	2018 £m	Restated[1] 2017 £m
Cash flows from operating activities			
Profit before tax		269.2	26.3
Non cash items	38	(29.5)	(44.4)
Changes in working capital	38	(28.2)	(104.9)
Income tax paid	21(b)	(0.1)	(4.9)
Net cash inflow/(outflow) from operating activities		211.4	(127.9)
Cash flows from investing activities			
Investment in group undertaking		-	(1.5)
Investment in associated undertaking		(36.2)	(499.8)
Purchase of property, plant and equipment		(0.2)	-
Proceeds from sale of subsidiary		-	49.1
Decrease in loans		-	0.3
Net cash outflow from investing activities		(36.4)	(451.9)
Cash flows from financing activities			
Proceeds from issue of shares		-	499.8
Dividend paid		(175.0)	-
Net cash (used in)/generated from financing activities		(175.0)	499.8
Net decrease in cash and cash equivalents		-	(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	-	-

[1] Refer to note 29.

The notes on pages 43 to 92 are an integral part of these financial statements.

Group	Note	Share capital £m	Fair value reserve £m	Restated[1] Retained earnings £m	Capital reserve £m	Restated[1] Total equity £m
		Attributable to equity holders of the parent				
Balance as at January 1, 2017		828.0	88.6	987.7	(650.5)	1,253.8
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		-	-	150.6	-	150.6
Total recognised income and expense for the year		-	(3.1)	116.2	-	113.1
Issue of ordinary Share capital		499.8	-	-	-	499.8
Balance as at December 31, 2017		1,327.8	85.5	1,103.9	(650.5)	1,866.7
Net change in fair value of available for sale financial assets		-	(51.7)	-	-	(51.7)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	(20.6)	-	-	(20.6)
Gain on pension fund		-	-	31.0	-	31.0
Prior year reinsurance recovery[1]		-	-	5.1	-	5.1
Prior year dilapidations		-	-	(1.9)	-	(1.9)
Recognition of contact liability		-	-	(1.2)	-	(1.2)
Tax on fair value movements		-	9.8	-	-	9.8
Tax on gain on pension fund		-	-	(5.3)	-	(5.3)
Tax on prior year dilapidations		-	-	0.4	-	0.4
Tax on recognition of contract liabilitiy		-	-	0.2	-	0.2
Tax on prior year reinsurance recovery		-	-	(1.0)	-	(1.0)
Net profit for the year		-	-	136.1	-	136.1
Total recognised income and expense for the year		-	(62.5)	163.4	-	100.9
Dividends paid during the year	13	-	-	(175.0)	-	(175.0)
Balance as at December 31, 2018		1,327.8	23.0	1,092.3	(650.5)	1,792.6

[1] Refer to note 32.

Company	Share capital £m	Fair value reserve £m	Restated[2] Retained earnings £m	Restated[2] Total equity £m
Balance as at January 1, 2017	828.0	-	(43.2)	784.8
Net profit for the year	-	-	21.3	21.3
Total recognised income and expense for the year	-	-	21.3	21.3
Issue of ordinary share capital	499.8	-	-	499.8
Balance as at December 31, 2017	1,327.8	-	(21.9)	1,305.9
Net profit for the year	-	-	269.2	269.2
Total recognised income and expense for the year	-	-	269.2	269.2
Prior year dilapidations	-	-	(0.1)	(0.1)
Dividends paid during the year	-	-	(175.0)	(175.0)
Balance as at December 31, 2018	1,327.8	-	72.2	1,400.0

[2] Refer to note 29.

The notes on pages 43 to 92 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 United Kingdom, 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 consolidated financial statements of the Group for the year ended December 31, 2018 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) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union and with the Companies Act 2006 as applicable to companies reporting under IFRS. 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

The functional and presentational currency is British Pounds.

Going Concern

These financial statements are compiled on a going concern basis. For more information on the going concern assessment, please refer to 'Basis of Preparation' within the Report of the Directors on page 32.

New standards and interpretations adopted by the Group

A number of new standards and interpretations adopted by the EU are mandatorily effective from January 1, 2018. These have been adopted within this set of financial statements. The impact is outlined below:

IFRS 15 Revenue from Contracts with Customers – (EU effective date January 1, 2018) – IFRS 15 Revenue from Contracts with Customers replaces IAS 18 Revenue. The Group has determined that there is an impact but not for the Company due to the Company not deriving revenue from contracts with customers.

The Group has chosen the modified retrospective method upon first time adoption. This means that the cumulative impact is recognised at the date of initial application in the opening retained earnings. The prior year comparatives have not been restated.

Under previous accounting, revenue in relation to the distribution of insurance products was recognised immediately to the extent that it is probable economic benefits will flow to the Group and the revenue could be reliably measured. The majority of affected group companies are utilising the "output" method, the exception being engineering business recognised on an "input" basis.

Engineering revenue is recognised in line with the cost of servicing the contracts. The input basis is appropriate as inspections can be carried out at any point in time; therefore the cost of servicing these contracts is evenly spread.

Under IFRS 15, the Group identified the following performance obligations of entities utilising the output method within its revenue streams;

- introduction of insurance business,
- claims handling under a delegated authority.
- processing mid-term adjustments, and
- issuing policy renewals.

Introduction of insurance business

The transaction price has been allocated to this obligation based on the average amount of time taken to introduce new business. This obligation is fully satisfied upon the introduction of insurance products and as such the revenue is recognised immediately.

1 ACCOUNTING POLICIES (CONTINUED)

Claims handling under a delegated authority
The transaction price has been allocated to this obligation based on claims handling costs as a proportion of total expenses. This obligation is satisfied evenly over the coverage period of the insurance policy, and as such the revenue is recognised on a straight-line basis over the coverage period.

Processing mid-term adjustments
The transaction price has been allocated to this obligation based on the average amount of time taken to process a mid-term adjustment and the number of policies that have been subsequently amended. This obligation is satisfied evenly over the coverage period of the insurance policy, and as such the revenue is recognised on a straight-line basis over the coverage period.

Issuing policy renewals
The transaction price has been allocated to this obligation based on the average amount of time taken to issue a policy renewal. This obligation is fully satisfied upon the renewal of insurance products and as such the revenue is recognised immediately.

The transition to IFRS 15 has not had a material impact on the pattern of revenue recognition in the majority of entities and where this is the case, there has been no adjustment made to opening equity in 2018. In the insurance broking entity, the impact was material and as a result, an adjustment of £1.0m has been made to opening equity in 2018.

The 2018 total revenue would have been unchanged if it had been reported under IAS 18: Revenue.

New standards and interpretations not adopted by the Group
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 16: Leases (EU effective date January 1, 2019) – IFRS 16 Leases replaces IAS 17 Leases. IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rental are recognised. The only exceptions are short-term and low-value leases. The impact assessment and implementation project is being carried out at Allianz Holdings plc Group level. The implementation project will be completed in early 2019.

The Company and Group lease portfolio is in real estate. The Company and Group have chosen to adopt the modified retrospective approach option 2 in accordance with IFRS 16 C5(b) upon transition and will apply all available transitional practical expedients. The right-of-use assets will be measured at the amount of the lease liability on adoption and will not restate comparative amounts for the year prior to first adoption.

The Group has a small sub-lease portfolio in real estate. The Group has determined that the sub-lease portfolio is finance subleases and as such the corresponding right-of-use asset has been de-recognised and a sub-lease receivable established.

The following changes in accounting policies are expected from January 1, 2019;

- The short term exemption will be used for any leases with a term of less than twelve months.
- The low value exemption will be used for any leases with an underlying asset value of less than £5,000.
- The practical expedient allowing aggregation of the lease and non-lease components will not be adopted.

Key judgements and estimates used in applying IFRS 16 Leases from January 1, 2019;

- The lease term has been determined based on the non-cancellable term of the lease, taking into consideration the options included in the lease. Judgement has been used in determining whether an option is “reasonably certain” to be exercised. Management applied a likelihood percentage to each of the lease options with any likelihood above 75% being deemed “reasonably certain”. Factors taken into consideration when concluding on the likelihood percentage include; termination penalties, the use of the leased property by the utilising Company and the strategic plan of the Group.
- The Group has been unable to determine the interest rate implicit in its leases. An incremental borrowing rate has been calculated per portfolio of leases with reasonably similar characteristics.
- The extent to which the lease transfers the risks and rewards of ownership has been determined by reference to the term of the sub-lease compared to the term of the head lease. Where these are substantially the same, the sublease has been classified as a finance lease.

Expected impact of IFRS 16 on transition;

	Group		Company	
	IAS 17 (£m)	IFRS 16 on transition (£m)	IAS 17 (£m)	IFRS 16 on transition (£m)
Right of use asset	-	39.5	-	2.8
Lease liability	-	35.8	-	2.5
Retained earnings	1,792.6	1,792.6	1,531.6	1,531.6

Reconciliation of operating lease commitment disclosure per note 20 and the opening lease liability balance;

	Group £m	Company £m
Operating lease commitment per note 20	42.1	2.8
Impact of;		
Short term leases or leases expiring before December 31, 2019	(1.1)	-
Extension and termination options reasonably certain to be exercised	(1.7)	-
Discounting using the incremental borrowing rate at January 1, 2019	(3.5)	(0.3)
Lease liability recognised at January 1, 2019	35.8	2.5

The Company will not restate the lease liability comparative information.

IFRS 17 Insurance Contracts – The International Accounting Standards Board (IASB) issued IFRS17 'Insurance Contracts' in May 2017, which it is expected will replace IFRS 4 'Insurance Contracts' at the latest for annual reporting periods beginning on or after January 1, 2022. The Group has commenced its initial impact assessment under the 'One.Finance' project led by the Allianz SE Group and is currently going through required changes to finance systems and processes which is expected to be completed by 2021 to ensure reporting compliance by January 1, 2022.

IFRS 9 Financial Instruments – IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and changes the classification and measurement of financial assets, based on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses. Based on the impact assessment performed under 'One.Finance', the Allianz Holdings plc Group consolidated, Allianz Insurance plc, Trafalgar Insurance PLC and British Reserve Insurance Company Limited have all taken advantage of the exemption available as their activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after January 1, 2018) until January 1, 2022 which will coincide with the expected implementation of IFRS 17. The other companies within the Group have adopted IFRS 9 with the effective date of 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 requires judgement about how changes in economic factors affect ECLs which are determined on a probability weighted basis. Based on the assessment undertaken to date, no material impact to the consolidated and Company financial statements is anticipated in either net income or equity.

In order to qualify for the temporary exemption an entity has to prove that its activities are predominantly connected to insurance as of December 31, 2015. Under the amended IFRS 4, this condition is met if the insurer carries significant liabilities arising from contracts within the scope of IFRS 4. Significant insurance-related liabilities are given, among others, if the percentage of the total carrying amount of liabilities within the scope of IFRS4 relative to the total carrying amount of all liabilities is greater than 90 %. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the entity's activities during the annual period that ended on that date.

1 ACCOUNTING POLICIES (CONTINUED)

As of December 31, 2015, the Group's total carrying amount of liabilities connected with insurance amounted to £3.6bn which represented more than 90 % of its total liabilities of £3.8bn. No change in the activities of the Group has occurred subsequently that would have required a reassessment.

The following table provides an overview of the fair values as of December 31, 2018 and the amounts of change in the fair values during the year separately for financial assets that meet the SPPI criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

Financial assets under IFRS 9 classification rules

	Financial assets that meet the SPPI criterion		All other financial assets	
As of December 31, 2018	**Fair Value (£m)**	**Fair Value change during the year (£m)**	**Fair Value (£m)**	**Fair Value change during the year (£m)**
Cash and cash-equivalents	36.5	-	-	-
Debt securities				-
Government and government agency bonds	566.8	(2.0)	-	-
Corporate bonds	1,314.8	(35.0)	339.9	(1.2)
Managed Funds	-	-	177.5	(15.0)
Total	1,918.1	(37.0)	517.4	(16.2)

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

As of December 31, 2018	**Cash and cash equivalents (£m)**	**Government and government agency bonds (£m)**	**Corporate bonds (£m)**
Investment grade			
AAA	-	117.1	296.7
AA	-	449.7	171.8
A	36.4	-	329.9
BBB	-	-	512.1
Non-investment grade	-	-	4.3
Total	36.4	566.8	1,314.8

The company has opted to apply all aspects of IFRS 9 from January 1, 2018. The company has opted not to restate comparative figures. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for the comparative period does not reflect the requirements of IFRS 9 and is not comparable to the information presented in the current period under IFRS 9The company holds financial instruments in the form of cash and cash equivalents and receivables.

The Group has restated comparative figures in respect of the MIB levy and accounting for its engineering business. For more information, please refer to notes 3 and 32.

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 contracts liabilities, the ascertainment of fair values of financial assets and liabilities, the valuation of the defined benefit pension scheme and probability of deferred tax assets being realised. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex 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, 2018.

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.

1 ACCOUNTING POLICIES (CONTINUED)

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.

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 Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see 'f' below), after initially being recognised at cost.

f Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

g Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the group is a lessor is recognised in income on a straight-line basis over the lease term (note 20). The respective leased assets are included in the balance sheet based on their nature.

h 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 based on the incidence of risk of the underlying insurance contract. 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.

i Income taxes

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

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

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.

j Reinsurance assets

The Group 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.

1 ACCOUNTING POLICIES (CONTINUED)

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.

k 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 'm'.

l 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.

m 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.

n 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.

o Insurance receivables

Insurance receivables are recognised in a manner consistent with the premium income recognition as detailed in the revenue recognition accounting policy 'x'. 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.

p 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.

q 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.

r Provision for other liabilities and charges

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.

s 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.

1 ACCOUNTING POLICIES (CONTINUED)

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 based on the incidence of risk of the underlying insurance contract. The change in the provision for unearned premium is taken to the statement of comprehensive income in order that revenue is recognised over the period of risk.

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.

t 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.

u Employee benefits

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.

Historically, there were two sections to the ARDBF – a defined benefit section and a defined contribution section.

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.

Share-based payments

Share –based compensation benefits are provided to members of the Management Board and other Executives via the Allianz Societas Europaea ("Allianz SE") Equity Incentive Scheme. Information relating to the scheme is set out in note 12.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practise that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the Group or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (i) when the Group can no longer withdraw the offer of those benefits; and 'ii' when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

v Insurance payables

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

w Contract liabilities

Contract liabilities are stated at their cost. The contract liability recognised is equal to the amount of revenue allocated to performance obligations that have not yet been satisfied.

x 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 'h'. 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.

Other income

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue is recognised when the performance obligation has been satisfied with the exception of engineering business where revenue is recognised straight-line over the inspection period utilising the inputs basis available under IFRS 15. This is appropriate as it reflects the costs incurred of servicing these contracts. Elsewhere, the Group has four performance obligations within its revenue streams:

- Introduction of insurance business – The transaction price has been allocated to this obligation based on the average amount of time taken to introduce new business. This obligation is fully satisfied upon the introduction of insurance products and as such the revenue is recognised immediately.
- Processing mid-term adjustments – The transaction price has been allocated to this obligation based on the average amount of time taken to process a mid-term adjustment and the number of policies that have been subsequently amended. This obligation is satisfied evenly over the coverage period of the insurance policy, and as such the revenue is recognised on a straight-line basis over the coverage period.
- Issuing policy renewals – The transaction price has been allocated to this obligation based on the average amount of time taken to issue a policy renewal. This obligation is fully satisfied upon the renewal of insurance products and as such the revenue is recognised immediately.
- Claims handling under a delegated authority – The transaction price has been allocated to this obligation based claims handling costs as a proportion of total expenses. This obligation is satisfied evenly over the coverage period of the insurance policy, and as such the revenue is recognised on a straight-line basis over the coverage period.

1 ACCOUNTING POLICIES (CONTINUED)

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.

y 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.

z Finance cost

Interest payable is recorded in the period in which it is incurred.

aa 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.

ab Offsetting 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.

ac Current, non current disclosure

As presented in the notes to the financial statements, 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.

ad Dividends

Dividends payable are accounted for as soon as there is an obligation on the Company.

ae 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 CRITICAL 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. Judgement is applied 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. Insurance contract liabilities 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 £2,727.7m (2017 £2,841.0m).

b Fair value measurement of financial instruments

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

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

- Corporate Bonds
- Investment property
- Own use property
- Derivative liabilities

Corporate Bonds. As no market prices are available a discounted cashflow model is used to determine the fair value of the fixed income financial instrument. Judgement is applied in determining the inputs to the model such as the reference spread for the discount rate and the deal specific spread. Further details concerning the valuation techniques can be found on page 87.

Investment Property. An all risk yield investment method of valuation has been adopted for estimating the fair value of the investment properties. Judgement is applied in determining the significant unobservable inputs, these being rental growth, voids, occupancy rates, rent free periods and equivalent yields. Further details concerning the valuation techniques can be found on page 86.

Own use Property. The vacant possession value has been considered in order to estimate the fair value of the own use properties. Judgement is applied in determining the significant unobservable inputs, these being rental growth, voids, market rent, rent free periods and letting fees. Further details concerning the valuation techniques can be found on page 86.

Derivative Liabilities. The 'forward' contract is valued on the basis that it will be held until for the full period until December 2019. Its value is derived from the difference between the cost of acquiring the 20.9% stake at the fair value and at the fixed price. Judgement is applied in determining the discount rate applied to dividends receivable. The value of the 'put' option is determined using a Black Scholes model. Judgement has been applied in determining the inputs to the model such as the fair value of the target, the dividend yield and the risk free rate. Further details concerning the valuation techniques can be found on page 78.

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 applying judgement with the use of valuation models. The cost of providing benefits under the plan is determined by using the projected unit credit method. Judgement is used to assess the key assumptions associated in valuation of the obligation. The key assumptions being discount rate, RPI inflation and life expectancy. Further details concerning the valuation techniques can be found in note 16. 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 'u'.

3 NET INSURANCE REVENUE

	Note	2018 £m	Restated[1] 2017 £m
a Gross written premiums			
Direct insurance		2,036.1	2,105.4
Assumed reinsurance		2.0	2.6
Total gross written premiums	30	2,038.1	2,108.0
Gross change in unearned premium provision	30	46.5	(12.6)
Total gross earned premiums		2,084.6	2,095.4
b Reinsurers' share of gross written premiums			
Direct insurance		(890.9)	(911.4)
Assumed reinsurance		-	-
Total reinsurers' share of gross written premiums	30	(890.9)	(911.4)
Reinsurers' share of change in unearned premium provision	30	(21.1)	1.0
Total reinsurers' share of gross earned premiums		(912.0)	(910.4)
Total net insurance revenue		1,172.6	1,185.0

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

[1] Previously, the Group had treated its Engineering Inspection and special services business as though it was insurance. The fee income was included as written and earned premium and the engineer surveyor expenses were included as paid claims. In 2018, this business was reclassified as other income and expenses. The prior year comparative information has been restated, there was no impact on the equity of the group either at the beginning or end of the prior year.

	December 31, 2017 as previously reported £m	Restatement £m	December 31, 2017 as restated £m
Gross earned premium	2,172.3	(76.9)	2,095.4
Other income	-	76.9	76.9
Gross claims paid	(1,394.5)	62.3	(1,332.2)
Commission	(373.7)	7.4	(366.3)
Other operating and administrative expenses	(170.5)	(69.7)	(240.2)
Deferred acquisition costs	213.9	(3.0)	210.9
Prepayments & accrued income	31.2	5.1	36.3
Insurance contracts liabilities	(2,876.5)	35.5	(2,841.0)
Accruals & other payables	(173.3)	(37.6)	(210.9)

4 NET INVESTMENT INCOME

	2018 £m	2017 £m
Available for sale financial assets		
Interest income	56.4	60.5
Dividend income	4.5	3.4
Impairment of equity securities	(5.1)	(1.5)
Interest income from loans	2.7	4.5
Cash and cash equivalents interest income	2.2	3.5
Rental income from investment properties	9.9	10.5
Interest payable	(4.7)	-
Share of profit of associate	25.7	-
Ceded investment income	(9.3)	(9.2)
Net investment income	82.3	71.7

5 NET REALISED GAINS

	Note	2018 £m	2017 £m
Available for sale financial assets			
Realised gains			
Equity securities		1.2	0.1
Debt securities		13.7	17.8
Realised losses			
Debt securities		(9.6)	(2.2)
Investment properties			
Realised gains		0.9	-
Realised losses		(2.5)	(6.0)
Loans			
Early redemption fee		0.3	26.8
Subsidiaries			
Sale of ACIS	14	-	36.6
Renewal rights			
Sale of personal lines renewal rights		-	1.0
Financial liabilities			
Realised losses		(0.6)	-
Total net realised gains recorded in the statement of comprehensive income		3.4	74.1

6 NET FAIR VALUE GAINS

	Notes	2018 £m	2017 £m
Net gain on investment properties	18	2.5	11.5
Net gain on own use properties		-	0.5
Net gain on financial liabilities		29.6	7.0
Total net fair value gain recorded in the statement of comprehensive income		32.1	19.0

7 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	Note	2018 £m	Restated[2] 2017 £m
Acquisition costs		86.6	89.7
Movement in deferred acquisition costs[1]	19	12.4	(4.3)
Administration expenses[1]		156.6	149.2
Restructuring charges	29	7.1	4.5
Unwind of discount on PPO claims reserves		0.9	0.9
Total other operating and administrative expenses		263.6	240.0

[1] Refer to note 3.

[2] Refer to note 32.

8 EMPLOYEE RELATED COST

	2018 £m	2017 £m
Wages and salaries	177.7	170.2
Social security costs	22.1	20.9
Pension costs – defined benefit scheme	(4.3)	2.3
Pension costs – GPPP	27.1	27.1
Total employee related costs	222.6	220.5

	2018	2017
The average monthly number of employees including executive directors during the year was:		
Management	457	460
Underwriting and claims	3,487	3,539
Finance and administration	406	467
Total	4,350	4,466

The Company itself does not have any employee related costs.

9 AUDITOR'S REMUNERATION

	2018 £m	2017 £m
Fees payable to the Company's auditors and its associates for the audit of parent company and consolidated financial statements	0.1	0.1
Fees payable to the Company's auditors and its associates for other services:		
The audit of Company's subsidiaries	0.5	0.4
Audit-related assurance services	0.1	0.3
Total auditor's remuneration	0.7	0.8

During 2018, the Group appointed PricewaterhouseCoopers LLP ('PWC') as auditor in place of KPMG LLP. The figures shown above for the audit of the consolidated and Company financial statements and the Company's subsidiaries were payable to PWC for 2018 and KPMG for 2017.

10 INCOME TAX EXPENSE

a Income tax recognised in profit or loss	2018 £m	2017 £m
Current tax:		
In respect of the current year	2.9	15.5
In respect of prior years	13.9	(1.8)
Total current tax charge	16.8	13.7
Deferred tax:		
In respect of the current year	15.5	14.9
In respect of prior years	(15.3)	(0.8)
Adjustments to deferred tax attributable to changes in tax rates and laws	(1.2)	(1.0)
	(1.0)	13.1
Total income tax expense recognised in the current year relating to continuing operations	15.8	26.8

10 INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to the accounting profit as follows:	2018 £m	Restated[1] 2017 £m
Profit before tax from continuing operations	151.9	177.4
Income tax expense calculated at 19.0% (2017: 19.25%)	28.9	34.1
Effect of expenses not deductible for tax purposes	(3.7)	0.9
Effect of franked investment income	(6.4)	(2.0)
Effect of unrealised movement on real estate	(0.7)	(1.9)
Effect of capital gains	0.2	(5.9)
Effect of prior year adjustment	(1.4)	(2.6)
Effect of overseas tax	-	5.1
Effect of changes in statutory tax rate	(1.2)	(1.0)
Effect of imputed transfer pricing adjustments	0.1	0.1
Income tax expense recognised in profit or loss (relating to continuing operations)	15.8	26.8

The tax rates used for the 2018 and 2017 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 2019 changing to 17.0% with effect from April 1, 2020.

b Income tax recognised in other comprehensive income	2018 £m	2017 £m
Current tax	(13.6)	(2.6)
Deferred tax	9.1	(6.9)
Total income tax recognised in other comprehensive income	(4.5)	(9.5)

c Tax paid for cash flow purposes	Group 2018 £m	Restated[1] Group 2017 £m
Current tax payable at January 1	5.7	3.4
Amounts charged to the statement of comprehensive income	15.8	26.8
Amounts charged to other comprehensive income	(4.5)	(9.5)
Movements in deferred tax in the statement of comprehensive income	1.0	(13.0)
Movements in deferred tax to other comprehensive income	(9.1)	6.9
Other movements	0.2	(1.5)
Tax paid during the year	(5.1)	(7.4)
Current tax payable at December 31	4.0	5.7

(1) Refer to note 32.

11 DIRECTORS' EMOLUMENTS

	2018 £	2017 £
Emoluments[2]	2,332,440	1,982,013
The amounts in respect of the highest paid Director are as follows:		
Emoluments	1,077,239	942,130

(2) Emoluments include £631,021 (2017 £562,040) of payments received following the exercise of Restricted Stock Units.

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).

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 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 £1.8m (2017 £3.9m). The liability recorded in the financial statements in respect of the RSUs as at December 31, 2018 was £5.3m (2017 £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 2018, RSUs were allocated to members of the Management Board and other executives.

RSU plan awards granted, forfeited and exercised as of December 31, 2018

Grant Date	Vesting period years	RSUs granted	RSUs forfeited	RSUs exercised	RSUs transferred[1] (out)/in
March 2014	4	24,229	1,900	22,329	-
March 2015	4	20,938	1,523	4,465	-
March 2016	4	15,510	967	3,449	115
March 2017	4	15,190	502	1,868	189
March 2018	4	8,129	-	297	-

[1] In 2017 an Executive's employment was transferred from a fellow group undertaking along with their respective RSUs for 2016 and 2017.

13 DIVIDENDS

	2018 £m	2017 £m
Dividends on ordinary shares:		
Interim dividends paid of 13.2p per share (2017 nil)	175.0	-
Total	175.0	-

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, 2017. The figures for percentage holdings all relate to the ordinary share capital of the subsidiaries. The registered office for all undertakings is 57 Ladymead, Guildford, Surrey, GU1 1DB.

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

Allianz Management Services Limited ('AMS'), a subsidiary undertaking of Allianz Holdings plc ('AH') has reported negative net assets of £131.6m (2017 £171.2m). The Company has provided a letter of support, and the liability has been recognised at the Balance Sheet date.

For further details, please refer to note 29.

b 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 £213.0m for a further 20.9% stake through an agreed forward purchase based on a total valuation of £1,020.0m 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, 2017	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
Additions	-	0.1	-	0.1
Additions arising from internal development	-	11.9	-	11.9
Disposals	-	(8.3)	-	(8.3)
At December 31, 2018	77.5	63.2	84.4	225.1
Accumulated amortisation and impairment				
At January 1, 2017	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
Amortisation charge for the year	-	6.3	6.5	12.8
Disposals	-	(6.2)	-	(6.2)
At December 31, 2018	2.9	29.8	38.9	71.6
Carrying amount				
At December 31, 2017	74.6	29.8	52.0	156.4
At December 31, 2018	74.6	33.4	45.5	153.5

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

Other intangible assets includes acquired customer relationships 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, 8.1% 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 2018 test indicated that no impairment was required to the carrying value of goodwill in the CGU as at December 31, 2018. The estimated recoverable amount of the CGU exceeded its carrying amount by approximately £45m (2017 £202m). 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 +0.5%;
- Budgeted growth rate -0.7%.

If actual cashflows were to fall to a level of 5% below those assumed in the plan, there would be no impact on the decision not to impair the goodwill in the CGU.

16 PENSION BENEFIT SURPLUS/DEFICIT

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.

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 which was £27.1m (2017 £26.8m).

The ARDBF is a Registered Scheme under the provisions of Schedule 36 of the Finance Act 2004 and is a funded pension scheme providing benefits for its employees with each member's pension at retirement based on pensionable service and final pensionable pay.

The ARDBF is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the ARDBF is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, the Group must agree with the trustees of the ARDBF the contributions to be paid to address any shortfall against the Statutory Funding Objective.

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, 2017. At that date, the market value of the assets in the ARDBF was £1,036m. Based on the assumptions used for funding purposes, the value of the assets was sufficient at that date to cover 80% of the value of the benefits that members had accrued and so deficit contributions were agreed. The actuarial method used for this assessment was the projected unit credit 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:

- Investment return of 2.05% p.a.; and
- RPI inflation of 3.4% p.a.

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

The AGF Pension and Life Assurance Scheme ("the AGF Scheme") merged into the ARDBF in April 2018. Reflecting the overall funding level of both the ARDBF and the transferring AGF Scheme membership at March 31, 2017, the trustee board and the Group agreed a recovery plan including an additional deficit contribution of £40m in February/March 2018, £60m paid in April 2018, deficit contributions of £44.35m payable annually until March 31, 2022 and a final payment of £11.1m in 2022.

The next actuarial valuation of the ARDBF will take place with an effective date of March 31, 2020. As part of this valuation, a new recovery plan may be agreed.

The total amount of Group contributions paid into the ARDBF (including those following the merger) during 2018 was £100.0m (2017 £40.0m). Group contributions to the ARDBF over 2019 are expected to be £44.35m (based on the current recovery plan).

Based on the Group's interpretation of the rules, the surplus is recognised on the balance sheet and there is no additional liability arising from a minimum funding requirement under IFRIC14. This on the basis that:

- Under IFRIC14 paragraph 11, a refund is available to the company if the entity has an unconditional right to a refund assuming gradual settlement of the fund liabilities over time until all members have left the fund. The Group's interpretation is that the Group does have such a right.
- IFRIC14 paragraph 12 clarifies that if the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset. The 2015 exposure draft of IFRIC14 further clarified that if the trustees of the Fund have the power to wind up the Fund, or augment benefits, without the company's consent, then the company would not have an unconditional right. A laymans's reading of the rules is that the trustees of the ARDBF do not appear to have the power to wind-up the ARDBF or augment benefits without the Group's consent.

16 PENSION BENEFIT SURPLUS/DEFICIT (CONTINUED)

The assets of the ARDBF are held in separate trustee administered funds. In consultation with the Group, the trustee board periodically 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%

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 liability at December 31, 2018 of around £6.2m.

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.

	2018	2017	2016
Discount rate	2.7%	2.4% p.a.	2.9% p.a.
RPI inflation	3.3%	3.2% p.a.	3.3% p.a.
Life expectancy of male aged 60 at the balance sheet date	27.3 years	27.4 years	28.4 years
Life expectancy of male aged 60 at the balance sheet date plus 20 years	28.8 years	28.9 years	30.4 years
Life expectancy of female aged 60 at the balance sheet date	29.4 years	29.4 years	30.6 years
Life expectancy of female aged 60 at the balance sheet date plus 20 years	30.9 years	31.0 years	32.6 years

- Discount rate – In line with December 31, 2017, as at December 31, 2018 the Group continue to adopt the LCP Treasury Model with a small alteration to the universe of bonds typically considered under the LCP Treasury Model, to determine the discount rate.
- 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.

The Group has adopted the same approach at year-end 2018 and broadly, this results in a reduction in the single equivalent market-implied RPI assumption of 0.15% pa, which is the same as at year-end 2017.

- Life expectancies (for both male and female, current and future) – The Group has updated the mortality assumption as at December 31, 2018 to reflect the latest available industry-wide data for future improvement projections. The Group has also aligned the mortality assumption with the ARDBF for the transferring AGF scheme membership. These changes together led to a decrease in the defined benefit obligations of approximately £6.8m.

Other IAS19 assumptions used include:

	2018	2017	2016
Pension increases in deferment for ARDBF membership	3.3%	3.2% p.a.	3.3% p.a.
Pension increases in deferment for legacy AGF Scheme membership	2.2%	N/A	N/A
Pension increases in payment (RPI up to maximum of 5% p.a.)	3.1%	3.1% p.a.	3.1% p.a.
Pension increases in payment (RPI up to maximum of 2.5% p.a.)	2.1%	2.1% p.a.	2.1% p.a.
Pension increases in payment (RPI, minimum of 3% up to maximum of 4% p.a.)	3.5%	N/A	N/A
Pension increases in payment (RPI, minimum of 3% up to maximum of 5% p.a.)	3.7%	N/A	N/A
Real long-term healthcare inflation	2.5%	2.5% p.a.	2.5% p.a.

At December 31, 2018, the weighted average duration of the defined benefit obligation of the ARDBF was 16.7 years (2017 18.2 years).

The actual return on the ARDBF assets over the year was a loss of £1.0m (2017 £32.3m gain). The current allocation of the ARDBF assets is as follows:

	2018 £m	2017 £m	2016 £m
Assets with a quoted market price in an active market			
- Equity instruments	14.1	-	-
- Debt instruments	1,060.3	863.1	770.0
- Other	11.4	6.2	65.4
	1,085.8	869.3	835.4
Assets without a quoted market price in an active market			
- Debt instruments	49.1	31.3	61.0
- Property	119.9	100.3	93.9
	169.0	131.6	154.9
Total	1,254.8	1,000.9	990.3

Approximately £0.3m within the fair value of ARDBF assets are invested indirectly in the Group's own financial instruments or any property occupied by, or assets used by, the Group.

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 (asset) liability and its components over 2017 and 2018.

16 PENSION BENEFIT SURPLUS/DEFICIT (CONTINUED)

	Liabilities		Assets		Total	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Balance at January 1	1,113.0	1,097.6	(1,000.9)	(990.3)	112.1	107.3
Included in profit or loss						
Interest cost/(income)	30.4	31.0	(30.2)	(28.7)	0.2	2.3
Past service cost	10.0	-	-	-	10.0	-
Settlement cost/(credit)	201.0	-	(215.5)	-	(14.5)	-
Total expense included in profit or loss	241.4	31.0	(245.7)	(28.7)	(4.3)	2.3
Included in OCI						
Re-measurement loss/(gain):						
- Actuarial loss/(gain) arising from:						
- demographic assumptions	(1.1)	(45.5)	-	-	(1.1)	(45.5)
- financial assumptions	(66.5)	81.8	-	-	(66.5)	81.8
- experience adjustment	5.4	8.1	-	-	5.4	8.1
- Return on plan assets excluding interest income on assets	-	-	31.2	(3.6)	31.2	(3.6)
Total (gain)/loss included in OCI	(62.2)	44.4	31.2	(3.6)	(31.0)	40.8
Other						
Contributions by the employer (incl employee contribution via salary sacrifice)	-	-	(100.2)	(40.2)	(100.2)	(40.2)
Benefits paid	(57.8)	(60.0)	57.8	60.0	-	-
Total other	(57.8)	(60.0)	(42.4)	19.8	(100.2)	(40.2)
Administration costs	-	-	3.0	1.9	3.0	1.9
Balance at December 31	1,234.4	1,113.0	(1,254.8)	(1,000.9)	(20.4)	112.1
Represented by: Net defined benefit (surplus/deficit)					(20.4)	112.1

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.

The following sensitivities have been calculated to show the movement in the defined benefit obligation in isolation due to changes in assumptions, and assuming no other changes in market conditions at the accounting date and holding all other assumptions constant. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the ARDBF.

	Increase in assumption £m	Decrease in assumption £m
Discount rate (0.5% movement)	(96)	109
RPI and CPI inflation assumptions (0.25% p.a. movement)	38	(37)
Life expectancy (one-year movement)	47	(47)

17 PROPERTY AND EQUIPMENT

Group	Property £m	Dilapidations £m	Motor vehicles £m	Total £m
Cost or valuation				
At January 1, 2017	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
Additions	-	3.5	5.0	8.5
Disposals	-	-	(5.3)	(5.3)
At December 31, 2018	15.9	3.5	19.0	38.4
Accumulated depreciation				
At January 1, 2017	-	-	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
Depreciation charge for the year	-	0.6	3.6	4.2
Disposals	-	-	(3.7)	(3.7)
At December 31, 2018	-	0.6	7.7	8.3
Carrying amount				
At December 31, 2017	15.9	-	11.5	27.4
At December 31, 2018	15.9	2.9	11.3	30.1

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).

Had the property been carried under the cost model, the carrying amount would have been £23.5m (2017 £23.5m).

18 INVESTMENT PROPERTIES

Group	Note	2018 £m	2017 £m
At January 1		157.1	142.4
Acquisitions		49.1	28.4
Disposals		(20.2)	(19.2)
Realised losses	5	(1.6)	(6.0)
Net fair value gain	6	2.5	11.5
At December 31		186.9	157.1

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 £11.5m (2017 £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 £1.5m (2017 £0.8m).

19 DEFERRED ACQUISITION COSTS

Group	Gross 2018 £m	Reinsurance 2018 £m	Restated[1] Gross 2017 £m	Reinsurance 2017 £m
At January 1	210.9	(84.1)	203.3	(81.3)
Costs deferred during the year	424.7	(256.5)	488.1	(279.8)
Amortisation charge for the year	(446.2)	265.6	(480.5)	277.0
At December 31	189.4	(75.0)	210.9	(84.1)

(1) Refer to note 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		Company	
	2018 £m	2017 £m	2018 £m	2017 £m
The total of future minimum lease payments under non-cancellable operating leases are set out below:				
Not later than one year	7.3	8.3	0.4	0.4
Later than one year and not later than five years	22.8	27.7	1.6	1.6
Later than five years	12.0	18.0	0.8	1.2
Total	42.1	54.0	2.8	3.2

Operating lease rentals for the year were £8.0m (2017 £8.3m).

	2018 £m	2017 £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	9.9	10.6
Later than one year and not later than five years	31.2	40.1
Later than five years	8.8	13.2
Total	49.9	63.9

Lease receipts for the year were £11.7m (2017 £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 2018 £m	Restated[1] Group 2017 £m	Company 2018 £m	Company 2017 £m
Current tax assets	-	-	-	0.1
Current tax liabilities	4.0	5.7	-	-

(1) Refer to note 32.

b Deferred tax balances

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

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Deferred tax assets	24.4	32.2	-	-
Deferred tax liabilities	(14.6)	(14.3)	-	-
	9.8	17.9	-	-

21 TAX ASSETS AND LIABILITIES (CONTINUED)

2018	Group Opening balance £m	Group Recognised in profit or loss £m	Group Recognised in other comprehensive income £m	Group Closing balance £m
Deferred tax assets/(liabilities) in relation to:				
Pensions	19.0	(10.2)	(5.2)	3.6
Properties	2.7	-	-	2.7
Unrealised gains on bonds	-	-	(3.9)	(3.9)
Provisions and other temporary differences	3.1	1.5	-	4.6
Tax losses	7.4	6.0	-	13.4
Claims equalisation reserve	(14.3)	3.7	-	(10.6)
	17.9	1.0	(9.1)	9.8

2017	Group Opening balance £m	Group Recognised in profit or loss £m	Group Recognised in other comprehensive income £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

22 REINSURANCE ASSETS

Group	Notes	2018 £m	2017 £m
Reinsurers share of insurance contracts liabilities	30	1,264.2	1,329.8
Total reinsurance assets		1,264.2	1,329.8

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

23 PREPAYMENTS AND ACCRUED INCOME

Group	2018 £m	Restated[(1)] 2017 £m
Prepayments		
Prepaid expenses[(1)]	9.2	6.0
Total prepayments	9.2	6.0
Accrued income		
Interest	23.8	30.3
Total accrued income	23.8	30.3
Total prepayments and accrued income	33.0	36.3

[(1)] Refer to note 3.

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

	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Available for sale financial assets	2,399.0	-	2,741.7	-
Loans	38.1	0.8	68.4	1.2
Total financial assets	2,437.1	0.8	2,810.1	1.2

a Available for sale financial assets	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
At fair value				
Managed funds	177.5	-	265.1	-
Total equity securities at fair value	177.5	-	265.1	-
Debt securities	2,221.5	-	2,476.6	-
Total debt securities at fair value	2,221.5	-	2,476.6	-
Total available for sale financial assets at fair value	2,399.0	-	2,741.7	-
At cost				
Managed funds	175.0	-	246.3	-
Total equity securities at cost	175.0	-	246.3	-
Debt securities	2,197.9	-	2,396.9	-
Total debt securities at amortised cost	2,197.9	-	2,396.9	-
Total available for sale financial assets at cost	2,372.9	-	2,643.2	-

The fair value of the loans made by the Group is £30.0m (2017 £60.9m) and of those made by the Company is £0.8m (2017 £1.2m). Other carrying amounts disclosed above reasonably approximate fair values at year end.

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, 2018, the Group had lent £102.4m (2017 £103.2m) and held collateral under such agreements of £102.2m (2017 £104.1m).

b Loans and receivables	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Other loans	30.7	0.8	61.4	1.2
Deposits with credit institutions	7.4	-	7.0	-
Total loans and receivables	38.1	0.8	68.4	1.2

	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Current loans and receivables	0.4	0.4	0.6	0.4
Non current loans and receivables	37.7	0.4	67.8	0.8

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

Included within the deposits with credit institutions is £7.4m (2017 £7.0m) 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	2018 £m	2017 £m
Due from policyholders	427.4	417.0
Due from reinsurers	8.3	1.9
Due from agents, brokers and intermediaries	366.3	374.8
Total insurance receivables	802.0	793.7

Group	2018 £m	2017 £m
Current insurance receivables	735.9	733.5
Non current insurance receivables	66.1	60.2

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

26 OTHER RECEIVABLES

	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Amounts due from related parties	97.0	127.7	113.1	130.6
Other	62.2	-	47.4	-
Total other receivables	159.2	127.7	160.5	130.6

	Group 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Current other receivables	159.2	127.7	160.5	130.6

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

27 CASH AND CASH EQUIVALENTS

Group	2018 £m	2017 £m
Cash at bank	36.4	20.8
Short-term deposits (including demand and time deposits)	0.1	0.1
Total	36.5	20.9

Deposits are subject to an average interest rate of 0.7% (2017 0.5%) and have an average maturity of 1 day (2017 1 day). The carrying amounts disclosed above reasonably approximate fair values at year end.

28 SHARE CAPITAL

	Issued	
Group	2018 £m	2017 £m
Ordinary shares of £1 each fully paid	1,327,796,234	1,327,796,234

The ordinary shares entitle the holders to vote at meetings of the Company and grant the right to receive dividends as declared.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Group	Restructuring £m	Dilapidations £m	Indemnities £m	Contingent consideration £m	Total £m
At January 1, 2017	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
Amount charged/(credited) to the statement of comprehensive income	7.1	-	-	-	7.1
Adjustments to acquisition cost of at-equity investment	-	-	-	8.0	8.0
Established during the year	-	5.4	-	-	5.4
Utilised in the year	(5.5)	-	(0.2)		(5.7)
At December 31, 2018	4.1	5.4	0.3	8.0	17.8
Current	1.4	0.1	-	8.0	9.5
Non current	2.7	5.3	0.3	-	8.3

Company	Dilapidations £m	Indemnities £m	Contingent consideration £m	Restated[1] Letter of support £m	Restated[1] Total £m
At January 1, 2017	-	0.5	-	148.8	149.3
Amount charged to the statement of comprehensive income	-	-	-	22.4	22.4
At December 31, 2017	-	0.5	-	171.2	171.7
Amount charged/credited to the statement of comprehensive income	-	-	-	(39.6)	(39.6)
Adjustments to acquisition cost of at-equity investment	-	-	8.0	-	8.0
Established during the year	0.3	-	-	-	0.3
Utilised in the year	-	(0.2)		-	(0.2)
At December 31, 2018	0.3	0.3	8.0	131.6	140.2
Current	-	-	8.0	-	8.0
Non current	0.3	0.3	-	131.6	132.2

[1] Allianz Management Services Limited ('AMS'), a subsidiary of the Company has net liabilities of £131.6m (2017 £171.2m). As the sponsoring employer for the Allianz Retirement and Death Benefits Fund (ARDBF), AMS reports the net asset or liability of the ARDBF on its balance sheet under IAS 19. Until 2012 this was reported under the "corridor" method, which allowed deferred recognition of actuarial gains and losses, thus leading to less volatility in the balance sheet. In 2013 the corridor method was abolished and the ARDBF was reported at its full IAS 19 liability. This restatement caused the net equity of AMS to move from an asset to a liability.

Since 2013, AMS has continued to report net liabilities and the Company provided a letter of support to the Directors of AMS which has been refreshed annually. No provision in respect of this letter of support was previously recognised on the balance sheet of the Company.

The Directors now consider that the net liabilities of AMS should be recognised on the balance sheet and a provision of £131.6m has been established. The comparative period has been restated to reflect the accounting error.

Provisions for other liabilities and charges have been restated from £0.5m to £171.7m and Company retained earnings have been restated from £149.3m to (£21.9m).

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES (CONTINUED)

Indemnities

During 2013, indemnities were transferred to the Company from Allianz (UK) Limited. 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, 2018 is reasonable, based on the information currently available.

Contingent consideration

The sale and purchase agreement for LVGIG contains a specific section on the implications of a change in the Ogden Discount Rate between First Completion and 24 months later (originally 18 months but subsequently changed to 24 months). The benefit of such a rate change that accrues to Allianz Holdings due to its shareholding in LVGIG is to be repaid to LVFS by the way of a special dividend from LVGIG. The revised Ogden Discount Rate needs to be enacted within the 24-month period.

Dilapidations

The Group lease operational properties located throughout Great Britain. Within most of the agreements is a condition requiring the Group to make restorations upon the termination of a lease.

Restructuring

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 2019.

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 2019.

Following the agreement to enter into a strategic partnership with LVGIG in the UK, the Group entered into a programme of restructuring work to effect the transfer of renewal rights to personal lines business to LVGIG. The work started in 2018 and is expected to continue until 2020 due to the phased nature of the transfers and the resources required to manage the run-off.

30 INSURANCE CONTRACTS LIABILITIES

Group	2018 Insurance contracts liabilities £m	2018 Reinsurers' share of liabilities £m	2018 Net £m	2017 Restated[(1)] Insurance contracts liabilities £m	2017 Reinsurers' share of liabilities £m	2017 Restated[(1)] Net £m
Provisions for claims reported by policyholders	1,777.0	(823.5)	953.5	1,779.3	(829.1)	950.2
Provisions for claims incurred but not reported	(63.8)	5.6	(58.2)	0.7	(33.3)	(32.6)
Total claims reported and IBNR	1,713.2	(817.9)	895.3	1,780.0	(862.4)	917.6
Provision for unearned premiums[(1)]	1,014.5	(446.3)	568.2	1,061.0	(467.4)	593.6
Total general insurance contracts liabilities	2,727.7	(1,264.2)	1,463.5	2,841.0	(1,329.8)	1,511.2
Current general insurance contracts liabilities	1,366.7	(595.4)	771.3	1,348.5	(607.0)	741.5
Non current general insurance contracts liabilities	1,361.0	(668.8)	692.2	1,492.5	(722.8)	769.7

(1) Refer to note 3.

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

Group	2018 Insurance contracts liabilities £m	2018 Reinsurers' share of liabilities £m	2018 Net £m	2017 Insurance contracts liabilities £m	2017 Reinsurers' share of liabilities £m	2017 Net £m
At January 1	1,780.0	(862.4)	917.6	1,751.2	(855.2)	896.0
Foreign exchange adjustment	0.9	(0.3)	0.6	(1.2)	0.6	(0.6)
Unwind of discount on PPO claims reserves	3.6	(2.8)	0.8	3.4	(2.6)	0.8
	1,784.5	(865.5)	919.0	1,753.4	(857.2)	896.2
Claims incurred in the current accident year	1,418.0	(597.0)	821.0	1,491.1	(602.0)	889.1
Movement on claims incurred in prior accident years	(146.7)	84.9	(61.8)	(70.0)	41.9	(28.1)
Claims paid during the year	(1,342.6)	559.7	(782.9)	(1,394.5)	554.9	(839.6)
At December 31	1,713.2	(817.9)	895.3	1,780.0	(862.4)	917.6

The provision for unearned premiums may be analysed as follows:

Group	Notes	2018 Insurance contracts liabilities £m	2018 Reinsurers' share of liabilities £m	2018 Net £m	2017 Insurance contracts liabilities £m	2017 Reinsurers' share of liabilities £m	2017 Net £m
At January 1[(1)]		1,061.0	(467.4)	593.6	1,048.4	(466.4)	582.0
Premiums written in the year[(1)]	3	2,038.1	(890.9)	1,147.2	2,108.0	(911.4)	1,196.6
Premiums earned during the year[(1)]	3	(2,084.6)	912.0	(1,172.6)	(2,095.4)	910.4	(1,185.0)
At December 31		1,014.5	(446.3)	568.2	1,061.0	(467.4)	593.6

(1) Refer to note 3.

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 2018 one new settlement was agreed on this basis, making the total number of PPOs 41. Total reserves are £135.9m (2017 £127.8m) gross and £35.3m (2017 £34.7m) net of reinsurance. The corresponding undiscounted amounts are £315.4m (2017 £301.3m) gross and £71.4m (2017 £70.3m) 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.

The Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. Until early 2017, a net discount rate of 2.5% was applied to future care costs and loss of earnings.

On February 27, 2017, the Lord Chancellor announced a new discount rate of -0.75%. The Civil Liability Bill, which received Royal Assent in December 2018, will introduce changes to the way the Ogden discount rate is set. The Bill changes the mechanism used to set the Ogden discount rate from being based on the return achieved on a "very low" risk investment strategy to that from a "low" risk investment strategy. The rate will be reviewed 90 days after the legislation comes into force and then every 5 years.

Towards the end of 2017, the Ministry of Justice stated that they expected a new discount rate to fall into the range of 0% to 1% in the then market conditions, which have remained broadly unchanged over the period. Reserves have been revised so that an Ogden discount rate of 0% is used to reflect our best estimate view. Some allowance has also been made for the uncertainty that remains given the rate has not been formally set. This change has resulted in a positive claims release of £26.0m before and £15.6m after quota share.

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.

Changes in assumptions have caused a £142.1m reduction (2017 £67.9m reduction) in gross insurance provisions in respect of the prior period. The net effect after reinsurance is a £61.1m reduction (2017 £27.7m reduction).

The major reasons for this change are reductions from long-tailed lines including the motor (both personal and commercial) and liability accounts. This is due to a revision of Ogden discount rate from -0.75% to 0%, as well as reduction of large claims and lack of emergence of new large claims on these 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.

31 INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

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 Gross of reinsurance	**Note**	**2009 £m**	**2010 £m**	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**Total £m**
Accident year		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	1,418.0	
One year later		1,000.0	1,100.9	1,107.8	1,197.5	1,223.5	1,374.8	1,568.8	1,523.1	1,445.5		
Two years later		978.9	1,072.2	1,102.8	1,168.5	1,185.8	1,376.3	1,523.5	1,486.0			
Three years later		972.6	1,068.7	1,103.2	1,166.5	1,179.4	1,385.1	1,503.7				
Four years later		970.0	1,074.4	1,084.1	1,178.3	1,179.9	1,368.3					
Five years later		967.6	1,078.2	1,077.2	1,173.4	1,173.7						
Six years later		976.1	1,076.2	1,073.3	1,168.6							
Seven years later		957.9	1,066.3	1,069.7								
Eight years later		961.1	1,063.6									
Nine years later		960.9										
Current estimate of cumulative claims		960.9	1,063.6	1,069.7	1,168.6	1,173.7	1,368.3	1,503.7	1,486.0	1,445.5	1,418.0	12,658.0
Cumulative payments to date		930.6	1,040.0	1,049.5	1,144.8	1,138.0	1,245.7	1,378.4	1,265.5	1,155.1	832.8	11,180.4
Reserve in respect of prior years												235.6
Total gross liability as per the balance sheet	30	30.3	23.6	20.2	23.8	35.7	122.6	125.3	220.5	290.4	585.2	1,1713.2

		Accident Year										
Group Net of reinsurance	**Note**	**2009 £m**	**2010 £m**	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**Total £m**
Accident year		969.7	1,040.7	1,096.0	1,187.1	1,168.5	1,314.9	1,263.2	918.1	889.1	821.0	
One year later		955.1	1,074.3	1,082.6	1,172.8	1,193.6	1,230.2	1,238.6	899.0	863.6		
Two years later		937.6	1,056.6	1,081.9	1,152.9	1,110.7	1,222.5	1,222.3	884.1			
Three years later		923.1	1,052.9	1,082.4	1,119.3	1,108.5	1,230.0	1,211.2				
Four years later		922.0	1,054.3	1,047.0	1,124.3	1,110.9	1,224.4					
Five years later		918.2	1,044.1	1,043.4	1,124.2	1,106.4						
Six years later		915.7	1,042.7	1,044.3	1,120.6							
Seven years later		910.6	1,039.2	1,042.2								
Eight years later		910.4	1,037.6									
Nine years later		910.0										
Current estimate of cumulative claims		910.0	1,037.6	1,042.2	1,120.6	1,106.4	1,224.4	1,211.2	884.1	863.6	821.0	10,221.1
Cumulative payments to date		902.5	1,028.0	1,032.9	1,108.1	1,089.4	1,157.9	1,135.7	765.9	696.6	484.6	9,401.6
Reserve in respect of prior years												75.8
Total gross liability as per the balance sheet	30	7.5	9.6	9.3	12.5	17.0	66.5	75.5	118.2	167.0	336.4	895.3

32 INSURANCE RELATED PAYABLES

Group	2018 £m	Restated[1] 2017 £m
Arising out of direct insurance operations		
Third parties	97.2	105.4
	97.2	105.4
Deposits received from reinsurers		
Amounts due to related parties	898.4	922.5
Third parties	0.1	0.1
	898.5	922.6
Arising out of reinsurance operations		
Amounts due to related parties	18.8	20.1
Third parties	43.5	46.5
	62.3	66.6
Total insurance related payables	1,058.0	1,094.6

Group	2018 £m	2017 £m
Current insurance related payables	1,057.9	1,094.5
Non current insurance related payables	0.1	0.1

(1) The Group had previously recognised levies in the year in which they were due to be paid. As per the Motor Insurance Bureau's (MIB) memorandum and articles of association, levies for each calendar year are payable in 12 monthly instalments and are based on leviable premium in the previous financial year. The Group now considers the obligating event for recognition of MIB levies to be the receipt of a premium in the current year which will require the payment of a levy in the following financial year. A provision for MIB levies has been recognised as at the reporting date for the amount anticipated to be payable in the subsequent 12 months.

Whilst there was no impact of the change on the Company result, for the Group, the prior year expenses reduced by £0.2m. The Group equity at the beginning of the comparative period was restated from £1,875.7m to £1,866.7m.

33 ACCRUALS AND OTHER PAYABLES

	Group 2018 £m	Company 2018 £m	Restated[2] Group 2017 £m	Company 2017 £m
Amounts due to related parties	0.7	62.5	5.2	62.4
Accrued expenses	35.1	-	35.4	-
Contract liability[2]	44.8	-	37.6	-
Social security and other taxes	51.3	-	56.5	-
Other	78.0	-	76.2	0.1
Total accruals and other payables	209.9	62.5	210.9	62.5

(2) Refer to note 3.

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

34 DERIVATIVE LIABILITIES

	2018 £m	2017 £m
Forward contract	0.6	7.3
Put option	7.1	30.0
	7.7	37.3

Forward contract

Valuation methodology

For the purposes of valuation, the right to settle the forward contract early is deemed not to have an intrinsic value. The forward contract is valued on the basis that it will be held for the full period until December 2019.

The value of the forward contract is derived from the difference between i) Allianz acquiring the 20.9% stake in December 2017 at fair value and ii) Allianz acquiring the 20.9% stake in December 2019 at the fixed price.

Determination of fair value of the forward contract

Valuation assumptions have been set as follows:

- The present value of the dividends has been discounted using discount rate of 8%.
- The fair value of 100% of LVGIG has been set relative to the cash purchase price of the forward based on a 100% value of £1,020mn. This results in a present value difference in the acquisition value of 20.9% when the difference in the cash flows is discounted using risk free rates.

Put option

Valuation methodology

The value is determined by using a Black Scholes Model.

While the put option can be exercised prior to December 2019, such exercise would result in the seller losing control early of LVGIG as well as losing the rights to dividends under the forward contract. The option has been valued as a European option (i.e. without the possibility to exercise early).

Determination of fair value of the put option

Inputs to the Black Scholes Model:

i. Strike price (based on cash settlement relying on 100% valuation of £1,020mn)

ii. Fair value (based on fair value relying on 100% valuation)

iii. Expected Term: two years

iv. Dividend Yield: (based on average of first two years of acquisition plan)

v. Risk free rate: (based on two-year UK risk free rate)

vi. Volatility: (based on historical volatility of UK listed entities).

35 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:

35 RISK MANAGEMENT POLICIES (CONTINUED)

Claims liabilities 2018	Group £m	Reinsurers' Share £m	Net £m
Motor	760.6	(385.1)	375.5
Household	58.3	(23.4)	34.9
Property and business interruption	220.6	(110.7)	109.9
Liability	518.0	(236.2)	281.8
Speciality pecuniary	130.5	(54.8)	75.7
Other	25.2	(7.7)	17.5
Total	1,713.2	(817.9)	895.3

Claims liabilities 2017	Group £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

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.

The table below provides a sensitivity analysis of the potential net impact of a change in the Ogden discount rate and has been calculated as the direct impact of a permanent change in the rate with all other factors remaining unchanged. These sensitivities are net of reinsurance, exclude the impact of taxation, reflect one-off impacts at December 31, 2018 and should not be interpreted as predictions. The Group will consider the statutory discount rate when setting its reserves but not necessarily provide on this basis, as is the case at the year ended December 31, 2018. This is intended to ensure that reserves are appropriate for current and potential future developments.

	Increase/(decrease) in profit before tax £m
Impact of the Group reserving at a discount rate of 1% compared to 0%	12.5
Impact of the Group reserving at a discount rate of minus 0.75% compared to 0%	(15.4)

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 risk 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, 2018 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.4 years (2017 3.4 years) compared with the average duration of the insurance contract liabilities which is estimated to be 5.1 years (2017 4.9 years).

ii Equity risk

As stated in accounting policy 'k', 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 (2017 £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:

	2018 £m	2017 £m
US Dollars		
Assets	31.4	32.9
Liabilities	30.3	30.8
Euro		
Assets	9.2	12.3
Liabilities	12.2	16.3

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.

	2018 Profit or Loss £m	2018 Equity £m	2017 Profit or Loss £m	2017 Equity £m
Interest rate risk				
+100 basis points shift in yield curves	-	(74.4)	-	(79.9)
–100 basis points shift in yield curves	-	79.0	-	86.0
Equity risk				
10% increase in equity prices	-	17.7	-	26.5
10% decrease in equity prices	(8.5)	(9.2)	-	(26.5)
Currency Risk				
10% strengthening of US dollar exchange rate	-	(0.1)	-	(0.4)
10% weakening of US dollar exchange rate	-	0.1	-	0.4
10% strengthening of Euro exchange rate	-	0.3	-	0.2
10% weakening of Euro exchange rate	-	(0.3)	-	(0.2)

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.

35 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	
2018	**Gross £m**	**Net £m**	**Gross £m**	**Net £m**
Expense ratio				
1% increase in current year	(20.8)	(11.7)	(16.9)	(9.5)
1% decrease in current year	20.8	11.7	16.9	9.5
Loss ratio				
1% increase in current year	(13.5)	(7.8)	(10.9)	(6.3)
1% increase in all of the last 3 years	(40.2)	(23.2)	(32.6)	(18.8)
1% decrease in current year	13.5	7.8	10.9	6.3
1% decrease in all of the last 3 years	40.2	23.2	32.6	18.8

	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

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, 2018 was £683.8m (2017 £702.0m).

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.

2018	AAA £m	AA £m	A £m	BBB £m	BB £m	Other not rated £m	Total £m
Reinsurance assets	-	1,170.8	9.9	-	-	83.5	1,264.2
Available for sale financial assets	582.3	682.2	390.0	560.7	6.3	177.5	2,399.0
Loans	-	7.4	29.9	-	-	0.8	38.1
Insurance receivables(1)	-	83.4	130.6	24.7	-	558.2	796.9
Cash and cash equivalents	-	-	36.5	-	-	-	36.5
Total £m	582.3	1,943.8	596.9	585.4	6.3	820.0	4,534.7
Per cent	12.8	42.9	13.2	12.9	0.1	18.1	100.0

2017	AAA £m	AA £m	A £m	BBB £m	BB £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	18.5	100.0

(1) Included in the not rated balance is £427.4m (2017 £417.0m) 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.

The available for sale financial assets shown in the above table are made up of equity securities £177.5m (2017 £265.1m) and bonds £2,221.5m (2017 £2,476.6m).

35 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
2018	-	177.5	-	177.5
2017	-	265.1	-	265.1

Bonds	Government £m	Corporate £m	Supranationals £m	Total £m
2018	426.1	1,654.7	140.7	2,221.5
2017	480.9	1,897.7	98.0	2,476.6

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

	2018 £m Reinsurance assets	2018 £m Insurance assets	2017 £m Reinsurance assets	2017 £m Insurance assets
Neither past due or impaired	1,263.2	643.0	1,328.2	661.1
Past due but not impaired	-	152.6	-	131.8
Individually impaired	1.0	1.3	1.6	0.8
Total	1,264.2	796.9	1,329.8	793.7

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.

2018	Less than 90 days £m	90-120 days £m	120-180 days £m	More than 180 days £m	Total £m
Policyholders	2.9	0.3	0.6	-	3.8
Brokers	59.1	34.2	28.0	25.4	146.7
Reinsurers	0.2	0.2	0.3	1.4	2.1
Total	62.2	34.7	28.9	26.8	152.6
2017					
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

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

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

Group 2018	Fair value as at December 31, £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Managed funds	177.5	177.5	-	-
Government and government agency bonds	566.8	249.7	317.1	-
Corporate bonds	1,654.7	16.7	1,624.6	13.4
Own use properties	15.9	-	-	15.9
Investment properties	186.9	-	-	186.9
Total	2,601.8	443.9	1,941.7	216.2

Group 2017	Fair value as at 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	674.8	2,039.4	200.5

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

Group & Company 2018	Fair value as at December 31, £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial liabilities				
Forward contract	0.6	-	-	0.6
Put option	7.1	-	-	7.1
Total	7.7	-	-	7.7

Group & Company 2017	Fair value as at December 31, £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial liabilities				
Forward contract	7.3	-	-	7.3
Put option	30.0	-	-	30.0
Total	37.3	-	-	37.3

All the movements in the fair value of Level 3 financial liabilities are unrealised gains in profit and loss. £29.6m (2017 £7.0m)

35 RISK MANAGEMENT POLICIES (CONTINUED)

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

2018	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	13.5	-	(13.5)	-	-	-
Corporate bonds	14.0	-	-	-	(0.6)	13.4
Own use properties	15.9	-	-	-	-	15.9
Investment properties	157.1	49.1	(21.8)	2.5	-	186.9
Total	200.5	49.1	(35.3)	2.5	(0.6)	216.2

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
Corporate bonds	-	14.3	-	-	(0.3)	14.0
Own use properties	15.4	-	-	0.5	-	15.9
Investment properties	142.4	28.4	(25.2)	11.5	-	157.1
Total	171.8	42.7	(25.2)	10.5	0.7	200.5

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.

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	0–12 months
Occupancy rate	Approximately 95.75%
Rent free	0–12 months upon re-letting
Equivalent yields applied	4.35%–8.45%

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).

The Group is unaware of any restrictions on the realisability of any of the investment properties or the remittance of income or proceeds of disposal.

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).

Corporate bonds

Valuation technique:

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

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

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

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, 2018 amounted to £2,437.1m (2017 £2,810.1m) plus cash and cash equivalents (including cash pooling to Allianz SE Group of £43.6m) of £80.1m (2017 £80.6m). 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
2018	2,399.0	371.6	227.8	562.1	758.2	489.3
2017	2,741.7	481.6	309.1	704.8	715.3	530.9

[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
2018	1,713.2	838.2	346.1	361.5	68.7	98.7
2017	1,780.0	837.5	401.8	382.2	62.6	95.9

35 RISK MANAGEMENT POLICIES (CONTINUED)

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 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. Allianz SE is currently 'AA' rated, the Group is rated one notch lower.

The Group's capital comprises total shareholders' equity and amounts to £1,792.6m (2017 restated £1,866.7m) 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, 2018 the own funds for Allianz Insurance plc amount to £1,049.3m with a surplus of 56% on SCR (2017 own funds £964.4m(1), surplus 30% on SCR).

36 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Allianz (UK) Limited, a company registered in the United Kingdom.

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.

37 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) The own funds at December 31, 2017 were net of a foreseeable dividend of £175 (paid in March 2018) which reduced the SCR coverage ratio to 130%. At December 31, 2018 there is no allowance for a foreseeable dividend.

38 CASH FLOWS FROM OPERATING ACTIVITIES

Group	Notes	2018 £m	Restated[1] 2017 £m
Non cash items			
Amortisation of intangible assets	15	12.8	3.1
Amortisation of net deferred acquisition costs	19	180.6	203.5
Net acquisition costs deferred during the year	19	(168.2)	(208.3)
Depreciation of property and equipment	17	4.2	3.6
Amortisation of available for sale financial assets		12.5	13.4
Impairment of available for sale assets		5.1	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		(0.3)	(26.8)
Prior year reinsurance recovery		5.1	-
Prior year contract liability		(1.2)	-
Prior year dilapidations		(1.9)	-
Net gain on pension scheme		31.0	-
Net realised loss on investment property		1.6	-
Write off of intangibles		2.1	-
Net realised gains from sale of available for sale financial assets	5	(5.3)	(9.7)
Net fair value gains on available for sale financial assets		-	(40.1)
Net fair value gains on investment properties	6	(2.5)	(11.5)
Net fair value gains on own use property	6	-	(0.5)
Net fair value gains on financial liabilities	6	(29.6)	-
Total non cash items		46.0	(109.4)
Changes in working capital			
Increase/(decrease) in provisions for other liabilities and charges	29	14.8	(0.1)
(Increase)/decrease in pension benefit surplus	16	(132.5)	4.8
Decrease/(increase) in reinsurance assets	22	65.6	(8.2)
Decrease/(increase) in prepayments and accrued income	23	3.3	(5.9)
Increase in insurance receivables	25	(8.3)	(15.3)
Decrease in other receivables	26	1.3	6.5
(Decrease)/increase in insurance contracts liabilities	30	(113.3)	7.3
(Decrease)/increase in insurance related payables	32	(36.6)	56.2
Decrease in accruals and other payables	33	(1.0)	(44.3)
Total changes in working capital		(206.7)	1.0

[1] Refer to notes 3 and 32.

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	2018 £m	Restated[1] 2017 £m
Non cash items			
Realised gain from sale of subsidiary		-	(47.1)
Prior year dilapidations		0.1	-
Change in market value of dervitative		(29.6)	2.7
Total non cash items		(29.5)	(44.4)
Changes in working capital			
Decrease/(increase) in other receivables		2.9	(53.9)
Decrease in loans		0.4	-
Decrease in accruals and other payables	26	-	(73.4)
(Decrease)/increase in provisions for other liabilities and charges	33	(31.5)	22.4
Total changes in working capital		(28.2)	(104.9)

[1] Refer to notes 29.

39 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 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Purchase of shareholding in associated undertaking	-	-	534.4	534.4
Share of associated undertaking net income	25.7	25.7	-	-
Dividends received from subsidiaries	-	175.0	-	4.9
Fee received on early repayment of loan to ultimate parent	-	-	26.8	-
Interest received on loans to ultimate parent	-	-	3.1	-
Sale of renewal rights	-	-	1.0	-
Purchase of renewal rights	-	-	(52.0)	
Dividends paid to the parent	(175.0)	(175.0)	-	-
Merger of pension fund from fellow subsidiary	14.5	-	-	-
Sale of subsidiary	-	-	36.6	47.1
Interest paid on loans from subsidiaries	-	(0.7)	-	(0.7)
Reinsurance contracts purchased from other related parties	(842.2)	-	(863.9)	-
Reinsurance claim recoveries from other related parties	540.9	-	541.2	-

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 2018 £m	Company 2018 £m	Group 2017 £m	Company 2017 £m
Due from related parties at December 31,				
Parent	50.9	47.1	50.9	47.1
Subsidiaries	-	80.6	-	83.5
Other related parties	788.0	-	815.5	-
Total	838.9	127.7	866.4	130.6
Due to related parties at December 31,				
Subsidiaries	-	62.6	-	62.4
Other related parties	942.0	-	947.8	-
Total	942.0	62.6	947.8	62.4
Loans from related parties at December 31,				
Subsidiaries	-	20.0	-	20.0
Total	-	20.0	-	20.0

39 RELATED PARTY TRANSACTIONS (CONTINUED)

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:

	2018 £m	2017 £m
Salaries and other short term employee benefits	3.9	3.5
Post employment pension benefits	-	-
Share based payments	1.5	1.4
Total compensation of key management personnel	5.4	4.9

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.

40 RECONCILIATION OF OPERATING PROFIT

	Note	£m	£m
Profit before tax		151.9	177.4
Adjustment to group basis on real estate[1]		(1.4)	8.2
Add back impact of quota share		37.5	23.0
Add back impairments	4	5.1	1.5
Remove realised gains	5	(3.4)	1.5
Remove unrealised gains	6	(32.1)	(19.0)
Add back amortisation	15	6.5	-
Remove restructuring charges	29	7.1	4.5
Operating profit		171.2	121.5

[1] Allianz SE accounting policy is to report real estate at the lower of depreciated cost and market value. These financial statements include real estate according to accounting policy 'b'. This leads to differences in holding values, depreciation and realised gains and losses. Note 40.

41 SUBSEQUENT EVENTS

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

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Allianz Insurance plc.
Registered in England number 84638
Registered office: 57 Ladymead, Guildford,
Surrey GU1 1DB, United Kingdom.

Allianz Insurance plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Financial Services Register number 121849.

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