ANNUAL REPORT AND FINANCIAL STATEMENTS

2019

ALLIANZ HOLDINGS PLC

Allianz

CONTENTS

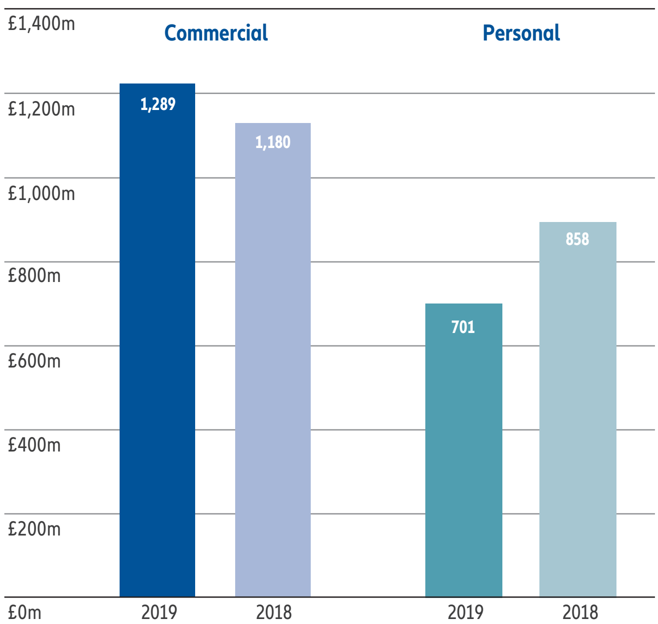
FINANCIAL HIGHLIGHTS

	2019 £m	Restated(2) 2018 £m
General insurance contracts premium revenue (Note 3 and 31)		
Gross written premiums	1,990.7	2,038.1
Net written premiums	1,124.9	1,147.2
Results		
Total revenue	1,513.9	1,529.3
Total claims and expenses	(1,367.5)	(1,377.4)
Profit before tax	146.4	151.9
Income tax charge	(8.2)	(15.8)
Profit after tax	138.2	136.1
Operating profit(1) before quota share	110.6	171.2
Operating profit(1) after quota share	80.0	133.7
Total equity	2,628.7	1,792.6

(1) Operating profit is on an Allianz SE Group basis. A reconciliation to profit before tax is included in note 41.

(2) Refer to note 5.

GROSS WRITTEN PREMIUMS



CHIEF EXECUTIVE'S REPORT

2019 was a pivotal year in the history of Allianz in the UK with the acquisition of the remainder of LV General Insurance Group and 100 percent of the General Insurance division of Legal & General. Operating profit before quota share to the Allianz Group was £111m.

ACQUISITIONS

On December 31, 2019, having secured regulatory approval, Allianz Holdings plc (the "Company") completed the acquisition of the remaining 51% of the LV General Insurance Group ("LV= GI"). This takes the total consideration paid for 100% of LV= GI up to £1.1bn following the initial investment in 2017 when the Company acquired a 49% stake. The Company also completed the acquisition of 100% of the General Insurance division of Legal & General ("L&G GI") on December 31, 2019 paying £242m. Following the completion of these deals, annual consolidated premium income is expected to be c.£4bn, positioning the Allianz Holdings plc group ("Allianz", the "Group") as the second largest general insurer in the UK.

The business transfers which formed part of the original deal have now completed with Allianz Insurance plc's personal home and motor business moving to LV= GI and LV= GI's commercial business moving to Allianz Insurance plc.

QUOTA SHARE

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

RENEWAL AGENDA

In the UK, we look to leverage the skills, expertise and scale of the wider Allianz SE Group. In particular, we're heavily committed to the Allianz SE Group's Renewal Agenda, which focuses on five important themes: customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy.

The business strategy "Simplicity Wins – Renewal Agenda 2.0" builds on the successfully implemented Renewal Agenda 1.0 and incorporates an ambition of simplicity for its operating entities through its key strategic objectives of Outperform, Transform and Rebalance. Outperform focuses on making ourselves even more productive and benchmarking our capabilities against best-in-class to continually improve our customer experience while Transform focuses on reducing complexity and becoming more digital, and Rebalance encourages focus on new growth opportunities. We are already strong in these aspects of our business and the recent acquisitions of LV= GI and L&G GI in the UK represents a leading example of Rebalance. We will continue to utilise these themes locally to drive our business forward.

FINANCIAL RESULTS

Operating profit in 2019 was £110.6m before and £80.0m after quota share, a reduction on the £171.2m before and £133.7m after quota share achieved in 2018. The reduction is the result of Payment protection insurance ("PPI") redress payments of £38.7m as well as poor claims performance in the commercial property accounts.

Profit after tax was £138.2m (after quota share) including £53.2m of investment gains arising from the acquisition of LV= GI, which more than offset PPI redress payments and the effects of poor claims experience. This compares to profit after tax of £136.1m in 2018.

Gross written premium reduced by 2.3% predominantly driven by the transfer of Personal Home and Motor business to LV= GI which was only partially offset by commercial business transferring from LV= GI. The remaining business (primarily Commercial, Animal Health and specialist lines) grew by 7.6% versus 2018.

Commercial lines profits reduced in 2019 with improved performance in relation to prior years partially mitigating large losses and claims inflation which is running ahead of price increases. Personal lines also returned a profit predominantly driven by continued strong performance in Animal Health which offset losses from the run-off of the Household account.

Commercial lines gross written premium grew by 9.2% supported by rate increases and the business transfers from LV= GI. Motor business continued its record of strong profit performance and the Engineering business delivered very satisfactory profits. Positive prior year claim reserve development saw the Liability account continue to return profits.

The Property account experienced increased large losses which were largely offset by low levels of natural catastrophe claims; however the account was unprofitable due to increased fire, theft and escape of water 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.

OUTPERFORM FOCUSES ON MAKING OURSELVES EVEN MORE PRODUCTIVE AND BENCHMARKING OUR CAPABILITIES AGAINST BEST-IN-CLASS TO CONTINUALLY IMPROVE OUR CUSTOMER EXPERIENCE

The termination of poor performing accounts along with the transfer of the Motor and Household business to LV= GI has seen Personal lines gross written premium reduce by 18.3%. Poor claims experience on the run-off of the Household account resulted in an underwriting loss. The Motor account delivered a profit driven by prior year claims reserve releases as the business runs off.

Our Animal Health business has performed strongly again, delivering profitable growth. The Corporate Partner Animal Health account contracted and, despite underwriting actions to improve profitability, returned a loss in 2019. The Corporate Partner All Risks account, which is primarily mobile phone coverage, continues to produce profit but premium reduced by 17.4% as a result of lower policy volumes. The Legal Protection business continued to deliver a loss due to the deterioration of prior years on some schemes.

With the exception of the gain on consolidation, investment returns were broadly in line with expectation. The core investment strategy remained unchanged from last year with the majority of assets in investment grade fixed income. An emerging market mandate was added along with an investment in mid-market corporate lending in order to enhance portfolio returns and further increase portfolio diversification. The allocation to equities and property remains a small proportion of total assets in line with the risk appetite. Operating investment income was in line with plan, excluding the PPI redress interest charges.

CUSTOMER

We constantly review our product offerings to ensure we're meeting the changing needs of our customers. 2019 saw the introduction of a number of new propositions. As a result of Brexit, we have been able to take advantage of the global Allianz network to ensure we can continue to provide cover for EU risks via our Multinational Solutions. We also launched a new Risk Management website which is now open to the public and features new business support tools. Product launches in 2019 include a new Cyber product developed in partnership with Allianz Global Corporate and Specialty aimed primarily at Mid Corporate customers, and an affordable product launched in response to recent terrorist incidents to provide business interruption cover in the event of a non-damage terrorism event. Within claims, a digital claims notification hub and application was launched as part of a pilot with further refinements planned in 2020 ahead of a full open market launch.

EXTERNAL RECOGNITION IN 2019 INCLUDED WINNING FOUR MAJOR AWARDS AT THE 25TH ANNIVERSARY OF THE BRITISH INSURANCE AWARDS

The Top Down Net Promoter Score ("TDNPS") is an important indicator of our customer service. We ask our customers, and those of our competitors, for honest and anonymous feedback and then benchmark the results. In 2019, Petplan achieved Loyalty Leadership for the first time. For our General Commercial and Engineering, Construction and Power businesses we speak to brokers to gain feedback. We achieved Above Market and Loyalty Leadership positions respectively.

EMPLOYEES

Enabling our people is key in achieving our strategic objectives and delivering for our customers. An important part of this is our continued investment in leadership and the expert skills of our employees. Our well-established internal academies for technical insurance skills have been strengthened by new faculties focusing on areas including pricing, data, portfolio management and loss control. Our employees develop their professional and leadership skills through internal courses and programmes, digital learning and on the job experience. This is complemented by professional qualifications – an approach also used in the nine apprenticeship schemes we currently run.

We are also extremely dedicated to promoting diversity & inclusion and raising awareness of specific topics. Recent focus has been on developing a range of employee-led networks that each specialise in and promote aspects of diversity and inclusion. These include working parents, intergenerational working, gender balance, LGBT+, cultural and ethnic diversity, disability and mental health.

External recognition in 2019 included winning four major awards at the 25th Anniversary of the British Insurance Awards, including being named General Insurer of the Year and Commercial Lines Insurer of the Year. On top of this, LV= GI won three further awards including being named Personal Lines Insurer of the Year. Further successes included being recognised as Re-insurer of the Year at the Enterprise Risk Management ("ERM") Awards, The Counter Fraud Team of the Year – Commercial Lines Award at the Insurance Fraud Awards as well as receiving three awards at the Insurance Times awards. Allianz was also included in the Inclusive Top 50 UK Employers, recognising our work on further developing diversity and inclusion in our organisation.

CORPORATE SOCIAL RESPONSIBILITY

Allianz is committed to supporting charitable activity and helping the communities we operate in. We work with charities at a global level through our work with SOS Children's Villages, at a national level through our long-term corporate partnerships and at a local level with the communities in which our offices and employees are based. Through employee fundraising, volunteering and taking part in the Allianz World Run, we raise money, give our time and share skills and expertise with a range of charities.

We concluded our three year partnership with the Association of Air Ambulances at the beginning of 2019 having raised £1.1m to help fund lifesaving air ambulance missions across the UK. In March 2019, we launched our new corporate charity partnership with Mind, the leading mental health charity and their sister charity (Scottish Association for Mental Health ("SAMH")), with the aim of raising £1m in three years. This new partnership will benefit both organisations as we aim to expand the mental health support resources we have in place at Allianz whilst fundraising locally across the UK for this national charity.

Our partnership with the British Paralympic Association in the UK and the International Paralympic Committee ("IPC") on a global level has continued. In September 2019, we were proud to sponsor the World Para Swimming Allianz Championships which brought together athletes from around the world to compete at the Olympic Park in London. Many of our employees volunteered at the event as 'Games Makers' and many more took the opportunity to support the event.

We are the Principal Partner of Saracens Sports Foundation which inspires the local community to reach their potential through the values of sport. We're also the lead supporter of the Saracens wheelchair rugby programme which further portrays our passion for para sport.

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've continued to respond to the output of various reviews by the FCA, including its feedback statement in July 2019 on fair pricing in financial services, which sets out the findings from its market study into pricing practices in the home and motor insurance markets.

The General Data Protection Regulation ("GDPR") and Data Protection Act 2018 ("DPA2018") provides the legislative framework for the protection of personal data held by Allianz. Work has continued to ensure we have a robust approach to data protection and a strong privacy culture.

WORK HAS CONTINUED TO ENSURE WE HAVE A ROBUST APPROACH TO DATA PROTECTION AND A STRONG PRIVACY CULTURE.

With regard to the PRA, firm-specific and market-wide feedback is reviewed and actioned as a matter of course. During 2019 Allianz appointed senior managers to be responsible for climate change in line with regulatory expectations and we set out clear activities within the Group to support both the regulators and our objectives to address climate change. Likewise with the uncertainty caused by Brexit, we've worked with our regulators to ensure any changes are as smooth as possible for both customers and employees. We continue to maintain open and regular communication with our regulators.

Implementation of the whiplash reforms has been delayed until April 2021 due to the COVID-19 pandemic. These reforms will introduce tariff damages for injuries up to two years' duration and increase the small claims limits for Road Traffic Accidents from £1,000 to £5,000. It's been proposed though, that the increase in the small claims limit for other personal injury claims from £1,000 to £2,000 should be put on hold. Allianz's objective has always been to support and fairly compensate genuinely injured people quickly and fairly. These reforms facilitate that and aim to reduce the involvement of lawyers and the associated cost that they add.

In July 2019 the Lord Chancellor confirmed the new personal injury discount rate for England and Wales at -0.25%, an increase from the previous rate of -0.75%. The Government had previously indicated that it was likely the rate would be set between 0% and 1%. Following this indication, Allianz, along with many other peers in the market revised the actuarial best estimate to 0% in December 2018; therefore the adjustment to -0.25% only had a minimal impact on our 2019 result. In September 2019 the Scottish Government Actuary announced that the Scottish discount rate will remain at -0.75%.

The Automated and Electric Vehicles Act (2018) enabled the introduction of autonomous vehicles to UK roads. In 2019 the focus switched to the Law Commission which is reviewing the legal framework for use of these vehicles including elements such as safety, legal liability, and the use of self-driving vehicles. Allianz is committed to working closely with Thatcham Research and with the market to ensure we remain at the forefront of what will be a transformational change to road use in the UK.

The report on Phase 1 of the Grenfell Tower Inquiry, issued October 2019, focused on the cause of the fire and response by the emergency services. Wide ranging recommendations include improved co-operation between emergency services, effective liaison between the owners of high-rise residential buildings and the local fire and rescue services, national guidelines on evacuation procedures, improved signage and inspection of fire doors. The report did not make any new recommendations regarding the replacement of combustible materials or installation of sprinkler systems. Phase 2 commenced in January 2020 and will examine design, testing and certification of materials in detail.

FUTURE OUTLOOK

We move into 2020 in a strong position despite the ongoing competitive market conditions in the UK, challenges presented in light of Brexit and the uncertainties driven by the COVID-19 pandemic. The completion of the transfers of business between Allianz Insurance plc and LV= GI, the establishment of shared services to support these businesses and the completion of the LV= GI and L&G GI deals have created a tremendously strong platform from which we can grow profitably.

The UK left the European Union ("EU") on January 31, 2020 and remains in a transition period that's scheduled to end on December 31, 2020. Uncertainty remains regarding the trade deal to be agreed with the EU and any impacts it may have, however we remain in a strong position to adapt accordingly.

On March 11, 2020 the World Health Organisation confirmed that the outbreak of COVID-19 is a global pandemic. We have responded to the situation as it has evolved using well established business resilience and crisis management procedures with a focus on putting our people first and prioritising existing and emerging customer needs. We continue to assess the impact to the business both operationally and financially as the pandemic evolves. The impacts are noted within the risk section of the Strategic Report (page 11).

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 2020.

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, 2019.

PRINCIPAL ACTIVITY

The Company is a holding company which owns the principal insurance operations of Allianz Societas Europaea in the United Kingdom. The principal activity of its subsidiary undertakings continues to be the transaction of most classes of general insurance business. A review of the Group's trading activities, approach to capital management and prospects, together with likely future developments, is included in the Chief Executive's Report and the Group Strategic Report on pages 2 to 17.

The Group is not required to prepare an Operating and Financial Review as recommended as best practice by the Accounting Standards Board. However, the Board is conscious of its position as a major financial services provider and includes in the following Strategic Report details of its performance, key influences on its business in 2019 and the prospects for 2020.

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 financial statements.

Through its insurance subsidiaries the Group is one of the top ten general insurers in the United Kingdom measured by gross written premium. However, following the acquisition of LV= GI and L&G GI the consolidated premium will increase significantly and is expected to make Allianz the second largest general insurer in the UK.

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.

In 2019 the Group continued to operate through three regulated insurance companies and was 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 2019 results and the prospects for 2020 are set out in the Business Report on page 26.

A number of the Group's subsidiaries are regulated by the FCA and/or the PRA.

BUSINESS REVIEW

The Group's overall performance and investment has been widely recognised both within and beyond the insurance industry and a number of awards have been won in recent years. 2019 was an outstanding year for Allianz at the British Insurance Awards where we won four of the major awards: General

Insurer of the Year, Commercial Lines Insurer of the Year, Business Sustainability Initiative of the Year and Transformational Deal of the Year. Allianz also excelled at the Insurance Times Awards where we achieved Commercial Lines Insurer of the Year, Fleet Product of the Year, and Jon Dye was awarded Chief Executive Officer ("CEO") of the Year. Globally, Allianz was also recognised as the number one insurance brand in the 2019 Interbrand Best Global Brand Rankings. This recognition is a fantastic reflection of all the hard work that's been going on around our business and the strength of Allianz globally.

Within Commercial lines, benign weather conditions and improved performance in relation to prior years partially offset large losses and claims inflation running ahead of price increases.

In Personal lines our Animal Health business continued to deliver profitable growth. The Motor account produced a profit as a result of prior year claims releases as the business runs off while the Household business, which is also in run-off, saw poor claims experience and returned a loss.

Gross written premiums reduced to £1,991m from £2,038m in 2018, a 2.3% decrease. Commercial lines grew by 9.3% driven by rate strength and the inflow of the LV= GI business transfers. Personal lines shrank by 18.3%, largely driven by the transfer of Motor and Household insurance to LV= GI, as well as the termination of poor performing business which more than offset the 6.4% increase seen in Animal Health.

Operating Profit reduced from £171.2m to £110.6m, as a result of £38.7m in PPI redress payments and 2018 included an Ogden related release of £26.0m driven by the revision of the actuarial best estimate to 0%. The Ogden rate change to -0.25% announced in July 2019 had a minimal adverse impact to claims reserves. Profit before tax was £176.7m compared with £182.1m in 2018.

Further detail regarding the 2019 business results can be found in the Business Report on pages 26 to 28.

KEY PERFORMANCE INDICATORS

The Group continue to monitor a number of financial and non-financial key performance indicators ("KPIs") within the business. Core financial KPIs are shown in the table below and non-finance KPIs are reported within the Non-Financial Statement on pages 18 to 25.

Key Performance Indicators – before quota share	2019 £m	2018 £m	2017 £m
Gross written premium	1,990.7	2,038.1	2,108.0
Net written premium	1,874.9	1,912.1	1,994.4
Underwriting result(1)	40.5	70.8	37.2
Operating profit(2)	110.6	171.2	121.5
Profit before tax	176.7	182.1	195.1
Claims ratio(3)	66.4%	64.8%	67.4%
Expense ratio(4)	31.4%	31.6%	30.7%
Combined ratio(5)	97.8%	96.4%	98.1%
UK employee turnover	18.3%	17.5%	16.5%

Source – Management Accounts.

(1) Underwriting results are quoted before the impact of quota share reinsurance and are the sum of premiums earned less incurred claims and expenses. The underwriting result can be reconciled to the profit before tax reported in the statement of comprehensive income on page 49 as follows:

	2019 £m	2018 £m	2017 £m
Underwriting result	40.5	70.8	37.2
Impact of quota share	(30.3)	(37.5)	(23.0)
Investment income net of finance costs	54.5	82.3	71.7
Net realised gains	57.6	3.4	74.1
Net fair value gains	33.1	32.1	19.0
Other income	87.2	80.7	76.9
Other operating and administrative expenses	(96.2)	(79.9)	(78.5)
Profit before tax	146.4	151.9	177.4

(2) Operating profit is on an Allianz SE Group basis. A reconciliation to profit before tax is included in note 41.
(3) Claims ratio is defined as incurred claims as a percentage of earned premiums.
(4) Expense ratio is defined as incurred expenses and commission as a percentage of earned premiums.
(5) Combined ratio is defined as incurred claims, expenses and commission as a percentage of earned premiums.

FUTURE OUTLOOK

We move into 2020 in a strong position. The completion of the LV= GI and L&G GI deals have created a strong platform from which we can grow profitably.

Premium income within Allianz is expected to increase modestly in 2020 driven by underlying growth in the Commercial and Animal Health businesses. The consolidation of LV= GI and L&G GI will increase our overall premium to c.£4bn.

Allianz Insurance plc, LV= GI and L&G GI will continue with their existing quota share percentages for 2020, which 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 current economic situation on our customers. However, profitability is expected to improve further through 2020 as rate increases are applied and the benefits of the continuing investment in productivity initiatives and Technical Excellence are realised. The Group remains very vigilant with respect to claims fraud.

By definition, insurance is an uncertain business and profitability in 2020 could also be influenced by a higher than expected level of major claims or weather events. In addition, Brexit and the COVID-19 pandemic are likely to continue to present challenges to the industry, but we remain in a good position to respond accordingly.

The Company is supportive of the FCA High Court test case regarding business interruption cover and has already made payments on hundreds of claims where it believes that the policy responds to the Government action resulting from the COVID-19 crisis. Allianz has also made a substantial contribution to the insurance industry's COVID-19 Support Fund which aims to provide immediate relief to charities affected by COVID-19, as well as a longer-term programme of support for people, communities, and issues where there is the greatest need.

BREXIT

The UK formally left the EU on January 31, 2020. There will now be a period of transition until December 31, 2020 where the UK and EU continue to negotiate, there remains a risk that a trade deal is not reached. This scenario could lead to inflationary pressure driven by exchange rate movements and labour shortages. As a result, the outcome of Brexit remains uncertain and management continue to monitor the potential impacts on the business. With operations based in the UK and minimal risk exposure outside the UK, management feel that the Group is well placed to respond to any potential outcome.

RISK AND CAPITAL MANAGEMENT

All businesses face uncertainty, and the challenge for management is to determine how much uncertainty the Group is prepared to accept as it strives to grow stakeholder and customer value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value.

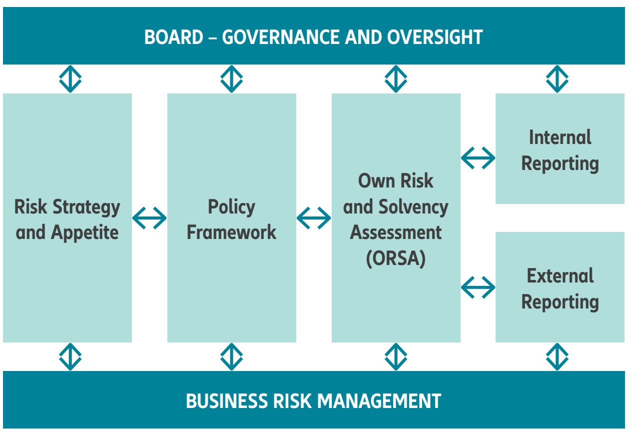
At Allianz, the ERM framework forms the overarching framework for management to deal with the various risks the Group may encounter, as well as their tracking and monitoring. This also ensures that Allianz has processes in place by which we assess the risks that we are exposed to, both on a current and forward-looking basis.

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

To ensure we're always prepared in a rapidly changing environment, Allianz has a number of key risk management processes and policies that are implemented throughout the Group. These processes rely on a clear governance structure to enable risk reporting to be communicated from the business to the Board, as shown in the diagram below.



AN ANNUAL REVIEW OF THE ALLIANZ SYSTEM OF GOVERNANCE WAS COMPLETED IN 2019

PRINCIPAL RISKS AND UNCERTAINTIES

We continually assess the principal risks and uncertainties facing our business monitoring potential impacts and where necessary implementing mitigation and management solutions. Details of our principal risks and uncertainties can be found below and in note 36 on page 98.

Working alongside other assurance functions, such as Internal Audit and Compliance, the Risk Function monitors both known and unknown risks that could affect the Group, while collaborating with the business units to mitigate any identified issues. In 2019, particular focus was on:

- **Conduct risk** – Allianz is focused on the importance of doing the right thing for our customers, recognising and responding to the needs of those more vulnerable in the current economic climate. In 2019 a cross-functional conduct risk project was completed that embedded a new framework for monitoring and managing conduct risk.

- **Climate change** – Ensuring we remain a conscientious Group which considers sustainability in all our business activities is a key focus across the Allianz SE Group and locally in the UK. In 2019 we appointed senior managers to be responsible for climate change related activity within the Group and have set out a clear sustainability plan to further enhance our climate change activities.

- **Brexit** – Dealing with uncertainty caused by Brexit and ensuring any changes are as smooth as possible for both customers and employees has been a key priority for Allianz throughout 2019. Preparations were completed including the analysis of different scenarios, detailed stress tests, and customer communications for different Brexit outcomes. We continue to closely monitor developments.

- **Emerging risk** – A thorough emerging risk process was deployed in 2019, using both industry and expert knowledge to ensure Allianz is adequately prepared for the road ahead. Subsequent emerging risk focus topics were assessed against the Allianz strategy in order to build better understanding and preparedness for the future.

- **Integrated Risk and Control System ("IRCS")** – The global Allianz SE Group risk management system was fully implemented in 2019, with the UK continuing to maintain and enhance risk management across the business. IRCS includes the assessment of Top Risks the Group faces, the key controls in place to mitigate identified risks and key risk indicators for early warning of any issues. No material weaknesses or significant deficiencies arose in 2019.

- **Governance** – An annual review of the Allianz System of Governance was completed in 2019, including the Solvency II policy suite. This process ensures that our local arrangements are adequate and effective for the size and complexity of our business.

- **Acquisitions** – 2019 was an exciting year for Allianz, with the announcement of the LV= GI and L&G GI acquisitions coming into effect on December 31, 2019. The acquisitions present many opportunities for collaboration across our trading businesses to ensure good outcomes for both customers and employees. From a Risk Management perspective, our focus was, and will continue to be, on maintaining a strong risk culture.

COVID-19

On March 11, 2020 the World Health Organisation confirmed that the outbreak of COVID-19 is a global pandemic and is a new and significant source of uncertainty for the Group in 2020. Preventative actions are being taken by the UK government such as restricting the public on non-essential travel, working from home, closure of businesses, postponing events and public gatherings. This has had an immediate impact to the domestic and global economies and financial markets, creating uncertainty for people and businesses. Consequently, insurance companies are assessing the impact of COVID-19 on general insurance products as explained below.

We are closely monitoring the situation as it develops to maintain service to customers and manage both operational and economic risk. There is close alignment and interaction to ensure the Group is operating in accordance with government advice and benefiting from the wider Allianz SE Group response.

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

The Group is responding to the COVID-19 situation using well established business resilience and crisis management procedures. The key risks this crisis presents are both operational and financial. These risks are being actively monitored and managed on a daily basis. Regular communications are taking place to keep all staff informed throughout the period of uncertainty. The risks have largely come to the fore from late February onwards as new information has emerged and the government response has developed.

The operational risks from COVID-19 are largely being addressed by increasing homeworking capability and reducing non-priority activity. Work has been prioritised to support claims payments and existing customers. Our offices remain open for a small number of key workers who are unable to work from home.

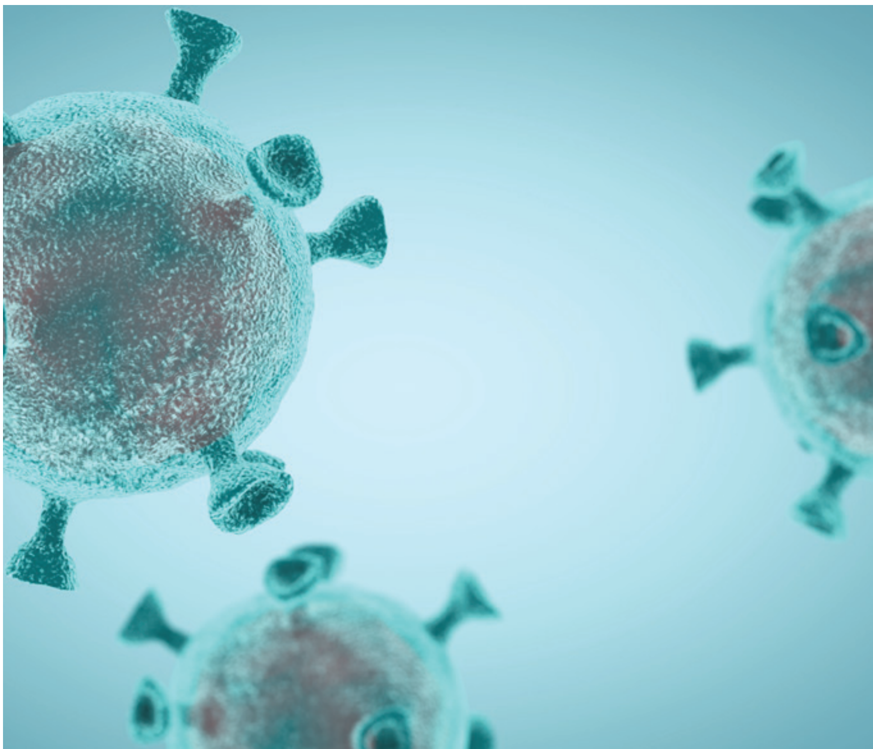
Financial risks which are being assessed and responded to include adverse movements in investments held, in particular the increase in spreads on the corporate bond portfolio. In respect of underwriting risk we have seen an increase in business interruption claims which will be offset by fewer claims on motor, liability and pet insurance products as a consequence of the government instruction for people to stay at home. Reinsurance arrangements in place provide further mitigation.

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

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

The Group expects to continue to meet its solvency and capital requirements as required by regulation. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact to our business at the time of writing.

OUR VALUES WILL DRIVE OUR DECISION MAKING AS THE GROUP WORKS THROUGH THIS CHALLENGING TIME, WITH A FOCUS ON PUTTING OUR PEOPLE FIRST AND PRIORITISING EXISTING AND EMERGING CUSTOMER NEEDS.



RISK APPETITE

Allianz has a written statement confirming the degree of uncertainty (or risk) that the Group is willing to accept in the pursuit of its goals. Allianz has a conservative and controlled risk appetite that is aligned to achieving corporate objectives and meeting regulatory requirements and those of our parent company.

In relation to the objectives in the annual Corporate Plan, Allianz aims to ensure that no event or combination of events is possible that will cause a variance in result which is not consistent with the stated risk appetite.

AT ALLIANZ, RISK IS SPLIT INTO CATEGORIES USING OUR RISK TAXONOMY:

RISK	EXPOSURE	CONTROLS
Insurance Risk	Insurance risk concerns unexpected financial losses due to insufficient premiums, insufficient reserves or the uncertainty of, for example, catastrophic events, mortality or longevity.	Allianz has a robust control environment around underwriting, comprising underwriting authority limits, inspections, underwriting training and testing. Reserve risk is mitigated through reinsurance and by a robust claims handling and actuarial reserving philosophy.
Market Risk	Market risk concerns unexpected losses arising due to changes in market prices or parameters, including changes driven by equity prices, interest rates, real estate prices, foreign exchange rates, credit spreads and implied volatilities.	Allianz seeks to invest primarily in a well-diversified portfolio of liquid, traded assets primarily with a UK domicile.
Credit Risk	Credit risk concerns unexpected losses in the market value of the portfolio due to deterioration in the credit quality of all parties including their failure to settle payment obligations or due to non-performance of contractual parties in making payments.	Limits on individual parties are set by the Finance and Investment Committee, having considered limits proposed by Allianz SE Group. Utilisation and breaches of the limits set are monitored by the Risk Department.
Business Risk	The risk of not writing new business and thus not earning premiums needed to cover fixed acquisition costs. Renewal rates for existing contracts decreasing, leading to lower than expected earned premiums.	Allianz is exposed to business risk. However, the Group controls and monitors its exposures by ensuring that it writes business in line with its Corporate Plan.
Operational Risk	Operational risks are unexpected losses resulting from inadequate or failed internal processes and systems, from human misbehaviour or errors, or from external events.	Allianz accepts exposure to operational risk as a necessary consequence of doing business. There is a robust risk and control culture within the organisation, which is monitored and reported by the managers of the organisation and by the Risk, Compliance, Legal and Audit Departments through an Integrated Risk and Control System.
Liquidity Risk	The risk of unexpected financial losses, due to a failure to meet current or future payment obligations, as well as the risk that in the event of Allianz having a liquidity crisis and refinancing is only possible at higher interest rates.	The Risk Department monitors the liquidity position in stressed scenarios to ensure that should large amounts of liquidity be required at short notice, adequate liquidity would be available.
Reputational Risk	Reputational risk is revenue decline due to deteriorating reputation. This can be due to an action of Allianz itself, or an association with another company.	Allianz's underwriting controls screen all quotations for any sensitive business areas or negative media attention. Regular meetings between Risk and Communications ensure reputational risks and issues are controlled on a case-by-case basis.
Strategic Risk	Strategic Risk is defined as a negative effect on capital and earnings, due to business policy decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes.	Risk is considered as part of the Strategic and Planning Dialogues within the business in order to identify risks to plan and limit strategic risk while seeking to implement its Corporate Plan, adapting specific goals as necessary.

INTERNAL RISK CAPITAL FRAMEWORK

Allianz Insurance plc

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 SE Group internal model to our UK specific requirements to measure risk capital. The PRA and the College of Supervisors approved the model in 2015 to start on January 1, 2016. Subsequent model changes were approved in 2017, 2018 and 2019 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. We summarise these activities in an annual validation report.

For 2019 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. During 2019 comprehensive scenario analysis continued from the previous year to consider 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.

The Solvency Capital Requirement ("SCR") for Allianz Insurance plc as at December 31, 2019 was £586m[(1)] compared with own funds of £929m[(1)], leading to a solvency coverage ratio of 159%[(1)] (prior to any dividend payment). This compares to a ratio of 156%[(1)] as at December 31, 2018.

LV= GI AND L&G GI

On December 31, 2019 the Company completed the acquisition of the remaining 51% of the Liverpool Victoria General Insurance Group (including Liverpool Victoria Insurance Company Ltd and Highway Insurance Company Ltd), and the purchase of 100% of the General Insurance division of Legal & General (including Legal & General Insurance Ltd).

The internal risk capital for the regulated entities is calculated quarterly using the Standard Formula.

The SCR for Liverpool Victoria Insurance Company Ltd as at December 31, 2019 was £376m[(1)] compared with own funds of £589m[(1)], leading to a solvency coverage ratio of 157%[(1)] (prior to any dividend payment).

The SCR for Highway Insurance Company Ltd as at December 31, 2019 was £161m[(1)] compared with own funds of £228m[(1)], leading to a solvency coverage ratio of 142%[(1)] (prior to any dividend payment).

The SCR for Legal & General Insurance Ltd as at December 31, 2019 was £129m[(1)] compared with own funds of £165m[(1)], leading to a solvency coverage ratio of 128%[(1)] (prior to any dividend payment).

[(1)] Unaudited figures

GOING CONCERN

We're confident in the Group'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.

There is undeniably significant uncertainty surrounding the impact of COVID-19 on the business. However, an assessment by line of business indicates that solvency can be maintained above regulatory requirements and there is liquidity to support operations.

Business continuity activity to move to home working has been effected at speed and without material customer detriment. Key activities have been maintained, including frontline service, payments and IT systems, and we continue to work closely with our suppliers to understand and manage the impact of COVID-19 on our supply chain.

The COVID-19 development has led to significant reductions in market values in the early part of 2020 and heightened volatility. Stock markets have fallen sharply, and the Bank of England and government have taken unprecedented steps in response with base rates reduced to a historic low of 0.1% and broad financial support measures have been introduced to try to support the economy. It is anticipated that the UK will enter a period of recession in 2020 due to this economic shock.

Management are regularly assessing the impact on the financial, liquidity and solvency position with actions in place to respond where appropriate. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Group at the time of writing.

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

SECTION 172(1) COMPANIES ACT 2006 STATEMENT

The Board of directors has acted in a way that it considers, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole and in doing so has had regard to the matters set out in section 172(1) of the Companies Act 2006 (the "Act").

As a result of the Group's governance structure, the Board (and its committees) considers matters that it is responsible for considering under section 172(1) of the Act in relation to the Company and Group. The Board meets quarterly and holds other ad hoc meetings where appropriate.

Stakeholders, their interests and the manner in which the Group engages with them, are integral to how the Group conducts business. When strategic and operational decisions are considered by the Board (and its committees), the broader impacts on stakeholders are taken into account and this approach is embedded within the Group governance structure. The Company adopted The Wates Corporate Governance Principles for Large Private Companies and the Board has set out, in the Corporate Governance Report on pages 32 to 38, how it has applied those principles to make decisions for the long term success of the Company, the Group and its stakeholders. Details of the engagement activities in relation to stakeholders are provided below:

EMPLOYEES

Allianz Holdings plc does not employ any staff. During the year, Allianz Management Services Limited ("AMS"), a wholly-owned subsidiary of the Group, provided administration services and staff to the Company and to other Group companies. AMS has a high level of resources and expertise which benefit the Group. Various methods of employee engagement are used by AMS and the Group, such as town hall presentations, staff newsletters and the annual Allianz Engagement Survey ("AES"), which is a valuable employee feedback platform and an indicator of Allianz's corporate culture. Employee engagement is a high priority at Allianz as our people are expected to perform with commitment and integrity delivering excellent outcomes for our customers. Allianz monitors employee engagement and company culture through the Inclusive Meritocracy Index(1) which covers aspects of leadership, performance, collaboration, trust and respect.

(1) Inclusive Meritocracy is our target culture and can be described by three principles:
1 people and performance matter in a culture of inclusive meritocracy;
2 the 'what' and the 'how' count and define individual performance at Allianz; and
3 people attributes set the aspiration for how each employee should act. The Inclusive Meritocracy Index is derived from the responses to a specific series of questions asked in the annual AES.

In addition, the Work Well Index plus is used to measure the quality of the work environment, practices and opportunities.

CUSTOMERS

Customer centricity is fundamental to the Group's growth and development and is key to the Allianz SE Group-wide "Simplicity Wins – Renewal Agenda 2.0" business strategy which the Group has adopted. This strategy incorporates an ambition of simplicity designed to provide an even better service to customers, reducing complexity and making the Group even more productive. Customer centricity also enables the Group to understand its customers better through listening to and focussing on their needs. The Group constantly reviews its product offerings in consultation with its customers to ensure it is meeting the changing needs of its customers. For instance, customer consultation has resulted in a new cyber product which was developed in partnership with Allianz Global Corporate and Specialty and aimed primarily at mid-corporate customers. In respect of the Group's broader customer service offering, a new Risk Management website was launched featuring new business support tools.

SUPPLIERS

Proposed material supplier contracts, either strategic or by reason of size and significance, which are relevant to the Group, are considered by the Board following initial meetings and negotiations by procurement and commercial teams and direct engagement with senior management. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures certain standards are met in relation to ethics, labour and the environment. During the year, a Supplier Relationship Management team was set up in procurement specifically to assist teams across the Group with the management of supplier relationships. The Board assumes responsibility for approving and overseeing procedures to effect material contracts and for their ongoing monitoring and performance assessment.

As a consequence, the Board will therefore give due consideration to significant intended supplier arrangements, their suitability and ability to meet the Group's requirements and the ease with which a productive and mutually-beneficial working relationship can be established and maintained with each supplier.

REGULATORS

Guidance, policy statements, Dear CEO letters, reports and other forms of publication issued by the Group's principal regulators from time to time are examined and discussed by the Board to the extent required and taken into account when considering matters for approval. These deliberations are appropriately minuted. The Board's non-executive directors have direct contact and dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which will then be brought into discussions of the Board. Other engagement methods with the regulators include regular meetings and responding to regulatory market reviews. The Group prides itself on maintaining a candid and transparent relationship with all of its regulators.

COMMUNITY AND THE ENVIRONMENT

An Environmental, Social, Governance strategy is being introduced with the aim of the Group achieving the status of a responsible and trusted business, and a committed corporate citizen. Further details of the Group's initiatives are set out in the Non-Financial Information Statement on page 18 of this Annual Report.

BOARD DECISION-MAKING

The Board is currently reviewing its existing processes to ensure that a formal analysis is carried out of how material decisions that it is required to approve will impact on key stakeholders.

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

During the year, the Directors took the following principal decisions:

ACQUISITIONS

The Board approved the acquisition of 100% ownership of the general insurance businesses of LV= GI and L&G GI effective from December 31, 2019, which creates new opportunities for the Group's future growth and success as well as enabling collaboration across the trading businesses to ensure good outcomes for both customers and employees.

2020 BUSINESS PLAN

In approving the 2020 business plan, the Directors had regard to the future outlook for the Group and how it would affect all stakeholders.

SHARE CAPITAL

In order to fund the LV= GI and L&G GI acquisitions, the Company issued 650,000,000 ordinary shares at par to Allianz (UK) Limited on December 20, 2019. Allianz Holdings plc owns 100% of all its subsidiaries.

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. In 2019 Allianz Insurance plc was the main insurance company with the non-regulated activities being carried out in a number of specialist companies with Allianz Engineering Inspection Services Limited and Allianz Management Services Limited being the largest. On December 31, 2019 LV= GI and L&G GI became wholly owned subsidiaries of Allianz Holdings plc.

The Group employed around 4,000 people in the UK in 2019 and continued to utilise an independent offshore service centre in India, where around 950 people are dedicated to the UK business. This offshore service centre principally provides IT and administration services to the Group's businesses. The number of employees increased significantly, to over 8,000, upon completion of the LV= GI and L&G GI acquisitions in December 2019.

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, distribution and leadership skills. Employees in technical functions continue to undergo development through faculties within our internal Excellence in Technical academy or the Claims Academy, and there are a range of professional development programmes covering other aspects of the business.

The Group has a comprehensive leadership and management development programme. Managers take part in appropriate programmes which are regularly reviewed.

RESEARCH AND DEVELOPMENT

Through a series of dedicated teams the Group co-ordinates research on customer and societal behavioural change, emerging technologies and regulatory developments.

In addition, two venture capital funds collaborate with Allianz operating entities when investing in start-up and more mature companies that can provide insight into new markets and technologies for the core business.

By order of the Board

F K Dyson
Director
June 29, 2020

Research and development is focused on both core insurance value chain enhancements as well as new propositions and digital developments.

NON-FINANCIAL INFORMATION STATEMENT

About the report

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

ENVIRONMENTAL, SOCIAL, GOVERNANCE ("ESG") STRATEGY

Allianz is committed to being socially responsible and our ESG strategy is being embedded across our business. Our global strategy is based on the five roles we believe Allianz plays in society; a sustainable insurer, responsible investor, committed corporate citizen, attractive employer and trusted organisation.

We're proud of our sustainable claims initiatives as well as our renewables products which were recognised at the British Insurance Awards in 2019, winning the Sustainability Initiative award. We use our investment power to make a difference to our environment and monitor and set targets to reduce the environmental impact of our business. In addition, our partnerships with national and local charities make a positive impact in areas such as mental health and local communities. To be a trusted organisation, we know that customers have to be at the heart of what we do and we work to make Allianz a great place to work, to attract and retain the best talent.

1 ENVIRONMENTAL MATTERS

Allianz is passionate about protecting our environment and we believe that through our insurance solutions and investments, we have a key role to play in limiting the impact of climate risk, as well as compensating for climate-related damages.

We not only manage our own carbon footprint but also create insurance products and make investments which support the transition to a low carbon economy. Additionally, we've launched initiatives this year in the area of sustainable claims in order to reduce waste and reuse materials in repairs.

For the third year in a row, Allianz was the highest ranked insurer worldwide in the Dow Jones Sustainability Index.

At Allianz we work hard to minimise the environmental impact of our business.

Climate Change

For Allianz, countering climate change and limiting global warming is a crucial priority and we encourage solutions for tomorrow's climate. The Allianz SE Group's climate change strategy, which drives the Group's ESG plans has three elements:

1. Anticipate: we anticipate the risks of climate change for our businesses
2. Care: we work to protect and care for our insurance customers who are vulnerable to climate changes
3. Enable: we enable the transition to a low carbon economy

In the UK, Allianz works to have a positive effect on the environment, whether it's through our investments in sustainability projects, our renewable energy insurance products or our sustainable claims options for customers.

Environmental

At Allianz we work hard to minimise the environmental impact of our business. Our carbon reduction strategy aims to manage CO_2 emissions from our operations and prioritises energy-efficient planning, buying green electricity and using carbon efficient vehicles.

We also aim to reduce the impact of our business travel and use of resources such as paper and water. We work with our employees to reduce, reuse and recycle our resources effectively.

We use an Allianz SE Group Environmental Management System ("EMS") for environmental data collection and reporting. The EMS reporting is audited externally at Allianz SE Group level.

KPIs, TARGETS AND ACHIEVEMENTS

Greenhouse Gas emissions per employee

Achievement:
In 2019 we achieved a 50% 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 2019 we achieved a 38% 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 2019 all of our electricity, where we have control over the supply, was 100% renewable. If we include electricity where we don't have control, 81% of the overall total came from renewable sources.

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

2 EMPLOYEE MATTERS

We aim to be the best in what we do for our customers. Enabling our people is one of our key strategic pillars to achieve this ambition. Our approach is built on managing and rewarding our people based on merit, developing future-focused skills, promoting diversity, inclusion and employee rights, as well as supporting mental health and general wellbeing. This is underpinned by our approach to leadership and supporting HR frameworks, principles and tools including our People Attributes (Customer and Market Excellence, Collaborative Leadership, Entrepreneurship and Trust) that play a key part in the engagement of our people and employee journey, from recruiting and talent management to learning and performance management.

THE ANNUAL AES IS A VALUABLE EMPLOYEE FEEDBACK PLATFORM AND AN INDICATOR OF OUR CORPORATE CULTURE.

The annual AES is a valuable employee feedback platform and an indicator of our corporate culture. Employee engagement is a high priority at Allianz as we expect our people to perform with commitment and integrity delivering excellent outcomes for our customers. We monitor employee engagement and company culture through the Inclusive Meritocracy Index ("IMIX") which covers aspects of leadership, performance, collaboration, trust and respect. The slightly revised and more comprehensive Work Well Index plus ("WWI+") covers aspects of the quality of the work environment, practices and opportunities.

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

Our Management Board, with the full support of the 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 developing a range of employee-led networks that each specialise in and promote aspects of diversity and inclusion. These include working parents, intergenerational working, gender balance, LGBT+, cultural and ethnic diversity, disability and mental health.

SPECIFIC INITIATIVES WHICH PROMOTE A CULTURE OF INCLUSION INCLUDE:

Events and workshops led by our employee networks to raise awareness about specific topics and bring people together to share experiences and suggest improvements

Supporting female talent, e.g. representation on leadership programmes

Participation in external events and networks, e.g. London Pride parade, insurance cultural awareness network ("iCAN") and Business Disability Forum

Training of over 130 mental health first aiders

Mentoring programme for our corporate charity Mind, for the British Paralympic Association and for the charity Home-Start

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 believe the world would be a better place if people were more resilient. We know that insurance helps build resilience by enabling people and businesses to carry on when the worst happens, but also by helping them to manage potential risks in the first place. Our corporate responsibility activity is based around making our customers, employees and society more resilient.

Social Inclusion

Our long-term partnership with the International Paralympic Committee and the Paralympics GB team is part of our commitment to diversity and inclusion that starts with our employees and reaches to our sponsorship of world class athletes. We value diversity of thought in our employees and the seven employee networks which were set up this year to offer support and reflect the views of our workforce and help to shape the inclusion agenda at Allianz.

As principal partners of the Saracens Sports Foundation we've supported the creation of their wheelchair rugby programme which has enabled young disabled people to learn new skills and enjoy sport. The Foundation's wider work supports local communities and uses sport as a catalyst for positive change.

Through donating their time, hundreds of our employees have made a difference to many charities and local organisations this year. Taking the opportunity to use 10 hours a year for volunteering, employees have used their professional and practical skills where needed in their local community.

KPIs, TARGETS AND ACHIEVEMENTS

Allianz Engagement Survey:

Achievement:

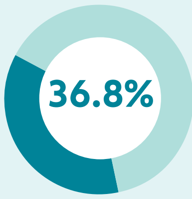
75%
IMIX score in 2019,
maintained from 75% in 2018.

66%
WWI+ score in 2019,
slight decrease from 67% in 2018.

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

Diversity:

Achievement:



Females in management positions
(2018: 34.6%)

Target:

We achieved our target of having

35% females in management positions by December 2020 early

(HMT Women in Finance Charter) however our dedication to diversity means we will aim to increase this going forward.

KPIs, TARGETS AND ACHIEVEMENTS

Mind and SAMH charities partnership

Achievement:
Since the partnership started in March 2019 we raised £360,000 through employee fundraising and company contributions.

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

Employee volunteering

Achievement:
In 2019, we recorded that 612 employees gave over 250,000 minutes of their time to their local communities.

Target:
One million volunteering minutes over the three year period to the end of 2021.

Corporate Charity Partnerships

Our new corporate charity partnership began this year with the mental health charities Mind (in England and Wales) and SAMH (in Scotland). This 3-year partnership was chosen through an employee vote and reflects their passion for the issues around mental health and wellbeing. As well as fundraising for Mind and SAMH's work to build resilience in children and young people, the partnership is part of our ambition to build further on our support for those with mental health issues in our workplace.

Fundraising activity in the first nine months of the partnership has ranged from employee events and dress down days across our offices to teams taking part in sponsored activities including treks and the London to Amsterdam bike ride.

As part of our wellbeing programme and activity around mental health we've also trained 175 mental health first aiders and produced employee videos talking about mental health issues.

During International Stress Awareness Week and World Mental Health Day we ran activities for employees such as mindfulness exercises, sessions with virtual reality headsets to give people a virtual escape and promoted our mental health support resources and network.

Consumer/Responsible Sales

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

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

A responsible approach to sales 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 Above Market in 2019.

Target:
Achieve Loyalty Leader by 2020.

Net Promoter Score performance – Engineering

Achievement:
Achieved Loyalty Leader In 2019.

Target:
Maintain sole Loyalty Leader.

Net Promoter Score performance – Pet

Achievement:
Achieved Loyalty Leader in 2019.

Target:
Maintain sole Loyalty Leader in 2020.

Our positive reputation is built on the trust...

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 and that we are committed to fulfilling our obligations under the General Data Protection Regulation ("GDPR"). 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 SE Group companies and forms the basis of the Allianz Group's Binding Corporate Rules. We've 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.

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).

4 RESPECT FOR HUMAN RIGHTS

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.

KPIs, TARGETS AND ACHIEVEMENTS

Data Protection

Achievement:
Completion of preparation work to deliver appropriate structures and procedures to assume statutory data protection responsibility for LV= GI and L&G GI, upon change in control.

Target:
Continue 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.

5 ANTI-CORRUPTION & BRIBERY MATTERS

Allianz aims to ensure 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 SE Group's Code of Conduct for Business Ethics and Compliance ("Code of Conduct") are mandatory for all employees. These are detailed via Allianz Policies, Standards and processes, which include:

- Anti-Corruption Policy
- Conflicts of interest processes
- Employee Conduct Rules
- Gifts and Entertainment Policy
- 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 anti-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.

Our leaders are expected to act as role models in demonstrating ethical leadership on a daily basis through their decisions and actions. All employees receive annual compulsory regulatory training, which includes guidance on whistleblowing, anti-corruption and bribery.

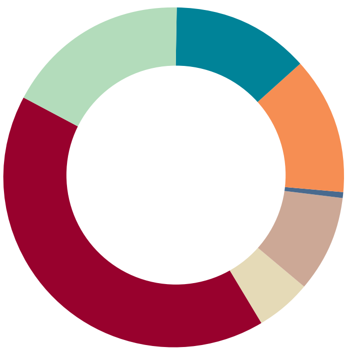
Anti-corruption and bribery risks are included amongst the operational risks identified within Allianz´s Integrated Risk and Control System. To ensure continuous oversight and improvement, all risks are assessed and monitored annually and reported using a global Compliance Issue Management Tool.

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.

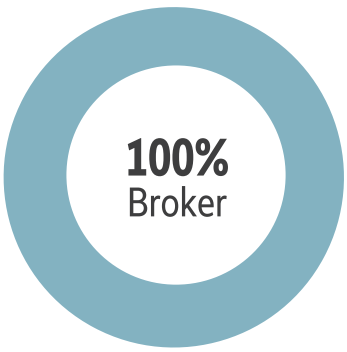
BUSINESS REPORT

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	17.5%
Liability and PA	13.2%
Packages	13.0%
Other	0.6%
Motor Trade	9.2%
Engineering	5.3%
Motor	41.2%



COMMERCIAL LINES

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.

In aggregate, Allianz Commercial net written premiums increased to £1,191.9m from £1,085.3m in 2018, driven by rate increases and volume growth supported by the LV= GI business transfers. The underwriting result was £18.8m, a deterioration from a £53.5m profit in 2018. Improved performance in relation to prior years helped to mitigate large losses and claims inflation which was running ahead of price increases.

Despite a competitive market-rating environment, rate increases and volume growth saw net written premiums grow by 9.8%. Rate increases were achieved across all accounts but were behind claims inflation overall 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 supported by absence of large losses and rate increases running above claims inflation. An increase in the number of large losses on the property-dominated accounts were largely offset by low levels of natural catastrophe claims, however these accounts were unprofitable due to increased fire, theft and escape of water losses. 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 16.1%, supported by the growth in construction business, and delivered an underwriting result of £10.2m, down from £11.1m in 2018. Engineering Inspection business income grew by 5.4% 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 ("ABSL") is an intermediary which focuses on the distribution of SME products and some personal lines schemes for Corporate Partners. This business provides an advised broking service to direct clients placing risks with both Allianz and other insurers. Our income from ABSL for 2019 was £0.6m, a reduction from £1.1m in 2018.

PERSONAL LINES

In aggregate, Allianz Personal net written premiums were £683.0m, a 17.4% reduction from £826.8m in 2018. This reduction was largely driven by the withdrawal from some unprofitable schemes and the transfer of motor and home insurance to LV= GI. Animal Health continued to grow strongly, with a 6.4% increase in net written premium.

The underwriting result was a profit of £26.7m despite the impact of run-off losses in the Household account. This compares to a profit of £19.5m reported last year, when the result was more significantly impacted by Household losses.

Allianz Insurance plc's Personal Motor business was transferred to LV= GI throughout 2018 and 2019 with the exception of some Corporate Partner accounts which are being managed through to the conclusion of the contractual arrangements. The remaining Corporate Partner Motor accounts, combined with the run-off of broker and direct business, returned an underwriting result of £5.2m.

Similarly, during 2018 Allianz Insurance plc exited the Household accounts transferring the business to LV= GI. Consequently, the net written premium on the Household account reduced to £6.5m, down from £52.0m in 2018, however the run-off of these accounts resulted in a £10.3m loss in 2019.

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 6.9% and the business continued to provide attractive returns.

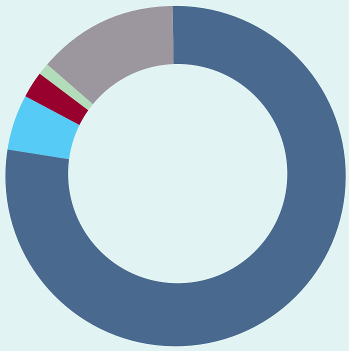
Profits were also strong in the market-leading specialist Musical Instrument account with increased premium volumes reflecting policy count growth.

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 increased to £35.4m, up from £19.7m, following a change in reinsurance arrangements on After the Event schemes written from 2019. The underwriting result was a loss of £4.4m with prior year claims on some After the Event schemes continuing to experience adverse run-off.

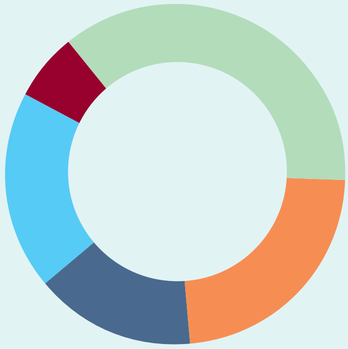
We no longer write creditor business although this account has been subject to PPI claims in respect of mis-selling of PPI by the selling agent which has driven an underwriting loss of £13.9m in 2019, reflecting premium refunds to customers and related costs, with a further £25.1m paid to customers in accrued interest which is included within our investment result. The All Risks account (mostly mobile phone) also reduced in volume, but remains profitable.

Home & Legacy Insurance Services Limited ("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. Our income from Home & Legacy for 2019 was £2.1m, a reduction from £3.0m in 2018.

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



Motor	2.7%
Household	1.0%
All Risk	13.6%
Pet	77.5%
Legal Expenses	5.2%



Broker	6.7%
Direct	36.5%
Retailer	-0.2%
Affinity	23.1%
Vet	15.2%
Other	18.7%

INVESTMENTS

Our investment strategy has continued to concentrate on managing 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. The allocation to high quality corporate and securitised bonds remained overweight in order to enhance returns. Two new investments were made during the year; the addition of an emerging market mandate and an investment in mid-market corporate lending in order to enhance portfolio returns and increase diversification benefits. The Company continues to use the expert investment management facilities available within the wider Allianz SE 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 closely 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 in line with the benchmark.

The Group's small commercial property portfolio consists of investments in office, retail and industrial properties. The quality of the portfolio was enhanced during the year with the addition of one multi-let industrial property providing strong diversified income and tenant covenant. The portfolio outperformed the Investment Property Databank benchmark, driven by stable rental income and successful rent reviews. Rental income is expected to remain a key contributor to performance going forward.

INVESTMENT INCOME IN 2019 WAS

£92.9m

COMPARED TO

£101.4m IN 2018

FINANCE COSTS WERE

£38.4m IN 2019

COMPARED TO

£19.1m IN 2018

AND INCLUDE

£25.1m

INTEREST RELATING TO PPI REDRESS

REALISED GAINS AMOUNTED TO

£57.6m IN 2019

COMPARED TO

£3.4m IN 2018

£53.2m

OF THE 2019 REALISED GAINS AROSE ON THE ACQUISITION OF LV= GI

(FOR FURTHER INFORMATION REFER TO NOTE 15)

Looking ahead, pure investment income is likely to be impacted by lower returns due to low reinvestment yields

DIRECTORS AND OFFICERS

NON-EXECUTIVE DIRECTORS

R O Hudson
(Chairman)

C W T Dinesen

D J Larnder

R M Murison

N C Peiris
(appointed 07.02.19)

D A Torrance

EXECUTIVE DIRECTORS

J M Dye

F K Dyson
(appointed 11.04.19)

MANAGEMENT BOARD

J M Dye

F K Dyson

N A Clutterbuck

G A Gibson

N Johnson
(appointed 01.09.19)

S C McGinn

S Smith

K Schreiber
(resigned 31.12.19)

J B I Abboud
(resigned 31.01.19)

P J Gennoy
(resigned 30.08.19)

SECRETARY

S J Hutchings
(resigned 07.11.19)

T A Beicken
(appointed 08.11.19)

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

REGISTERED OFFICE

57 Ladymead
Guildford
Surrey GU1 1DB

COMPANY REGISTERED NUMBER

5134436

ALLIANZ HOLDINGS PLC BOARD

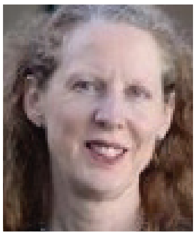
Non executive Directors

RICHARD HUDSON
Chairman of the Board

Joined the Board of Allianz Holdings plc in 2011. Rick has over 40 years' experience in the insurance industry and is a past President of the Chartered Institute of Insurers ("CII"). He sits on a number of Boards in the sector.

CHRISTIAN DINESEN

Joined the Board of Allianz Holdings plc in 2014, and is Chairman of the Audit Committee. He has over 30 years' experience across insurance, reinsurance, rating agency and capital markets. Currently a management consultant, Board Director and executive coach.

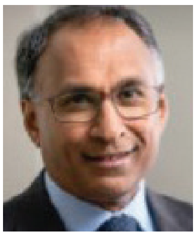


DENISE LARNDER

Joined the Board of Allianz Holdings plc in 2018, and is Chair of the Board Risk Committee. She is a Fellow of the Institute of Chartered Accountants of England and Wales and a former partner at Ernst & Young. She has over 30 years' experience working with companies in the financial services sector. She is also a member of the ReAssure operating company Boards and its Audit and Risk Committees, as well as Chair of the Audit & Risk Committee at the University of Greenwich.

ROSANNE MURISON

Joined the Allianz Holdings plc Board in 2013, and Chairs the Compensation and Nomination Committees. Formerly a Vice President of the Boston Consulting Group and Client Director of Eden McCallum LLC. Currently Group Strategy Director of SSP plc.



NIRAN PEIRIS

Joined Allianz Australia in 2000 as General Finance Manager and held a number of positions until he was appointed Managing Director of Allianz Australia Insurance Limited in 2013. In 2018, he was appointed a Member of the Board of Management of Allianz SE, responsible for Global Insurance Lines, Anglo Markets, MENA and Africa. Joined the Board of Allianz Holdings plc on February 7, 2019.

ANDREW TORRANCE

Joined Allianz in 1999 as General Manager of its Broker division. Served as Chief Executive from 2003 until 2013. Served as President and Chief Executive Officer of Fireman's Fund, Allianz's local property and casualty insurer, until the end of 2014. Returned to the Board of Allianz Holdings plc in 2015.

Executive Directors

JON DYE
Chief Executive Officer

Joined Allianz as Director, Claims in 2003 until 2007 when he was appointed General Manager, Retail. Appointed Chief Executive Officer and joined the Allianz Holdings plc Board in 2013. He previously held senior positions at Chubb Insurance between 1998 and 2003 and began his career at Commercial Union. He is currently Chairman of the Association of British Insurers.

FERNLEY DYSON
Chief Financial Officer

Joined Allianz in 2019 as Chief Financial Officer and joined the Allianz Holdings plc Board on April 11, 2019. He has over 30 years experience in financial services and has previously held senior positions in the insurance industry with both Aviva and Ageas. He began his career in professional services with PricewaterhouseCoopers.

Management Board of Allianz Holdings plc

JON DYE
Chief Executive Officer
See Directors' biographies above for details.

FERNLEY DYSON
Chief Financial Officer
See Directors' biographies above for details.

NEIL CLUTTERBUCK
Chief Underwriting Officer

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

GRAHAM GIBSON
Chief Claims Officer

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

NICKY JOHNSON
Interim Chief HR Officer

Joined Allianz in 2013. Previously held senior HR positions in the Police Service, and public/private sector organisations.

SIMON MCGINN
General Manager, Commercial & Personal

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 Operations Officer

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

DR KARINA SCHREIBER
Chief Risk Officer

Joined the Allianz Group in Munich in May 2012, heading Group Actuarial Non Life. Appointed Chief Risk Officer in Allianz UK in October 2017, before resigning from that post on December 31, 2019.

CORPORATE GOVERNANCE REPORT

For the year ended December 31, 2019 Allianz applied the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles") (which was published by the Financial Reporting Council in December 2018) to its business, and in accordance with The Companies (Miscellaneous Reporting) Regulations 2018 this report sets out how the Wates Principles were applied.

PRINCIPLE ONE
PURPOSE AND LEADERSHIP

PURPOSE

Allianz strives constantly to be a responsible and trusted business and a committed corporate citizen. Customer centricity is of paramount importance; customers are at the heart of what we do and their needs directly instruct our business and the products and services we design and sell.

The Board seeks to apply these principles to its decision making process and actively promotes them to the Group's business, employees and other stakeholders. Regular communications are made to the workforce to both highlight and reinforce the adoption of these principles, and encouragement is actively given to enable employees to apply them in a meaningful way and also to express their views through regular line manager engagement and the annual employee engagement survey. Social responsibility is fully supported, with every employee being able to undertake volunteering days for a wide range of charities and good causes, as well as the sponsorship of positive initiatives that are aligned with the ethos of the business.

Further details are set out in the Corporate Social Responsibility section of the CEO's Report and the ESG Strategy section and Social Matters section of the Non-Financial Information Statement. Allianz seeks to be a strong voice within the insurance industry, to highlight issues and drive through positive change, with our CEO Jon Dye being appointed as Chair of the Association of British Insurers in July 2019.

VALUES AND CULTURE

Allianz aims to offer peace of mind through its products and services so its customers know that, in moments that matter, we will deliver our promise. This commitment to our more vulnerable customers is especially relevant currently.

Allianz's values are embedded within its culture and the policies it upholds, including the four "People Attributes" – customer and market excellence, collaborative leadership, entrepreneurship and trust. The Board leads by example with a strong emphasis on integrity and honesty. Behaviours are reinforced through both the Allianz SE Group and Group policies applied throughout the business to which all Group employees must adhere.

Assessment of compliance with these policies is undertaken by way of internal audits throughout the year. Good governance is at the core of the business with each employee being required to undertake annually numerous regulatory and compliance assessments, including anti-money laundering, information security and data privacy, ethics, anti-corruption and vulnerable customers.

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

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

Allianz knows that by acting responsibly, it can provide products and services that meet its customers' needs, reduce operating costs by being environmentally efficient and work in partnerships to address the challenges that its communities face.

For further information concerning Allianz's commitment to environmental, employee and social matters, respect for human rights and anti-corruption and bribery matters please refer to pages 18 to 25 of the Non-Financial Information Statement.

STRATEGY

Allianz's strategy is developed by the Board and implemented by our CEO Jon Dye and the Management Board. It is then cascaded down to employees through roadshows, town hall meetings, internal communications and external conferences to enable a collective responsibility and engagement in the business' goals. The recent acquisitions of LV=GI and L&G GI evidences clearly the Group's ambition to be a key participant in the UK general insurance market. These acquisitions will enable the business to draw on the expertise of those companies to develop innovative, market-leading customer focused products and services.

PRINCIPLE TWO
BOARD COMPOSITION

COMPOSITION, SIZE AND STRUCTURE

For the year ended December 31, 2019, the Board comprised an independent non-executive Chairman, five non-executive Directors (including one shareholder nominated Director appointed on February 7, 2019) and two executive Directors (including one appointed on April 11, 2019). The Directors' biographies which provide details of skills and experience can be found on pages 30 and 31. This composition was considered appropriate for the size and nature of the business during that year. On December 31, 2019, following the Group's acquisition of LV=GI and L&G GI, the composition of the Board was reviewed and it was agreed to appoint a further executive Director, Steve Treloar with effect from January 1, 2020. This revised composition is considered appropriate for the size and nature of the business going forward, particularly taking into account aforementioned acquisitions and provides the appropriate combination of skills, experience and knowledge required for the Board to carry out its responsibilities.

ALLIANZ KNOWS THAT BY ACTING RESPONSIBLY, IT CAN PROVIDE PRODUCTS AND SERVICES THAT MEET ITS CUSTOMERS' NEEDS...

CHAIRMAN AND CEO

The roles of Chairman and CEO are separate and clearly defined. The non-executive Chairman is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making. The CEO is responsible for executing the strategy of the Group together with implementing decisions of the Board and its committees and leading the Management Board.

BALANCE AND DIVERSITY

The Board is committed to increasing diversity across the business and the Group operates a diversity policy to encourage a more diverse and inclusive environment at all levels of the business. This is reflected by the fact that females represented 36.8% of management positions as at December 31, 2019 against a target of 35% to be in position by December 2020 set within the HMT Women in Finance Charter commitment. In relation to the Board, as at December 31, 2019, two of the eight members (25%) of the Board were female.

THE DIRECTORS ARE PROVIDED WITH A COMPREHENSIVE AND TAILORED INDUCTION ON JOINING THE BOARD AND REGULARLY MEET WITH SENIOR MANAGERS ACROSS THE BUSINESS.

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

New appointments to the Board were recommended by the Nomination Committee after consideration of the Board's composition in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations.

BOARD COMMITTEES

The Board delegated certain activities to the Management Board (its principal executive committee), the Audit Committee, the Board Risk Committee, the Compensation Committee, the Nomination Committee and the Finance & Investment Committee. All of these committees (save for the Management Board and the Finance & Investment Committee) were chaired by a non-executive Director who provide constructive challenge and influence across the work carried out by those committees. Specific details of the Board Committees (and their sub-committees) including their membership, responsibilities and record of attendance can be found in the section of this report entitled "The Board and its Committees".

EFFECTIVENESS

There are annual Board self-assessment reviews and three year Board effectiveness reviews. During the year the Board undertook an external Board effectiveness review. The evaluation took the form of confidential one-to-one discussions and questionnaires which considered the effectiveness of the Board and individual Directors.

The responses were collated and provided to the Board. As a result of the evaluation, the Board is satisfied that its structure, balance of skills and operation continues to be satisfactory and appropriate for the Company.

The Directors are provided with a comprehensive and tailored induction on joining the Board and regularly meet with senior managers across the business. External advisors are invited to provide detailed updates and training on various topics as required in order to support ongoing professional development of the Directors. Non-executive Directors have access to the Company Secretary and can take independent professional advice at the Group's expense. During the year, the Directors were provided with training which included training on the following subjects:

- IFRS 17 – Insurance contracts
- IFRS 9 – Financial instruments
- Cyber Risk in the Boardroom
- Climate Change

PRINCIPLE THREE
DIRECTOR RESPONSIBILITIES

ACCOUNTABILITY

The Board operates under a corporate governance framework that provides the required structure to enable prudent yet entrepreneurial management. Both Allianz SE Group and Group policies, including those concerned with Solvency II requirements, are applied to the operation of the Board and its function, as well as to the wider business. Group policies, in particular the Governance and Control Policy, are reviewed and approved annually by the Board or its Committees to ensure continued relevance and effectiveness.

Individually each Board Director is required to perform their role in accordance with prescribed role profiles and competency requirements. Annual Board self-assessment helps to ensure the Board members remain "fit and proper" to undertake their duties (both fiduciary and regulatory) and responsibilities to the Company.

Directors' conflicts of interest are considered and/or declared by Board members at Board meetings. Where required, a member will excuse themselves from a particular agenda item to ensure the interests of Allianz are not compromised.

INTEGRITY OF INFORMATION

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

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

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

The internal audit function prepares an annual risk-based plan of audits, derived from an audit universe, defined and revised annually, covering the complete system of governance. This includes the controls surrounding the processes for collecting and reporting data. The annual plan is approved by the Audit Committee with quarterly reporting on progress to the Audit Committee and the Board.

PRINCIPLE FOUR
OPPORTUNITY AND RISK

OPPORTUNITY

The 2025 strategy for the Group was released in 2019, focusing on securing the future of both the Group's customers and employees. Strategic opportunities are routinely considered, with the following examples of new initiatives throughout 2019:

- On December 31, 2019 the Company completed the deals to secure 100% ownership of LV=GI and L&G GI, creating a new opportunity for our future growth and success.
- A three year deal with Toyota from the start of 2020 means Allianz company car drivers will benefit from a fleet of hybrid vehicles. As well as mileage and warranty benefits for those drivers, this change will lead to a marked reduction in CO2 emissions by the business.
- In 2019 Allianz launched the first modules of Success Factors, the new global HR IT system and began a journey to transform the way HR works at Allianz, with the aim of delivering the best possible service to employees.
- A Chief Data Officer was appointed in 2019, with the focus of helping Allianz become a more data-driven organisation by bringing its data teams together, setting a clear and simple data strategy and looking to increase value from the data it has. Improving data skills will also help to increase Allianz's technical trading capabilities. Excellence in Technical, a programme of learning and training, was recently launched which includes new Data, Pricing and Portfolio Management Faculties along with the Underwriting Faculty.
- Protecting the personal data we are entrusted with is central to everything we do and vital to ensure we retain the trust and confidence of our customers and business partners. Through the Allianz Privacy Standard, we have developed a robust framework that helps us to deliver compliant data protection processes and procedures across our business.
- In 2019 we launched the new Cyber Select product that is specifically designed to suit the needs of a wide range of mid-corporate businesses. This new product is traded locally via our experts within the branch network and clients can choose their level of cover based on their company size and business need. In partnership with a panel of experts, we offer a variety of pre-breach and post-incident services.
- To date, 50 repetitive, time-consuming processes, totalling more than 1 million transactions have been automated. These are adding value across the business and enabling it to focus on more technical and creative activities.

RISK

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

The Board's responsibilities include strategy, strategic asset allocation, internal control and the overall operation of the Group. Within the Group governance structure oversight of risk management is delegated to the CRO and the Board Risk Committee ("BRiCo"). The BRiCo is responsible for oversight of risks both current and emerging that the Group faces. 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.

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

For further details on risk and its mitigation, please refer to the Risk and Capital Management section on page 9 of the Group Strategic Report.

RESPONSIBILITIES

The Board's terms of reference specify that it is responsible for:

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

The Group's internal control framework is articulated in its approved governance and control policy.

The Board is able to make informed and robust decisions due to the risk management systems described in the risk policy, which are communicated with the BRiCo through the quarterly own risk and solvency assessment updates.

Specifically, the Risk Department facilitates the top risk assessment with the Management Board and the senior managers, along with the emerging risk process and conduct risk framework. These are presented for discussion and debate to various committees including the BRiCo.

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

In relation to the objectives in the annual corporate plan, Allianz aims to ensure that no event or combination of events is possible that will cause a variance in result which is not consistent with the stated risk appetite.

The BRiCo is responsible for oversight of risks, both current and emerging, that the Group faces. Mitigation activities are agreed by the BRiCo and issues, such as reputational risk events, are escalated and acted upon as appropriate. Risks are monitored by the Risk Department via the risk management systems in place, and routinely reported to relevant committees and the Board.

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

PRINCIPLE FIVE
REMUNERATION DECISIONS

DELEGATING REMUNERATION DECISIONS

The Compensation Committee is chaired by an independent non-executive Director, and has a majority of members who are non-executive Directors. The Compensation Committee is responsible for compensation strategy and applying it to senior executive positions in order to attract and retain quality people to enable the delivery of the Group's strategy.

SETTING REMUNERATION

Compensation is set with reference to the Group's remuneration policy (which contains malus arrangements) and to the compensation framework set up by Allianz SE Group's compensation committee. The Compensation Committee determines total remuneration in relation to Directors (executive and non-executive) and senior executives. The Compensation Committee seeks external input from specialist advisors on, for example, market trends and benchmarking. The Compensation Committee also takes into account relevant UK regulatory guidance on remuneration. Directors and Management Board members who sit on subsidiary Boards are remunerated at holding company level and are not remunerated separately for their subsidiary Board positions. The Directors' remuneration is disclosed in Note 12 on page 73. Salaries of all Group employees are aligned to the performance of the business and market conditions, with bonus (and long term incentives for senior executives) driven by a combination of personal and business performance.

POLICIES

The Group is an active equal opportunities employer who promotes a workplace where everyone receives equal treatment regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. It has set up successful employee-driven networks to further strengthen its work in this area, and publishes annually its Gender Pay Reporting information.

PRINCIPLE SIX
STAKEHOLDER RELATIONSHIPS AND ENGAGEMENT

EXTERNAL IMPACTS

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

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

Positive employee engagement is fundamental to achieving other key objectives, whether that might be in relation to policies and codes of conduct or encouragement to participate in social and environmental matters important to the business or the employees themselves. Social responsibility and volunteering is actively encouraged. In addition, Allianz's role as principal partner of the Saracens' Sports Foundation and partnership with the British Paralympics Association demonstrate our genuine desire to engage with our wider communities, make positive contributions and enable opportunities. Details of these and other initiatives can be found in the Corporate Social Responsibility section on page 5 of the CEO's Report.

The Group's day to day operations will have an impact on the environment, including the consumption of resources and energy. The Environmental Matters section on page 18 of the Non-Financial Information Statement provides more detail on how as a business Allianz is looking to reduce its impact on the environment.

STAKEHOLDERS

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

As highlighted previously in this report, engagement with employees is conducted in a number of different ways to ensure common goals and strategies are achieved and employee views and opinions are made known to the Board and Management Board. Allianz can only achieve its goals and ambitions, and operate in a responsible and considerate manner with a skilled, diverse and engaged workforce. The business seeks to achieve engagement through many different initiatives, details of which are set out in the Employee Matters section on page 20 of the Non-Financial Information Statement and the Employee section on page 16 of the Directors' Report. In addition, in 2019 the acquisitions of LV= GI and L&G GI required a considerable level of employee engagement and activity amongst relevant sections of the workforce, in terms of both education and integration planning. Their engagement in this process has significantly contributed to both acquisitions closing in a well-planned and seamless manner, resulting in a strong operating model from January 1, 2020.

THE GROUP HAS A NUMBER OF KEY STAKEHOLDERS INCLUDING: EMPLOYEES, SUPPLIERS, CUSTOMERS, REGULATORS, ITS SHAREHOLDER AND THE WIDER INSURANCE INDUSTRY.

Our suppliers are required to operate within shared principles and ethical standards and to adhere to Allianz's corporate social responsibility requirements. These standards and requirements are regularly monitored and a failure to adhere to them can result in the arrangement being terminated.

One measure the Group uses to determine how well its strategy is being implemented and positive customer outcomes are being achieved is through customer feedback and surveys. Further information concerning the Top Down Net Promoter Score can be found in the Customer section on page 4 of the CEO's Report and the Social Matters section on page 21 of the Non-Financial Information Statement.

Allianz is an active participant in insurance industry initiatives and forums, as it has a genuine desire to effect positive change. In July 2019, Jon Dye was appointed as Chair of the Association of British Insurers, the leading trade association for insurers.

Further details in respect of stakeholders and their engagement can be found in the section 172 (1) Companies Act 2006 statement on page 14 of the Strategic Report.

THE BOARD AND ITS COMMITTEES

The Board, its main Committees, their membership and responsibilities for the year ended December 31, 2019 are detailed below.

The Board comprised a non-executive Chairman, five non-executive Directors and two executive Directors. The CRO and the Allianz SE Head of Business Division (Global Lines & Anglo Markets) were 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.

														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	Reinsurance Panel	Financial Reporting Committee	Financial Reporting & Disclosure Committee	Commercial & Personal	Run-off
Number of Meetings	11	13	8	4	2	4	4	5	4	4	2	4	4	4	4
R O Hudson	10			4	2		4								
C W T Dinesen	6 (ii)		8	4	2		4								
D J Larnder	8			3			3								
R M Murison	9		8	4	2		4								
N C Peiris – appointed 07.02.19	6			4			4								
D A Torrance	11			4			4								
J M Dye	10	13				4					1	4		4	4
F K Dyson (i)	5	12				3	3 (iii)	5			2	4	4	4	4
J B I Abboud – resigned 31.01.19		1													
N A Clutterbuck		13						3		4	2			4	
P J Gennoy – resigned 30.08.19		7	4						1						
G A Gibson		13							2					4	4
N Johnson – appointed 01.09.19		3	3						0						
S C McGinn		12								4	2			3	
K Schreiber – resigned 31.12.19		13					3 (iii)		4				3		
S Smith		11							3						

The shaded area indicates the individual's Board and Committee memberships and the number of respective meetings they attended during the year.

(i) appointed as a member of the Management Board and as a Director with effect from 01.01.2019 and 11.04.2019 respectively

(ii) recused himself from four Board meetings

(iii) ceased to be a Member of the Board Risk Committee 01.10.2019

The Management Board is the principal executive Committee of the Board. Membership of the Management Board comprised the CEO (the Chairman), the Chief Financial Officer ("CFO"), the General Manager Commercial & Personal, the CRO and the Executives responsible for the trading and service functions. The Management Board meets monthly to monitor business performance, compliance and risk management, discuss developing issues, monitor and develop strategy and to provide a forum for making important operational decisions. The Management Board holds additional meetings periodically to discuss strategic and operational matters where time does not permit full discussion during monthly meetings.

The Management Board is also responsible for the oversight of its sub-Committees which are referred to later in this report.

The Audit Committee is a Committee of the Board. Membership of the Committee comprised a non-executive Director who acted 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 CEO, the CRO and the CFO were 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 comprised an independent non-executive Director who acted as Chairman, all the other non-executive Directors, the CFO and the CRO. The CEO, 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 were 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.

The Finance & Investment Committee is a sub-Committee of the Board with responsibility for overseeing/managing the investment portfolios of the Group 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 Group's asset allocation and investment income, overseeing the Group's capital structure and liquidity position and approving individual investment transactions with significant impact for one or more of the Group Companies. Membership of the Finance & Investment Committee comprised the CEO as Chairman, the CFO (who acted as Deputy Chairman), the Chief Investment Officer and the Regional Chief Investment Officer of Allianz Investment Management SE. The CRO and the Allianz SE Head of the Business Division (Global Lines and Anglo Markets) were non-voting standing guests and the respective Allianz Investment Management SE Investment Manager was an invitee.

The Compensation Committee[1] was a Committee of the Board with responsibility for compensation strategy, and the structure and the amount of compensation for the Directors and senior executives of the Company. Membership of the Committee comprised two non-executive directors of the Company, one of whom acted as Chairman, and the Chief HR Officer. An Allianz SE representative and the CEO were non-voting standing guests of the Committee. The Chief Legal Officer and Company Secretary acted 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 13 on page 74. The performance-related bonus is based upon a combination of Group performance against target and personal performance against specific objectives, broadly the same

[1] After the year end, the Compensation Committee and Nomination Committee merged into the Compensation and Nomination Committee.

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[(1)] was a Committee of the Board. Membership of the Committee comprised at least three directors, a majority of whom were required to be independent non-executive directors. The Chief HR Officer and an Allianz SE representative were non-voting standing guests. Other individuals, such as the CEO and External Advisers, were invitees as required. The Committee was responsible for identifying non-executive director candidates for Board approval, and for ensuring that robust succession plans were in place for directors, non-executive directors and Management Board members. No senior management appointment was made without the applicant undertaking a comprehensive assessment to determine the level of his or her management skills.

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

The Operational Risk Committee membership comprised the CRO who acted 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, Chief Information Officer and the Head of Qualitative Risk Management who acted as Deputy Chairman. The following were non-voting standing guests: the Head of Internal Audit, the Group Communications Manager and the Allianz SE Group Risk Coverage Officer.

The Underwriting Committee membership comprised the Chief Underwriting Officer who acted as Chairman, the General Manager Commercial & Personal, the Directors of Underwriting and Technical for Commercial Lines and Personal Lines who acted as Deputy Chairman, 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 were non-voting standing guests: the CRO, the Head of Internal Audit, the Group Compliance Officer and the Chief Actuary.

The Model Committee membership comprised the CFO who acted as Chairman, the Chief Actuary who acted as Deputy Chairman, the Chief Underwriting Officer and the Chief Investment Officer. The CRO was a non-voting standing guest. Differences applied when the Model Committee was reviewing technical provisions, as opposed to internal model related matters – the CRO replaced the Chief Actuary in the membership and the Chief Actuary was a non-voting standing guest.

The Reinsurance Panel is a sub-Committee of the Management Board. Membership of the Committee comprised the CEO who acted as Chairman, the CFO, the Chief Underwriting Officer, the Chief Accountant, the General Manager Commercial & Personal and the Reinsurance Manager. The CRO and the Chief Actuary were 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 comprised the CEO who acted as Chairman, the CFO who acted as Deputy Chairman, the Chief Accountant and the Chief Actuary. The Group Accountant attended and deputised for the Chief Accountant where 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 comprised the CFO who acted as Chairman, the Chief Accountant who acted as Deputy Chairman, the Chief Actuary, the CRO and the Chief Legal Officer and Company

[(1)] After the year end, the Compensation Committee and Nomination Committee merged into the Compensation and Nomination Committee.

Secretary. The Senior Tax Manager, the AGF Accountant and the Head of Internal Audit also attended meetings by invitation. The purpose of the Committee is to assist the CEO and the CFO 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. Membership of the Committee comprised the CEO who acted as Chairman, the CFO, the Chief Actuary, the General Manager Commercial & Personal, the Chief Claims Officer and the Chief Underwriting Officer. The CRO was 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. Membership of the Committee comprised of the CEO who acted as Chairman, the CFO, the Chief Actuary, the Chief Accountant, and the Chief Claims Officer. The CRO was 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.

REPORT AND ACCOUNTS

The Directors present their report and the audited consolidated financial statements for the year ended December 31, 2019.

DIRECTORS

The Directors of the Company who were in office during the year are shown on page 30. Following the year end, S Treloar was appointed as a Director with effect from January 1, 2020.

S Treloar having been appointed since the last Annual General Meeting retires and offers himself for re-appointment at the next Annual General Meeting.

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 49. The Group Balance Sheet is set out on page 50.

No interim dividend was paid during the year ended December 31, 2019 (2018: £175.0m). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2019 (2018: £nil).

FUTURE OUTLOOK

The future outlook for the Company is outlined in the Group Strategic Report on page 9.

GOING CONCERN

The going concern assessment for the Company is outlined in the Group Strategic Report on page 14.

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 £467,957 (2018: £314,540). No political donations were made.

STAKEHOLDER AND EMPLOYEE ENGAGEMENT STATEMENTS

Details on how the Board has fulfilled its duties to engage with its stakeholders and employees under The Companies (Miscellaneous Reporting) Regulations 2018 is contained in the Section 172(1) Companies Act 2006 statement on pages 14 to 16 of the Group Strategic Report and within the "Stakeholder Relationships and Engagement" section of the Corporate Governance Report on pages 37 and 38. Further details on employee engagement are also contained within the "Employees" section below.

EMPLOYEES

The Group acknowledges that its employees are at the core of achieving its business success and it ensures that its processes, policies and procedures are tailored to ensure it attracts, develops and retains a workforce with the right skills, knowledge and behaviours for the future of the business. We believe in equality of opportunity and are committed to creating an environment where people can succeed regardless of gender, age, race, disability, religion, sexual orientation or other protected characteristics. We champion environments where we celebrate inclusion.

We encourage the employment of talent from all backgrounds and abilities. As part of this, we have been granted 'Disability confident Employer' status by the Department for Work and Pensions. Provided a candidate has made the Group aware they are disabled and meet the minimum requirements of a vacancy, they will be offered an interview for that position. The Group is dedicated to ensuring it is providing reasonable workplace adjustments to meet specific needs for candidates and employees with disabilities.

The Group promotes diversity within its workforce and inclusion of all people. We promote the active participation of employees in staff networks to further improve inclusive working and recognise diversity. Employee learning and development opportunities are provided including support for achieving professional qualifications.

The Group aims to ensure that the health, safety and wellbeing of its staff is a core responsibility of its managers. It monitors accidents, incidents and work related ill-health. It provides access to wellbeing activities and has particularly invested in the support for Mental Health through training of mental health first aiders in all office locations.

Employees are offered participation in a range of benefits, including participation in share schemes, which encourages involvement in Allianz SE Group's performance.

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 holds 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 20.

FINANCIAL INSTRUMENTS

The Group's policies in respect of financial instruments are given in Note 36.

DIRECTORS RESPONSIBILITY TO THE AUDITORS

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

INDEPENDENT AUDITORS

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

By order of the Board

T A Beicken
Secretary
Allianz Holdings plc
Registered Number: 5134436
June 29, 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT, STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report 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
June 29, 2020

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 31 December 2019 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, 2019; the group statement 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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 Group 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.

Group 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 Group Strategic Report and Report of the Directors for the year ended 31 December 2019 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 Group 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 46, 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
29 June 2020

	Note	2019 £m	Restated[1] 2018 £m
Gross earned premiums	3	1,981.1	2,084.6
Reinsurers' share of gross earned premiums	3	(863.5)	(912.0)
Net insurance revenue	3	1,117.6	1,172.6
Reinsurance commission		125.5	139.1
Investment income	4	92.9	101.4
Net realised gains	6	57.6	3.4
Net fair value gains	7	33.1	32.1
Income from inspection services		87.2	80.7
Other revenue		396.3	356.7
Total revenue		1,513.9	1,529.3
Gross insurance claims paid		(1,299.9)	(1,342.6)
Reinsurers' share of gross insurance claims paid		541.3	559.7
Gross change in insurance liabilities		16.8	71.3
Reinsurers' share of gross change in insurance liabilities		(0.5)	(47.6)
Net insurance claims		(742.3)	(759.2)
Commission		(306.2)	(335.5)
Finance costs	5	(38.4)	(19.1)
Other operating and administrative expenses	8	(280.6)	(263.6)
Other expenses		(625.2)	(618.2)
Total claims and expenses		(1,367.5)	(1,377.4)
Profit before tax		146.4	151.9
Income tax expense	11	(8.2)	(15.8)
Profit for the year wholly attributable to the equity holders		138.2	136.1
Other comprehensive income/(expense)			
Items that may be reclassified to profit and loss			
Net change in fair value of available for sale financial assets		53.2	(51.7)
Net change in fair value of available for sale financial assets transferred to profit or loss		(0.7)	(20.6)
Items that will not be reclassified to profit and loss			
Gain on pension fund	17	2.5	31.0
Prior year reinsurance recovery		-	5.1
Prior year dilapidations		-	(1.9)
Recognition of contract liability		-	(1.2)
		55.0	(39.3)
Tax on fair value movements		(6.7)	9.8
Tax on gain on pension fund		(0.4)	(5.3)
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/(expense) for the year, net of tax		47.9	(35.2)
Total comprehensive income for the year wholly attributable to the equity holders		186.1	100.9

[1] Refer to note 5.

The accounting policies and notes on pages 55 to 112 are an integral part of these financial statements.

	Note	2019 £m	Restated[2] 2018 £m
ASSETS			
Intangible assets	16	1,024.4	153.5
Pension benefit surplus	17	65.5	20.4
Investment in associated undertaking	15	-	570.6
Property and equipment	18	75.7	30.1
Investment properties	19	182.1	182.9
Investment properties held for sale	19	11.6	4.0
Deferred acquisition costs	20	177.3	189.4
Deferred tax asset	22(b)	19.6	9.8
Reinsurance assets	23 & 31	1,817.8	1,264.2
Financial assets:			
Available for sale financial assets[1]	25(a)	3,605.9	2,399.0
Loans and receivables	25(b)	137.0	38.1
Derivative assets	25(c)	1.2	-
Prepayments and accrued income	24	70.6	33.0
Insurance receivables	26	1,301.2	776.2
Other receivables	27	220.0	159.2
Cash and cash equivalents	28	1,175.3	36.5
Total assets		9,885.2	5,866.9
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	29	1,977.8	1,327.8
Fair value reserve		68.8	23.0
Retained earnings		1,232.6	1,092.3
Capital reserve		(650.5)	(650.5)
Total equity		2,628.7	1,792.6
LIABILITIES			
Provisions for other liabilities and charges	30	24.1	17.8
Insurance contracts liabilities	31	5,329.6	2,727.7
Reinsurers' share of deferred acquisition costs	20	70.1	75.0
Insurance related payables	33	1,151.0	1,032.2
Financial liabilities	35	10.2	7.7
Current tax liabilities	22(a)	4.6	4.0
Deferred tax liabilities	22(b)	51.1	-
Accruals and other payables	34	615.8	209.9
Total liabilities		7,256.5	4,074.3
Total equity and liabilities		9,885.2	5,866.9

[1] Included within available for sale financial assets are £101.0m (2018: £102.4m) of lent securities. See note 25.

[2] Further information on the prior year restatement is included in Note 26.

The accounting policies and notes on pages 55 to 112 are an integral part of these financial statements.

	Note	2019 £m	2018 £m
ASSETS			
Investment in group undertakings	15	2,308.4	931.1
Investment in associated undertaking	15	-	570.6
Property and equipment	18	-	0.2
Current tax asset	22(a)	1.2	-
Financial assets:			
Loans and receivables	25(b)	0.4	0.8
Amounts due from group undertakings	27	135.7	127.7
Cash and cash equivalents	28	19.8	-
Total assets		2,465.5	1,630.4
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	29	1,977.8	1,327.8
Retained earnings		352.0	72.2
Total equity		2,329.8	1,400.0
LIABILITIES			
Loans from group undertakings		-	20.0
Provisions for other liabilities and charges	30	114.2	140.2
Financial liabilities	35	-	7.7
Accruals and other payables	34	21.5	62.5
Total liabilities		135.7	230.4
Total equity and liabilities		2,465.5	1,630.4

The parent company profit for the year wholly attributable to the equity holders is £279.8m (2018: £269.2m).

The accounting policies and notes on pages 55 to 112 are an integral part of these financial statements.

These financial statements on pages 49 to 112 were approved by the Board of Directors on June 29, 2020 and signed on its behalf by:

F K Dyson
Director

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit before tax		146.4	151.9
Non cash items	39	(5.8)	46.0
Changes in working capital	39	(71.5)	(206.7)
Income tax paid	11(c)	(3.6)	(5.1)
Net cash inflow/(outflow) from operating activities		65.5	(13.9)
Cash flows from investing activities			
Purchase of property and equipment	18	(4.6)	(8.5)
Proceeds from sale of property and equipment	18	-	1.6
Proceeds from early redemption fees on loans receivable	6	-	0.3
Intangible assets cost capitalised	16	(6.1)	(12.0)
Goodwill capitalised	16	537.5	-
Consideration paid on acquisition	15	(805.2)	-
Proceeds from sale of investment property	19	4.0	20.2
Purchase of investment property	19	(16.5)	(49.1)
Purchase of available for sale financial assets		(646.4)	(839.1)
Proceeds from sale of available for sale financial assets		796.1	1,097.0
Disposal of/(investment in) associated undertaking	15	570.6	(36.2)
Increase in loans		-	30.3
Net cash inflow from investing activities		429.4	204.5
Cash flows from financing activities			
Proceeds from issue of shares	29	650.0	-
Dividend paid		-	(175.0)
Payment of lease liabilities	21	(6.1)	-
Net cash inflow/(outflow) from financing activities		643.9	(175.0)
Net increase in cash and cash equivalents		1,138.8	15.6
Cash and cash equivalents at the beginning of the year	28	36.5	20.9
Cash and cash equivalents at the end of the year	28	1,175.3	36.5

The accounting policies and notes on pages 55 to 112 are an integral part of these financial statements.

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit before tax		278.6	269.2
Non cash items	39	(95.4)	(29.5)
Changes in working capital	39	12.2	(28.2)
Income tax paid		-	(0.1)
Net cash inflow from operating activities		195.4	211.4
Cash flows from investing activities			
Purchase of property and equipment		-	(0.2)
Consideration paid for acquisition of subsidiaries	15	(805.2)	-
Investment in associated undertaking	15	-	(36.2)
Net cash outflow from investing activities		(805.2)	(36.4)
Cash flows from financing activities			
Proceeds from issue of shares	29	650.0	-
Dividend paid		-	(175.0)
Payment of lease liabilities		(0.4)	-
Decrease in loans from group undertakings		(20.0)	-
Net cash inflow/(outflow) from financing activities		629.6	(175.0)
Net increase in cash and cash equivalents		19.8	-
Cash and cash equivalents at the beginning of the year	28	-	-
Cash and cash equivalents at the end of the year	28	19.8	-

The accounting policies and notes on pages 55 to 112 are an integral part of these financial statements.

Group	Share capital £m	Fair value reserve £m	Retained earnings £m	Capital reserve £m	Total equity £m
	Attributable to equity holders of the parent				
Balance as at January 1, 2018	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	-	-	5.1	-	5.1
Prior year dilapidations	-	-	(1.9)	-	(1.9)
Recognition of contract 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 liability	-	-	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	-	-	(175.0)	-	(175.0)
Balance as at December 31, 2018	1,327.8	23.0	1,092.3	(650.5)	1,792.6
Net change in fair value of available for sale financial assets	-	53.2	-	-	53.2
Net change in fair value of available for sale financial assets transferred to profit or loss	-	(0.7)	-	-	(0.7)
Gain on pension fund	-	-	2.5	-	2.5
Tax on fair value movements	-	(6.7)	-	-	(6.7)
Tax on gain on pension fund	-	-	(0.4)	-	(0.4)
Net profit for the year	-	-	138.2	-	138.2
Total recognised income for the year	-	45.8	140.3	-	186.1
Issue of ordinary share capital	650.0	-	-	-	650.0
Balance as at December 31, 2019	1,977.8	68.8	1,232.6	(650.5)	2,628.7

Company	Share capital £m	Fair value reserve £m	Retained earnings £m	Total equity £m
Balance as at January 1, 2018	1,327.8	-	(21.9)	1,305.9
Net profit for the year	-	-	269.2	269.2
Total recognised income 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
Net profit for the year	-	-	279.8	279.8
Total recognised income for the year	-	-	279.8	279.8
Issue of ordinary share capital	650.0	-	-	650.0
Balance as at December 31, 2019	1,977.8	-	352.0	2,329.8

The accounting policies and notes on pages 55 to 112 are an integral part of these financial statements.

1 ACCOUNTING POLICIES

1.1 Company and its operations

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

The consolidated financial statements for the year ended December 31, 2019 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 as adopted by the European Union ("EU") 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 the Group Strategic Report on page 14.

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, 2019. These have been adopted within this set of financial statements:

IFRS 16 'Leases' (EU effective date January 1, 2019) replaces IAS 17 'Leases'. IFRS 16 was issued in January 2016 resulting 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 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 comparative amounts for the year prior to first adoption have not been restated.

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 apply 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 has not been adopted.

1 ACCOUNTING POLICIES (CONTINUED)

Key judgements and estimates used in applying IFRS 16 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.

The weighted average incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on January 1, 2019 was 1.5%.

Impact of IFRS 16 on transition:

	Group		Company	
	IAS 17	IFRS 16 on transition	IAS 17	IFRS 16 on transition
	£m	£m	£m	£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 as at December 31, 2018 and the opening lease liability balance:

	Group	Company
	£m	£m
Operating lease commitment as at December 31, 2018	42.1	2.8
Impact of:		
Short term leases	(1.1)	-
Extension and termination options reasonably certain to be exercised	(1.7)	-
Discounting	(3.5)	(0.3)
Lease liability recognised at January 1, 2019	35.8	2.5

The Group and Company have not restated the lease liability comparative information.

1 ACCOUNTING POLICIES (CONTINUED)

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 reviewing the upcoming standards to determine their impact:

IFRS 17 'Insurance Contracts' – The International Accounting Standards Board ("IASB") issued IFRS 17 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, 2023. 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 with the standard.

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 Group has taken advantage of the exemption available, as its activities are predominantly insurance related, to defer applying IFRS 9 (which would otherwise be applicable for annual reporting periods beginning on or after January 1, 2018) until January 1, 2023 which will coincide with the expected implementation of IFRS 17.

IFRS 9 introduces a forward looking '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 significant impact to the consolidated 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 IFRS 4 relative to the total carrying amount of all liabilities is greater than 90%. A reassessment at a subsequent annual reporting date is required if, and only if, there was a change in the entity's activities during the annual period that ended on that date.

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 analysis of the financial assets that meet the solely payment of principal and interest ("SPPI") criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

Financial assets under IFRS 9 classification rules:

	Financial assets that meet the SPPI criterion		All other financial assets	
As at December 31, 2019	**Fair value £m**	**Fair value change during the year £m**	**Fair value £m**	**Fair value change during the year £m**
Cash and cash equivalents	1,175.3	-	-	-
Debt securities	3,102.7	32.3	294.7	2.9
Managed Funds	-	-	208.5	18.2
Total	4,278.0	32.3	503.2	21.1

1 ACCOUNTING POLICIES (CONTINUED)

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

As at December 31, 2019	Cash and cash equivalents £m	Debt securities £m
Investment grade		
AAA	298.8	647.4
AA	151.8	777.7
A	685.7	738.4
BBB	-	905.0
BB	-	21.5
B	-	12.7
Not rated	39.0	-
Total	1,175.3	3,102.7

The Allianz Holdings plc group 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 judgements based on information and financial data that may change in future periods.

Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce 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, 2019.

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. 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 are initially recognised at cost and are depreciated on a straight line basis over 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.

1 ACCOUNTING POLICIES (CONTINUED)

b Property and equipment (continued)

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

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

c 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.

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. This is derived as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree 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 or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised in the Statement of Comprehensive Income.

Where goodwill forms part of a cash generating unit or 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 acquired in business combinations 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.

1 ACCOUNTING POLICIES (CONTINUED)

d Intangible assets (continued)

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 generally 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. The useful life is 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 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 the statement of comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

g Leases

The Group has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Group and Company as a Lessee

Policy applicable from January 1, 2019 (IFRS 16)

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

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

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

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

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

1 ACCOUNTING POLICIES (CONTINUED)

g Leases (continued)

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

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

Policy applicable before January 1, 2019 (IAS 17)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee were classified as operating leases prior to the implementation of IFRS 16. Payments made under operating leases were charged to the statement of comprehensive income on a straight-line basis over the period of the lease. Comparative information in these financial statements is stated under this policy.

Group as a Lessor

Where the Group acts as lessor, it determines whether each lease is a finance or operating lease.

Lease income from operating leases is recognised in the statement of comprehensive income on a straight-line basis over the lease term. The respective leased assets are included in the balance sheet based on their nature.

The Group recognises its subleases under IFRS 16 as finance leases where the terms of the head lease and sublease are substantially the same. It establishes a lease receivable at inception and derecognises the right of use asset as a result of the head lease.

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, and the impairment loss is recognised immediately in the statement of comprehensive income.

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.

1 ACCOUNTING POLICIES (CONTINUED)

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. 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 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, derivative assets or loans and receivables.

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.

1 ACCOUNTING POLICIES (CONTINUED)

m Financial assets (continued)

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.

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

n Reserves

Fair value reserve

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

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 Provisions 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.

1 ACCOUNTING POLICIES (CONTINUED)

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.

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 three pension schemes:

- The Allianz Retirement and Death Benefits Fund ("ARDBF") – this is a defined benefit pension scheme only. It is operated jointly by a subsidiary Company (namely Allianz Management Services Limited ("AMS") and a trustee board).
- A Group Personal Pension Plan ("GPPP") for employees of AMS and Allianz Engineering and Inspection Services Limited ("AEIS") – this is a defined contribution pension scheme only.
- A GPPP for employees of LV= GI – this is a defined contribution pension scheme only.

AMS became the Principal Employer to the ARDBF on September 1, 2005. Since that date, the Group has accounted for pensions in accordance with IAS 19 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.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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

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 13.

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.

1 ACCOUNTING POLICIES (CONTINUED)

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 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)

x Revenue recognition (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 Interest payable

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 offset 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

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

ae Business combinations and measurement of non-controlling interests

Where newly acquired subsidiaries are subject to business combination accounting, the provisions of IFRS 3 are applied. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation can be measured either at their fair value at the acquisition date or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This option is exercised on a case by case basis. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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.

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

a Valuation of general insurance contract liabilities

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

Standard actuarial claims projection techniques are used to estimate outstanding claims, 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.

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

Significant accounting estimate – Insurance contract liabilities

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

There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately be paid for such claims. Over the last decade there has been an increasing prevalence of PPO settlements, which have an annuity-type structure i.e. they are typically paid annually over the claimant's life with mortality, inflation and investment returns being the key risks. Courts may decide that a claim should be settled on a PPO basis, but in the majority of cases the claimant will request a PPO settlement. A further complexity of PPO claims is that due to the annuity-type structure of the claim payments, these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Therefore, the estimation of ultimate claims cost involves projecting mortality rates, discount rates and benefit indexation rates, which is unlike all other general insurance liabilities.

Significant judgement applied to estimate

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

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

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

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

At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Claims provisions are not discounted for the time value of money except for claims being settled by periodic payments. Further details of the claims estimation process are described in note 32.

The carrying value at Balance Sheet date for these general insurance contracts is £5,329.6m (2018: £2,727.7m).

b Fair value 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

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 in note 36.

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 in note 36.

Own use Property. The vacant possession value has been considered in order to estimate the fair value of the own use properties. Judgement is applied in determining the significant unobservable inputs, these being rental growth, voids, market rent, rent free periods and letting fees. Further details concerning the valuation techniques can be found in note 36.

c Assumptions used to determine the carrying amount of the defined benefit obligation

The key actuarial assumptions being the discount rate, RPI inflation and life expectancy. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Group financial statements within the next year. Further information on the carrying amounts of the Group's defined benefit obligation and the sensitivity of those amounts to changes in the assumptions are provided in note 17.

d Acquisitions

On December 31, 2019 the Company completed the acquisition of the remaining 51% of the LV General Insurance Group ("LV= GI") and 100% of the General Insurance division of Legal & General ("L&G GI").

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (CONTINUED)

d Acquisitions (continued)

Significant accounting estimates

The estimation of the consideration attributed to identifiable assets and liabilities acquired is deemed a critical accounting estimate. For details of the assets and liabilities acquired, refer to note 15. In order to attribute the consideration paid to individual assets and liabilities, the fair value of these were determined. 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.

Significant judgement applied to estimate

While management believes the values attributed to the identifiable assets and liabilities are reasonable, the determination of the fair value required significant judgement.

For the following classes of assets and liabilities, management applied judgement in determining that the IFRS valuation is a reasonable approximation for fair value. This is the valuation used in attributing consideration to the following identifiable assets and liabilities;

- Cash and cash equivalents
- Financial and derivative assets
- Insurance and other receivables
- Prepayments and accrued income
- Provisions for other liabilities and charges
- Insurance contract liabilities
- Accruals and other payables
- Software
- Insurance related payables

For the following classes of assets and liabilities, management have applied judgement in determining the fair value, details of this has been described below:

Customer relationships

The fair value of existing customer relationships was determined as the value of the renewals for existing customers and was estimated using a discounted cash flow model. Assumptions modelled (by line of business) included:

- Expected retention period of those customers
- Net combined ratio
- Historic claims patterns
- The investment yield expected to be earned on the average capital and net insurance reserves

The amortisation rate is calculated on the basis of the average of the policies in force at the beginning and end of a given year based on retention rates relative to the total policies expected to be renewed over ten years.

Brand value

The fair value of the brand intangible was determined based on a "Relief from Royalty" model. The brand value is amortised over 7 years, in line with the brand licensing agreement.

Technical provisions

The fair value of the technical provisions on acquisition were determined using discounted cash flow models. The model took into consideration the expected underwriting profit, the amount of capital required, the release of the management margin and the related investment income. The unearned premium reserve was assumed to run-off within one year.

Property and equipment

The fair value of property and equipment was determined with reference to the Groups accounting policies. The Group's policy is to expense leasehold improvements and equipment, therefore no value has been attributed to these assets. The IFRS valuation of the right of use asset has been deemed to be a reasonable approximation of fair value.

Reinsurance assets

The fair value of reinsurance assets was determined alongside the valuation of the technical provision. Details of the valuation method used for technical provisions are disclosed above.

3 NET INSURANCE REVENUE

	Note	2019 £m	2018 £m
a Gross written premiums			
Direct insurance[1]		1,989.8	2,036.1
Assumed reinsurance		0.9	2.0
Total gross written premiums	31	1,990.7	2,038.1
Gross change in unearned premium provision	31	(9.6)	46.5
Total gross earned premiums		1,981.1	2,084.6
b Reinsurers' share of gross written premiums			
Direct insurance		(865.4)	(890.9)
Assumed reinsurance		(0.4)	-
Total reinsurers' share of gross written premiums	31	(865.8)	(890.9)
Reinsurers' share of change in unearned premium provision	31	2.3	(21.1)
Total reinsurers' share of gross earned premiums		(863.5)	(912.0)
Total net insurance revenue		1,117.6	1,172.6

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

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

4 INVESTMENT INCOME

	2019 £m	Restated[1] 2018 £m
Available for sale financial assets		
Interest income	51.0	56.4
Dividend income	4.4	4.5
Interest income from loans	1.3	2.7
Cash and cash equivalents interest income	3.1	2.2
Rental income from investment properties	8.6	9.9
Share of profit of associate	24.5	25.7
Total investment income	92.9	101.4

(1) Refer to note 5.

5 FINANCE COSTS

	2019 £m	Restated[3] 2018 £m
Impairment of equity securities	-	5.1
PPI redress[1]	25.1	4.7
Interest on lease liabilities	0.5	-
Ceded investment income[2]	12.8	9.3
Total finance costs	38.4	19.1

(1) PPI redress was reported as interest payable in 2018. The cost of providing redress reflects actual redress paid and the best estimate of the quantum of further claims notified by the deadline of August 29, 2019, based on uphold rates and average values for mis-selling and unfair commission redress (the latter of which is paid directly by the agent). Total gross written premiums include £9.2m (2018: £1.2m) of premium refunded to policyholders in respect of mis-selling of PPI by the selling agent. Legal proceedings have been issued to seek recovery of costs from the agent.

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

(3) In 2018, finance costs were offset against investment income within total revenue. In 2019, these have been reported within total claims and expenses. Investment income has been restated from £82.3m to £101.4m and finance costs have been restated from £nil to £19.1m as this was considered to be a fairer presentation.

6 NET REALISED GAINS

	2019 £m	2018 £m
Available for sale financial assets		
Realised gains		
Equity securities	-	1.2
Debt securities	8.9	13.7
Realised losses		
Debt securities	(1.8)	(9.6)
Investment properties		
Realised gains	-	0.9
Realised losses	(2.7)	(2.5)
Loans		
Early redemption fee	-	0.3
Acquisitions		
Gain on consolidation	53.2	-
Financial liabilities		
Realised losses	-	(0.6)
Total net realised gains recorded in the statement of comprehensive income	57.6	3.4

7 NET FAIR VALUE GAINS

	Note	2019 £m	2018 £m
Net (loss)/gain on investment properties	19	(3.0)	2.5
Net gain on financial liabilities		36.1	29.6
Total net fair value gains recorded in the statement of comprehensive income		33.1	32.1

8 OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	Note	2019 £m	2018 £m
Acquisition costs		81.5	86.6
Movement in deferred acquisition costs	20	7.3	12.4
Administration expenses		169.5	156.6
Restructuring charges	30	21.4	7.1
Unwind of discount on PPO claims reserves		0.9	0.9
Total other operating and administrative expenses		280.6	263.6

9 EMPLOYEE RELATED COSTS

	2019 £m	2018 £m
Wages and salaries	173.6	177.7
Social security costs	21.6	22.1
Pension costs	27.5	22.8
Total employee related costs	222.7	222.6

	2019	2018
The average monthly number of employees including executive Directors during the year was:		
Management	449	457
Underwriting and claims	3,420	3,487
Finance and administration	368	406
Total	4,237	4,350

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

Following the acquisition of LV= GI on December 31, 2019, a total of 3,435 employees transferred into the Group. This is not included in the average monthly number of employees in the table above.

10 AUDITORS' REMUNERATION

	2019 £m	2018 £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	1.7	0.5
Audit-related assurance services	0.1	0.1
Total auditors' remuneration	1.9	0.7

Included in the total above is remuneration for the 2019 annual audits of LV= GI and for L&G GI, which were performed by PricewaterhouseCoopers LLP and KPMG LLP respectively. The remuneration has not been accounted for in the Group's Statement of Comprehensive Income for the year due to the date of acquisition being December 31, 2019.

11 INCOME TAX EXPENSE

a Income tax recognised in profit or loss	2019 £m	2018 £m
Current tax:		
In respect of the current year	(2.3)	2.9
In respect of prior years	3.5	13.9
Total current tax charge	1.2	16.8
Deferred tax:		
In respect of the current year	10.3	15.5
In respect of prior years	0.2	(15.3)
Adjustments to deferred tax attributable to changes in tax rates and laws	(3.5)	(1.2)
Total deferred tax charge	7.0	(1.0)
Total income tax expense recognised in the current year	8.2	15.8

11 INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to the accounting profit as follows:	2019 £m	2018 £m
Profit before tax	146.4	151.9
Income tax expense calculated at 19.0% (2018: 19.0%)	27.8	28.9
Effect of expenses not deductible for tax purposes	(4.3)	(3.7)
Effect of franked investment income	(5.7)	(6.4)
Effect of unrealised movement on real estate	(0.3)	(0.7)
Effect of capital gains	(9.6)	0.2
Effect of prior year adjustment	3.7	(1.4)
Effect of changes in statutory tax rate	(3.5)	(1.2)
Effect of imputed transfer pricing adjustments	0.1	0.1
Income tax expense recognised in profit or loss	8.2	15.8

The tax rate used for the 2019 and 2018 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax will be 19% for 2020. Deferred tax on temporary timing differences which are expected to unwind after April 1, 2020 have been recognised at 17%, the rate which was substantially enacted in law as at December 31, 2019. The 17% rate has since been repealed from law in the March Budget resulting in the tax rate for 2020 onwards remaining at 19%. This will significantly impact the deferred tax position in the Group resulting in an increase in the deferred tax liability through the income statement of £9.4m and an increase in the deferred tax asset through other comprehensive income of £5.7m, with a net increase in the overall deferred tax liability position of £3.7m.

b Income tax recognised in other comprehensive income	2019 £m	2018 £m
Current tax	-	(13.6)
Deferred tax	7.1	9.1
Total income tax recognised in other comprehensive income	7.1	(4.5)

c Tax paid for cash flow purposes	2019 £m	2018 £m
Current tax payable at January 1	4.0	5.7
Amounts charged to the statement of comprehensive income	8.2	15.8
Amounts charged to other comprehensive income	7.1	(4.5)
Movements in deferred tax in the statement of comprehensive income	(7.0)	1.0
Movements in deferred tax to other comprehensive income	(7.1)	(9.1)
Other movements	(0.3)	0.2
Additions through business combinations	3.3	-
Tax paid during the year	(3.6)	(5.1)
Current tax payable at December 31	4.6	4.0

12 DIRECTORS' EMOLUMENTS

	2019 £	2018 £
Emoluments[(1)]	3,221,656	2,332,440
The amounts in respect of the highest paid Director are as follows:		
Emoluments	1,850,737	1,077,239

[(1)] Emoluments include £459,451 (2018: £631,021) 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, 2021.

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).

One Director waived his right to receive emoluments.

13 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 £2.9m (2018: £1.8m). The liability recorded in the financial statements in respect of the RSUs as at December 31, 2019 was £5.3m (2018: £5.3m).

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 2019, RSUs were allocated to members of the Management Board and other executives.

RSU plan awards granted, forfeited and exercised as of December 31, 2019

Grant Date	Vesting period years	RSUs granted	RSUs forfeited	RSUs exercised	RSUs transferred in[1]
March 2015	4	20,938	1,523	19,145	-
March 2016	4	15,510	1,452	3,449	115
March 2017	4	15,190	1,205	2,475	189
March 2018	4	8,129	372	615	-
March 2019	4	13,925	-	-	-

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

14 DIVIDENDS

No interim dividend was paid during the year ended December 31, 2019 (2018: £175.0m). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2019 (2018: £nil).

15 INVESTMENT IN GROUP UNDERTAKINGS

Subsidiary undertakings of Allianz Holdings plc

Group undertakings	Country of incorporation	Primary business operation	Percentage holding
Allianz Insurance plc	England	General Insurance	100
Liverpool Victoria General Insurance Group Limited(1)	England	General Insurance Holding	100
Legal & General Insurance Limited (renamed Fairmead Insurance Limited)(1)	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 Limited (formerly 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
Held by Liverpool Victoria General Insurance Group Limited:			
Liverpool Victoria Insurance Company Limited(1)	England	General Insurance	100
LV Assistance Services Limited(1)	England	Road Rescue	100
LV Insurance Management Limited(1)	England	Management Services	100
Held by Liverpool Victoria Insurance Company Limited:			
LV Repair Services Limited(1)	England	Repair Engineering Services	100
Highway Insurance Group Limited(1)	England	General Insurance Holding	100
Held by Highway Insurance Group Limited:			
Highway Insurance Company Limited(1)	England	General Insurance	100
Held by Legal & General Insurance Limited:			
Buddies Enterprises Limited(1)	England	Insurance Intermediary	100
Legal & General Distribution Services Limited (renamed Fairmead Distribution Services Limited)(1)	England	Insurance Intermediary	100

With the exception of those indicated(1), all of the above shareholdings were also held at December 31, 2018. 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 40.

AMS, a subsidiary undertaking of Allianz Holdings plc, has reported negative net assets of £106.1m (2018: £131.6m). The Company has provided a letter of support, and the liability has been recognised at the Balance Sheet date.

15 INVESTMENT IN GROUP UNDERTAKINGS (CONTINUED)

During the year, the Company received a dividend from Home and Legacy Insurance Services Limited ("Home & Legacy"). As a result of paying this dividend, the carrying amount of the investment in the subsidiary exceeded its estimated recoverable amount and subsequently the carrying amount was reduced. Additionally, internal factors led the Company to review its investments in Allianz Business Services Limited ("ABSL"), Vet Envoy Limited ("Vet Envoy") and Three Pillars Business Solutions Limited ("Three Pillars") for impairment.

The recoverable amounts of Vet Envoy and Three Pillars were determined to be fair value less costs to sell, estimated using net asset value. The recoverable amounts of the Company's investments in Home & Legacy and ABSL were determined to be value in use, using a forecasting method.

The result of the impairment test is summarised in the table below:

	Home & Legacy £m	ABSL £m	Vet Envoy £m	Three Pillars £m	Total £m
Carrying amount	42.2	31.4	1.5	5.4	80.5
Recoverable amount	24.4	8.3	0.5	4.8	38.0
Impairment loss recognised	17.8	23.1	1.0	0.6	42.5

15 INVESTMENT IN GROUP UNDERTAKINGS (CONTINUED)

Acquisitions

On December 31, 2019, Allianz Holdings plc acquired the remaining 51% of shares in Liverpool Victoria General Insurance Group Limited ("LV= GI") and 100% of the shares in Legal & General Insurance Limited ("L&G GI"). The main rationale for both acquisitions is to significantly increase the position of the Group in the UK personal lines sector, in particular in motor and household insurance, diversifying customer, product and distribution mix and unlocking synergies across the Group. The scale of the combined entities is considered to provide a competitive advantage.

The following table summarises the total consideration transferred, the amounts recognised as at the acquisition date for goodwill and the identifiable assets acquired and liabilities assumed:

Consideration Transferred	LV= GI £m	L&G GI £m
Amount settled in cash	585.4	242.0
Contingent consideration	15.0	-
Total consideration transferred	600.4	242.0
Previously held investment in associate	577.4	-
Total investment in group undertakings	1,177.8	242.0

Identifiable assets and liabilities	£m	£m
Intangible assets	297.3	42.9
Property and equipment	14.1	4.7
Current and deferred tax assets	-	0.8
Reinsurance assets	455.1	94.0
Financial and derivative assets	1,412.3	-
Prepayments and accrued income	37.8	2.0
Insurance and other receivables	364.2	183.0
Cash and cash equivalents	706.5	393.8
Provisions for other liabilities and charges	(6.9)	-
Insurance contract liabilities	(2,215.7)	(390.1)
Insurance related payables	(77.4)	(43.6)
Current and deferred tax liabilities	(31.3)	-
Accruals and other payables	(265.3)	(95.9)
Net identifiable assets and liabilities	690.7	191.6
Goodwill	487.1	50.4
Total investment in group undertakings	1,177.8	242.0

The Group recognised a gain of £53.2m as a result of measuring at fair value its previously held 49% equity interest in LV= GI before the business combination. This is disclosed in net realised gains (note 6) for the year ending December 31, 2019. The total goodwill arising from both acquisitions consists largely of new business, economies of scale and synergies expected from combining the operations of LV= GI and L&G GI. None of the goodwill recognised is expected to be deductible for income tax purposes.

For the year ended December 31, 2019, acquisition-related expenses of £4.1m were included in administrative expenses. Had LV= GI and L&G GI been consolidated from January 1, 2019, the consolidated statement of comprehensive income would have included net premiums earned of £1,415.2m and profit before tax of £16.7m.

In addition to the consideration transferred on December 31, 2019 the Company agreed a contingent payment of £15m in relation to the successful separation of operational and IT services that were provided to LV= GI by the previous owner. This payment was subsequently made in April 2020.

16 INTANGIBLE ASSETS

Group	Goodwill £m	Software £m	Other intangible assets £m	Total £m
Cost				
At January 1, 2018	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
Additions	537.5	6.1	-	543.6
Additions through business combinations	-	86.2	254.0	340.2
At December 31, 2019	615.0	155.5	338.4	1,108.9
Accumulated amortisation and impairment				
At January 1, 2018	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
Amortisation charge for the year	-	6.4	6.5	12.9
At December 31, 2019	2.9	36.2	45.4	84.5
Carrying amount				
At December 31, 2018	74.6	33.4	45.5	153.5
At December 31, 2019	612.1	119.3	293.0	1,024.4

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 test indicated that no impairment was required to the carrying value of goodwill in the CGU as at December 31, 2019. The estimated recoverable amount of the CGU exceeded its carrying amount by £628m (2018: £45m). Management has identified that a 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 +5.0%;
- Budgeted growth rate -8.7%.

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.

17 PENSION BENEFIT SURPLUS

The Group sponsors three pension schemes:

- The ARDBF – this is a defined benefit pension scheme only. It is operated jointly by a subsidiary Company (namely AMS) and a trustee board.
- A GPPP for employees of AMS and AEIS – this is a defined contribution pension scheme only.
- A GPPP for employees of LV= GI – this is a defined contribution pension scheme only.

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

GPPP

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 £27.5m during 2019 (2018: £27.1m).

ARDBF

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 some of 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 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 ("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 additional deficit contributions of £40.0m in February/March 2018, £60.0m paid in April 2018, deficit contributions of £44.4m payable annually until March 31, 2022 and a final payment of £11.1m in 2022.

The next actuarial valuation of the ARDBF is underway 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 during 2019 was £44.4m (2018: £100.0m). Group contributions to the ARDBF over 2020 are expected to be £44.4m (based on the current recovery plan).

Based on the Group's interpretation of the rules, any 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 layman'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.

17 PENSION BENEFIT SURPLUS (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 approximate split of the ARDBF assets at the reporting date is as follows:

Growth assets	9%
Matching assets	91%
	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.

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 defined benefit liability at December 31, 2019 of around £6.3m.

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.

	2019	2018	2017
Discount rate	2.1% p.a.	2.7% p.a.	2.4% p.a.
RPI inflation	3.0% p.a.	3.3% p.a.	3.2% p.a.
Life expectancy of male aged 60 at the balance sheet date	27.1 years	27.3 years	27.4 years
Life expectancy of male aged 60 at the balance sheet date plus 20 years	28.6 years	28.8 years	28.9 years
Life expectancy of female aged 60 at the balance sheet date	29.2 years	29.4 years	29.4 years
Life expectancy of female aged 60 at the balance sheet date plus 20 years	30.8 years	30.9 years	31.0 years

17 PENSION BENEFIT SURPLUS (CONTINUED)

- Discount rate – in line with December 31, 2018, as at December 31, 2019 the Group continue to adopt the LCP Treasury Model to determine the discount rate. However the small alteration previously applied to the universe of bonds in 2018 has been removed, which in isolation increases the discount rate slightly.
- RPI inflation rate – at December 31, 2019, the inflation assumption is taken from published Bank of England estimates for future price inflation, as implied by the swap markets and reflects the duration of the pension liabilities. An inflation risk premium of 0.2% pa is deducted from this "breakeven" measure of future RPI inflation. At December 31, 2018 the Group used an inflation assumption based on the gilt markets, and a "term dependent" forward rate inflation risk premium is used to derive the inflation assumption. This change in approach has broadly no impact on the resulting single equivalent market-implied inflation assumption.
- Life expectancies (for both male and female, current and future) – the Group have updated the mortality assumption as at December 31, 2019 to reflect the latest available industry-wide data for future improvement projections. This change leads to a decrease in the defined benefit obligations of approximately £15.5m.

Other IAS19 assumptions used include:

	2019	2018	2017
Pension increases in deferment for ARDBF membership	3.0% p.a.	3.3% p.a.	3.2% p.a.
Pension increases in deferment for legacy AGF Scheme membership	1.9% p.a.	2.2% p.a.	N/A
Pension increases in payment (RPI up to maximum of 5% p.a.)	2.9% p.a.	3.1% p.a.	3.1% p.a.
Pension increases in payment (RPI up to maximum of 2.5% p.a.)	2.0% p.a.	2.1% p.a.	2.1% p.a.
Pension increases in payment (RPI, minimum of 3% up to maximum of 4% p.a.)	3.4% p.a.	3.5% p.a.	N/A
Pension increases in payment (RPI, minimum of 3% up to maximum of 5% p.a.)	3.6% p.a.	3.7% p.a.	N/A
Pension increase in payment (CPI, up to a maximum of 3% p.a)	1.8% p.a.	2.0% p.a.	1.9% p.a.
Real long-term healthcare inflation	2.5% p.a.	2.5% p.a.	2.5% p.a.

At December 31, 2019, the weighted average duration of the defined benefit obligation of the ARDBF was 17.7 years (2018: 16.7 years).

At December 31, 2018 the Group made an allowance on the balance sheet to make provision for the estimated costs of removing Guaranteed Minimum Pension ("GMP") inequalities as c0.8% of total IAS19 liabilities. The Group has adopted a consistent approach at December 31, 2019.

The actual return on the ARDBF assets over the year was a gain of £109.8m (2018: £1.0m loss). The current allocation of the ARDBF assets is as follows:

	2019 £m	2018 £m	2017 £m
Assets with a quoted market price in an active market			
- Equity instruments	12.1	14.1	-
- Debt instruments	1,156.2	1,060.3	863.1
- Other	11.9	11.4	6.2
	1,180.2	1,085.8	869.3
Assets without a quoted market price in an active market			
- Debt instruments	77.5	49.1	31.3
- Property	84.2	119.9	100.3
	161.7	169.0	131.6
Total	1,341.9	1,254.8	1,000.9

Approximately £0.2m within the fair value of ARDBF assets are invested directly in the Allianz SE Group's own financial instruments or any property occupied by, or assets used by, the Allianz SE Group.

17 PENSION BENEFIT SURPLUS (CONTINUED)

In respect of the ARDBF, the unfunded post-retirement medical healthcare arrangement and the unfunded top-up pension benefit arrangement combined, the following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability/(asset) and its components over 2018 and 2019.

	Liabilities		Assets		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
Balance at January 1	1,234.4	1,113.0	(1,254.8)	(1,000.9)	(20.4)	112.1
Included in profit or loss						
Interest cost/(income)	32.5	30.4	(33.9)	(30.2)	(1.4)	0.2
Past service cost	-	10.0	-	-	-	10.0
Settlement cost/(credit)	-	201.0	-	(215.5)	-	(14.5)
Total expense/(income) included in profit or loss	32.5	241.4	(33.9)	(245.7)	(1.4)	(4.3)
Included in OCI						
Re-measurement loss/(gain):						
- actuarial loss/(gain) arising from:						
- demographic assumptions(1)	(15.5)	(1.1)	-	-	(15.5)	(1.1)
- financial assumptions	100.0	(66.5)	-	-	100.0	(66.5)
- experience adjustment(2)	(11.1)	5.4	-	-	(11.1)	5.4
- return on plan assets excluding interest income on assets	-	-	(75.9)	31.2	(75.9)	31.2
Total loss/(gain) included in OCI	73.4	(62.2)	(75.9)	31.2	(2.5)	(31.0)
Other						
Contributions by the employer	-	-	(44.9)	(100.2)	(44.9)	(100.2)
Benefits paid	(63.9)	(57.8)	63.9	57.8	-	-
Total other	(63.9)	(57.8)	19.0	(42.4)	(44.9)	(100.2)
Administration costs	-	-	3.7	3.0	3.7	3.0
Balance at December 31	1,276.4	1,234.4	(1,341.9)	(1,254.8)	(65.5)	(20.4)
Represented by: Net defined benefit surplus					(65.5)	(20.4)

(1) Due to update in mortality assumption.

(2) Due to pension increases being lower than expected.

Allianz Holdings plc has entered into a guarantee in favour of the ARDBF. 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 each participating employer) should they fail to meet any 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)	(104)	119
RPI and CPI inflation assumptions (0.25% p.a. movement)	41	(39)
Life expectancy (one-year movement)	54	(54)

18 PROPERTY AND EQUIPMENT

Group	Property £m	Dilapidations £m	Motor vehicles £m	Total £m
Cost				
At January 1, 2018	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
Adjustment on transition to IFRS 16	39.5	(3.5)	-	36.0
Additions	3.5	-	4.6	8.1
Additions through business combinations	18.8	-	-	18.8
Disposals	(2.7)	-	(5.7)	(8.4)
At December 31, 2019	75.0	-	17.9	92.9
Accumulated depreciation				
At January 1, 2018	-	-	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
Adjustment on transition to IFRS 16	-	(0.6)	-	(0.6)
Depreciation charge for the year	7.8	-	3.6	11.4
Disposals	-	-	(4.2)	(4.2)
Impairment	2.3	-	-	2.3
At December 31, 2019	10.1	-	7.1	17.2
Carrying amount				
At December 31, 2018	15.9	2.9	11.3	30.1
At December 31, 2019	64.9	-	10.8	75.7

At December 31, 2019 the Company itself did not have a right of use asset. On January 1, on transition to IFRS 16, a right of use asset of £2.8m was recognised on the Balance Sheet. During the year £0.4m of depreciation was charged to the statement of comprehensive income. During the year, the right of use asset became onerous and as a result the remaining balance of £2.4m was charged to the statement of comprehensive income.

Own use property is stated at fair value. On December 31, the properties were independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of open market value of such properties (amounts for which the properties could be exchanged between knowledgeable willing parties in an arm's length transaction at the valuation date).

Had the property been carried under the cost model, the carrying amount would have been £23.5m (2018: £23.5m).

Included in property are right of use assets with a net book value of £48.9m as at, December 31, 2019. Please refer to note 21 for further information.

19 INVESTMENT PROPERTIES

Group	Note	2019 £m	2018 £m
At January 1		182.9	157.1
Acquisitions		16.5	49.1
Disposals		-	(21.8)
Net fair value (losses)/gains	7	(5.7)	2.5
Transfer to investment properties held for sale		(11.6)	(4.0)
At December 31		182.1	182.9

Investment properties held for sale	2019 £m	2018 £m
At January 1	4.0	-
Transfer from investment properties	11.6	4.0
Net fair value gains	2.7	-
Realised losses	(2.7)	-
Disposals	(4.0)	-
At December 31	11.6	4.0

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 £10.3m (2018: £11.5m), which is included in investment income. Direct operating expenses (charged against investment income) arising in respect of such properties during the year amounted to £1.6m (2018: £1.5m).

Two properties are classified as investment properties held for sale. The properties were marketed in the later months of 2019. One sale completed in January 2020 for £7.5m. The other property is still on the market.

20 DEFERRED ACQUISITION COSTS

Group	Gross 2019 £m	Reinsurance 2019 £m	Gross 2018 £m	Reinsurance 2018 £m
At January 1	189.4	(75.0)	210.9	(84.1)
Costs deferred during the year	412.7	(243.5)	424.7	(256.5)
Amortisation charge for the year	(424.8)	248.4	(446.2)	265.6
At December 31	177.3	(70.1)	189.4	(75.0)

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.

21 LEASES

a Lease agreements where the Group is lessee

The leases relate to operational properties located throughout Great Britain. There are no individually significant lease arrangements or purchase options attached to these properties.

Disclosure required by IFRS 16

Right of use assets

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

	2019 £m
At January 1	39.5
Additions	4.2
Additions through business combinations	18.8
Disposals	(2.7)
Modifications to the lease	(0.8)
Impairment	(2.3)
Depreciation charge for the year	(7.8)
At December 31	48.9

Amounts recognised in profit or loss

	2019 £m
Interest paid on lease liabilities	0.5
Expenses relating to short-term leases	0.8
Variable lease payment not included in lease liability measurement	0.1
Depreciation charge	7.8

At December 31, 2019, the Group is committed to £4.0m for short-term leases.

The total cash outflow for leases amounted to £7.1m for the year ended December 31, 2019.

Lease Liabilities

	2019 £m
Current	10.1
Non current	39.9
Total lease liability	50.0

Maturity analysis – contractual undiscounted cash flows	2019 £m
Year 1	10.1
Year 2	7.8
Year 3	7.6
Year 4	7.3
Year 5	6.7
Onwards	10.8
Total	50.3

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

Disclosure required by IAS 17

At the reporting date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Lease liability maturity analysis	2018 £m
Less than 1 year	7.3
One to five years	22.8
More than five years	12.0
Total	42.1

b Lease agreements where the Group is lessor

Sub-let property

The Group sublets space in certain properties. On adoption of IFRS 16, the Group has recognised these agreements as finance subleases. The subleases relate to properties located throughout Great Britain. There are no individually significant lease arrangements or purchase options attached to these properties. These are immaterial to the Group.

Investment property

The properties are let under operating leases. The future minimum lease receipts under non-cancellable leases are as follows:

	2019 £m	2018 £m
No later than 1 year	9.8	9.9
After 1 year but no more than 5 years	31.3	31.2
After 5 years	7.8	8.8
Total	48.9	49.9

During the year £10.3m (2018: £11.5m) was recognised as rental income by the Group.

c Lease agreements where the Company is lessee

At December 31, 2019 the Company itself does not have a right of use asset. On January 1, on transition to IFRS 16, a right of use asset of £2.8m was recognised on the Balance Sheet. During the year £0.4m of depreciation was charged to the statement of comprehensive income. During the year, the right of use asset became onerous and as a result, the remaining balance of £2.4m was charged to the statement of comprehensive income.

22 TAX ASSETS AND LIABILITIES

a Current tax assets and liabilities	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Current tax assets	-	1.2	-	-
Current tax liabilities	4.6	-	4.0	-

b Deferred tax assets	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Tax losses	12.4	-	13.4	-
Defined benefit pension obligations	93.3	-	80.8	-
Pension spreading	4.8	-	7.1	-
Unrealised losses on bonds	4.3	-	2.2	-
Properties	3.0	-	2.7	-
Provisions	1.3	-	0.9	-
Capital allowances	4.2	-	2.2	-
Bonds transitional relief	0.7	-	1.5	-
Deferred tax assets	124.0	-	110.8	-
Set-off of deferred tax liabilities pursuant to set-off provisions	(104.4)	-	(101.0)	-
Net deferred tax assets	19.6	-	9.8	-
Deferred tax liabilities				
Unrealised gains on Bonds	(17.9)	-	(6.1)	-
Pension asset	(34.1)	-	(21.2)	-
Claims equalisation reserve	(6.8)	-	(10.6)	-
Pension contributions	(70.2)	-	(63.1)	-
Intangibles	(26.5)	-	-	-
Deferred tax liabilities	(155.5)	-	(101.0)	-
Set-off of deferred tax liabilities pursuant to set-off provisions	104.4	-	101.0	-
Net deferred tax liabilities	(51.1)	-	-	-

22 TAX ASSETS AND LIABILITIES (CONTINUED)

Group 2019	Opening balance £m	Recognised in profit or loss £m	Recognised in other comprehensive income £m	Transfers in from business combinations £m	Closing balance £m
Deferred tax assets/(liabilities) in relation to:					
Pensions deferred tax asset	87.9	(2.3)	12.5	-	98.1
Pensions deferred tax liability	(84.3)	(7.3)	(12.8)	-	(104.4)
Properties	2.7	-	-	-	2.7
Unrealised gains on bonds	(3.9)	-	(6.8)	(2.9)	(13.6)
Provisions and other temporary differences	4.6	(0.2)	-	2.1	6.5
Tax losses	13.4	(1.0)	-	-	12.4
Claims equalisation reserve	(10.6)	3.8	-	-	(6.8)
Intangibles	-	-	-	(26.4)	(26.4)
	9.8	(7.0)	(7.1)	(27.2)	(31.5)

Group 2018	Opening balance £m	Recognised in profit or loss £m	Recognised in other comprehensive income £m	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

23 REINSURANCE ASSETS

Group	Note	2019 £m	2018 £m
Reinsurers' share of insurance contracts liabilities	31	1,817.8	1,264.2
Total reinsurance assets		1,817.8	1,264.2

For the current and non current split, refer to note 31.

24 PREPAYMENTS AND ACCRUED INCOME

Group	2019 £m	2018 £m
Prepayments		
Prepaid expenses	28.5	9.2
Total prepayments	28.5	9.2
Accrued income		
Interest	42.1	23.8
Total accrued income	42.1	23.8
Total prepayments and accrued income	70.6	33.0

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.

25 FINANCIAL ASSETS

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Available for sale financial assets	3,605.9	-	2,399.0	-
Loans and receivables	137.0	0.4	38.1	0.8
Derivative assets	1.2	-	-	-
Total financial assets	3,744.1	0.4	2,437.1	0.8

a Available for sale financial assets	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
At fair value				
Managed funds	208.5	-	177.5	-
Total equity securities at fair value	208.5	-	177.5	-
Debt securities	3,397.4	-	2,221.5	-
Total debt securities at fair value	3,397.4	-	2,221.5	-
Total available for sale financial assets at fair value	3,605.9	-	2,399.0	-
At cost				
Managed funds	187.1	-	175.0	-
Total equity securities at cost	187.1	-	175.0	-
Debt securities	3,322.3	-	2,197.9	-
Total debt securities at cost	3,322.3	-	2,197.9	-
Total available for sale financial assets at cost	3,509.4	-	2,372.9	-

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, 2019, the Group had lent £101.0m (2018: £102.4m) and held collateral under such agreements of £117.0m (2018: £102.2m).

b Loans and receivables	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Loans	130.3	0.4	30.7	0.8
Deposits with credit institutions	6.7	-	7.4	-
Total loans and receivables	137.0	0.4	38.1	0.8

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Current loans and receivables	0.4	0.4	0.4	0.4
Non current loans and receivables	136.6	-	37.7	0.4

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

Included within the deposits with credit institutions is £6.7m (2018: £7.4m) 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.

c Derivative assets	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Forward contracts	1.2	-	-	-
Total derivative assets	1.2	-	-	-

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

26 INSURANCE RECEIVABLES

Group	2019 £m	Restated[(1)] 2018 £m
Due from policyholders	739.6	427.3
Due from reinsurers	107.8	8.3
Due from agents, brokers and intermediaries	453.8	340.6
Total insurance receivables	1,301.2	776.2

Group	2019 £m	2018 £m
Current insurance receivables	1,218.2	735.8
Non current insurance receivables	83.0	40.4

[(1)] The Group underwrites "after the event" ("ATE") legal expenses business which insures the policyholder when they have already decided to take or defend a legal action and provides cover against paying the other sides costs. Unusually, an ATE premium is paid at the successful conclusion of the claim and not before. Due to the nature of this business, the Group anticipates that not all cases that are opened will ultimately be pursued through to completion and as a result, recognises an "abandonment provision". Previously, this provision was reported within "insurance related payables" but given that the amount will never be payable, this has now been reported within "insurance receivables". The prior year comparative amounts have been restated by £25.7m. The amount recorded in "Due from agents, brokers and intermediaries" has been restated from £366.3m to £340.6m and in Note 33, the amount "Arising out of direct insurance operations – third parties" has been restated from £97.1m to £71.4m, with no impact on retained earnings.

27 OTHER RECEIVABLES

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Amounts due from related parties	92.2	135.7	97.0	127.7
Other receivables	127.8	-	62.2	-
Total other receivables	220.0	135.7	159.2	127.7

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Current other receivables	220.0	135.7	159.2	127.7

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

28 CASH AND CASH EQUIVALENTS

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Cash at bank	103.9	19.8	36.4	-
Short-term deposits (including demand and time deposits)	1,071.4	-	0.1	-
Total	1,175.3	19.8	36.5	-

Deposits are subject to an average interest rate of 1.0% (2018: 0.7%) and have an average maturity of 1 day (2018: 1 day). The carrying amounts disclosed above reasonably approximate fair values at year end.

29 SHARE CAPITAL

	Issued	
Group and Company	2019 £	2018 £
Ordinary shares of £1 each fully paid	1,977,796,234	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. During the year, the Company issued 650,000,000 ordinary shares of £1 each at par to Allianz (UK) Limited. The shares were issued to finance the acquisition of LV= GI and L&G GI.

30 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Group	Restructuring £m	Indemnities £m	Contingent consideration £m	Dismantling or restoring a leased asset £m	Total £m
At January 1, 2018	2.5	0.5	-	-	3.0
Amount charged 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	0.3	8.0	5.4	17.8
Adjustment on transition to IFRS 16	-	-	-	(0.6)	(0.6)
Amount charged to the statement of comprehensive income	6.6	1.4	-	-	8.0
Additions through business combinations	-	5.7	-	1.2	6.9
Utilised in the year	(6.1)	-	(1.9)	-	(8.0)
At December 31, 2019	4.6	7.4	6.1	6.0	24.1
Current	-	-	6.1	-	6.1
Non current	4.6	7.4	-	6.0	18.0

Company	Indemnities £m	Contingent consideration £m	Letter of support £m	Dismantling or restoring a leased asset £m	Total £m
At January 1, 2018	0.5	-	171.2	-	171.7
Amount charged 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	8.0	131.6	0.3	140.2
Amount charged to the statement of comprehensive income	1.4	-	(25.5)	-	(24.1)
Utilised in the year	-	(1.9)	-	-	(1.9)
At December 31, 2019	1.7	6.1	106.1	0.3	114.2
Current	-	6.1	-	-	6.1
Non current	1.7	-	106.1	0.3	108.1

30 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. The addition through business combinations relates to onerous contracts resulting from changes in the way that some lines of business are being written. There is uncertainty regarding the future payments to be made under these indemnities but the provision at December 31, 2019 is considered to be reasonable.

Contingent consideration

The sale and purchase agreement for LV= GI contains a specific section on the implications of a change in the Ogden Discount Rate. The benefit of such a rate change that accrues to Allianz Holdings due to its shareholding in LV= GI is to be repaid to LVFS by the way of a special dividend from LV= GI.

Dismantling or restoring a leased asset

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 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.

Following the acquisitions of LV= GI and L&G GI, the Group has entered a programme of restructuring work in order to support the ongoing personal lines business and realise synergies across the enlarged Group.

Letter of support

AMS, a subsidiary of the Company, has net liabilities of £106.1m (2018: £131.6m). As the sponsoring employer for the 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.

31 INSURANCE CONTRACTS LIABILITIES

Group	2019 Insurance contracts liabilities £m	2019 Reinsurers' share of liabilities £m	2019 Net £m	2018 Insurance contracts liabilities £m	2018 Reinsurers' share of liabilities £m	2018 Net £m
Provisions for claims reported by policyholders	3,279.8	(1,269.2)	2,010.6	1,777.0	(823.5)	953.5
Provisions for claims incurred but not reported	23.7	(22.2)	1.5	(63.8)	5.6	(58.2)
Total claims reported and IBNR	3,303.5	(1,291.4)	2,012.1	1,713.2	(817.9)	895.3
Provision for unearned premiums	2,026.1	(526.4)	1,499.7	1,014.5	(446.3)	568.2
Total general insurance contracts liabilities	5,329.6	(1,817.8)	3,511.8	2,727.7	(1,264.2)	1,463.5
Current general insurance contracts liabilities	2,721.3	(835.2)	1,886.1	1,366.7	(595.4)	771.3
Non current general insurance contracts liabilities	2,608.3	(982.6)	1,625.7	1,361.0	(668.8)	692.2

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

Group	2019 Insurance contracts liabilities £m	2019 Reinsurers' share of liabilities £m	2019 Net £m	2018 Insurance contracts liabilities £m	2018 Reinsurers' share of liabilities £m	2018 Net £m
At January 1	1,713.2	(817.9)	895.3	1,780.0	(862.4)	917.6
Foreign exchange adjustment	(3.9)	2.5	(1.4)	0.9	(0.3)	0.6
Unwind of discount on PPO claims reserves	7.1	(5.3)	1.8	3.6	(2.8)	0.8
	1,716.4	(820.7)	895.7	1,784.5	(865.5)	919.0
Claims incurred in the current accident year	1,187.9	(456.4)	731.5	1,418.0	(597.0)	821.0
Movement on claims incurred in prior accident years	95.2	(84.4)	10.8	(146.7)	84.9	(61.8)
Increase in claims incurred through business combinations	1,603.9	(471.2)	1,132.7	-	-	-
Claims paid during the year	(1,299.9)	541.3	(758.6)	(1,342.6)	559.7	(782.9)
At December 31	3,303.5	(1,291.4)	2,012.1	1,713.2	(817.9)	895.3

The provision for unearned premiums may be analysed as follows:

Group	2019 Insurance contracts liabilities £m	2019 Reinsurers' share of liabilities £m	2019 Net £m	2018 Insurance contracts liabilities £m	2018 Reinsurers' share of liabilities £m	2018 Net £m
At January 1	1,014.5	(446.3)	568.2	1,061.0	(467.4)	593.6
Premiums written in the year	1,990.7	(865.8)	1,124.9	2,038.1	(890.9)	1,147.2
Premiums earned during the year	(1,981.1)	863.5	(1,117.6)	(2,084.6)	912.0	(1,172.6)
Increase in provision through business combinations	1,002.0	(77.8)	924.2	-	-	-
At December 31	2,026.1	(526.4)	1,499.7	1,014.5	(446.3)	568.2

32 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, pet, 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 legal protection and travel insurance. 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 2019, one new settlement was agreed on this basis, making the total number of PPOs 74. Total reserves are £340.9m (2018: £135.9m) gross and £187.3m (2018: £35.3m) net of reinsurance. The corresponding undiscounted amounts are £636.3m (2018: £315.4m) gross and £187.3m (2018: £71.4m) 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 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%.
In December 2018, the Civil Liability Act introduced changes to 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.

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

The Civil Liberty Act also stated that the rate would be reviewed in 90 days and then every 5 years. At 2018 Q4, we changed our best estimate view of the discount rate from -0.75% to 0%. In July 2019, the Lord Chancellor announced a new discount rate of -0.25%, and following this we changed our best estimate reserving discount rate to -0.25% in 2019 Q3.

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.

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 £169.5m reduction (2018: £142.1m reduction) in gross insurance provisions in respect of the prior period. The net effect after reinsurance is a £105.6m reduction (2018: £61.1m reduction).

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.

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

Loss development triangle

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

						Accident Year						
Group Gross of reinsurance	**Note**	**2010 £m**	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**Total £m**
Accident year		2,006.2	2,134.0	2,464.3	2,432.7	2,561.8	2,820.7	2,854.5	2,796.9	2,889.4	2,791.8	
One year later		2,111.3	2,139.5	2,386.5	2,392.8	2,536.3	2,824.4	2,755.4	2,704.8	2,802.3		
Two years later		2,095.5	2,117.9	2,331.5	2,338.7	2,517.8	2,749.7	2,687.8	2,671.5			
Three years later		2,084.4	2,111.0	2,304.4	2,321.2	2,514.3	2,678.6	2,690.3				
Four years later		2,080.7	2,089.0	2,305.3	2,333.5	2,468.4	2,660.7					
Five years later		2,088.7	2,066.1	2,318.7	2,283.8	2,455.3						
Six years later		2,088.1	2,078.3	2,302.0	2,281.5							
Seven years later		2,089.9	2,073.6	2,296.5								
Eight years later		2,089.2	2,070.1									
Nine years later		2,108.9										
Current estimate of cumulative claims		2,108.9	2,070.1	2,296.5	2,281.5	2,455.3	2,660.7	2,690.3	2,671.5	2,802.3	2,791.8	24,828.9
Cumulative payments to date		2,043.1	2,034.2	2,252.8	2,199.1	2,349.5	2,497.8	2,406.6	2,240.1	2,215.4	1,624.8	21,863.4
Reserve in respect of prior years												338.0
Total gross liability as per the balance sheet	31	65.8	35.9	43.7	82.4	105.8	162.9	283.7	431.4	586.9	1,167.0	3,303.5

						Accident Year						
Group Net of reinsurance	**Note**	**2010 £m**	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**Total £m**
Accident year		1,975.9	2,116.6	2,411.2	2,385.1	2,519.9	2,348.1	2,070.3	1,908.5	1,956.7	1,864.2	
One year later		2,064.1	2,098.4	2,344.0	2,341.0	2,325.1	2,401.4	1,877.1	1,871.1	1,929.3		
Two years later		2,059.7	2,088.5	2,300.8	2,205.8	2,305.1	2,316.8	1,860.8	1,864.7			
Three years later		2,040.9	2,082.9	2,229.2	2,199.0	2,309.0	2,267.0	1,867.2				
Four years later		2,033.0	2,034.3	2,225.3	2,210.6	2,272.6	2,255.3					
Five years later		2,021.8	2,019.1	2,233.8	2,164.5	2,263.5						
Six years later		2,012.9	2,025.3	2,219.8	2,162.3							
Seven years later		2,017.5	2,025.8	2,213.9								
Eight years later		2,028.3	2,018.4									
Nine years later		2,041.5										
Current estimate of cumulative claims		2,041.5	2,018.4	2,213.9	2,162.3	2,263.5	2,255.3	1,867.2	1,864.7	1,929.3	1,864.2	20,480.3
Cumulative payments to date		2,015.7	2,001.5	2,192.9	2,117.1	2,201.0	2,147.3	1,702.2	1,587.9	1,533.1	1,070.1	18,568.8
Reserve in respect of prior years												100.6
Total net liability as per the balance sheet	31	25.8	16.9	21.0	45.2	62.5	108.0	165.0	276.8	396.2	794.1	2,012.1

33 INSURANCE RELATED PAYABLES

Group	2019 £m	Restated[1] 2018 £m
Arising out of direct insurance operations		
Third parties	94.5	71.4
	94.5	71.4
Deposits received from reinsurers		
Amounts due to related parties	898.3	898.4
Third parties	0.1	0.1
	898.4	898.5
Arising out of reinsurance operations		
Amounts due to related parties	74.3	18.8
Third parties	83.8	43.5
	158.1	62.3
Total insurance related payables	1,151.0	1,032.2

Group	2019 £m	2018 £m
Current insurance related payables	1,150.9	1,032.1
Non current insurance related payables	0.1	0.1

[1] Refer to Note 26

34 ACCRUALS AND OTHER PAYABLES

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Amounts due to related parties	0.7	0.3	0.7	62.5
Accrued expenses	136.6	-	35.1	-
Contract liability	44.5	-	44.8	-
Social security and other taxes	131.7	-	51.3	-
Lease liability	50.0	2.2	-	-
Other payables	252.3	19.0	78.0	-
Total accruals and other payables	615.8	21.5	209.9	62.5

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

35 FINANCIAL LIABILITIES

	2019 £m	2018 £m
Forward contract	-	0.6
Put option	-	7.1
Subordinated note	10.2	-
Total financial liabilities	10.2	7.7

A €12.0m subordinated note is repayable to Merrill Lynch in 2034. Interest is payable at the 3 month euro deposit rate plus a margin of 3.65%, the amount paid in 2019 was £0.4m (2018: £0.4m).

Put option

Valuation methodology

The value is determined by using a Black Scholes Model. The option has been valued as a European option (i.e. without the possibility to exercise early).

The option was exercised during the year and agreement was reached for the Company to acquire the remaining share capital of LV= GI.

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).

36 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 risk.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur, including the adequacy of the price charged for the risk and uncertainty as to the amount and time of any resulting claim. The principal risk that the 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 a more diversified portfolio is less likely to be affected by specific events. Exposure is also improved by careful selection and implementation of underwriting strategies, strict claim review policies to assess all new and 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.

Since 2016, Allianz Insurance plc, a subsidiary of the Group, placed a 40% quota share treaty with the ultimate Parent Company's reinsurance company, in order to reduce the capital requirements and improve the solvency position under the Solvency II regime.

The purpose of these underwriting and reinsurance strategies is to limit exposure to a series of unconnected events and catastrophes to a pre-determined maximum amount based on the 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.

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:

36 RISK MANAGEMENT POLICIES (CONTINUED)

Claims liabilities 2019	Gross £m	Reinsurers' Share £m	Net £m
Motor	2,084.7	(820.3)	1,264.4
Household	264.6	(52.3)	212.3
Property and business interruption	271.9	(129.1)	142.8
Liability	533.0	(233.1)	299.9
Speciality pecuniary	112.7	(51.3)	61.4
Other	36.6	(5.3)	31.3
Total	3,303.5	(1,291.4)	2,012.1

Claims liabilities 2018	Gross £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

Note 32 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Group's estimation techniques for claims payments.

Financial risk

The key financial risk is that proceeds from the realisation of assets are insufficient to meet obligations under insurance contracts. The most important aspects of financial risk comprise market risk, credit risk and liquidity risk.

a Market risk

Market risk is the risk that changes in market prices will affect the value of the Group's assets and income. The Group is exposed to market risk on all of its available for sale financial assets, and loans and receivables. The Company is exposed to market risk through its investments in group undertakings insofar as the carrying amount exceeds the net asset value of the subsidiary and as such the investment is overstated. The carrying value of the investment in group undertakings is subject to an annual review for indicators of impairment.

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, 2019 the average duration of the fixed interest and cash and cash equivalents portfolios was 3.2 years (2018: 3.4 years) compared with the average duration of the insurance contract liabilities which is estimated to be 5.6 years (2018: 5.1 years).

36 RISK MANAGEMENT POLICIES (CONTINUED)

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. A 10% increase in equity market values would increase the Group equity by £10.6m (2018: £9.3m). A 10% decrease in equity market values would reduce Group equity by £10.6m (2018: £9.3m).

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:

	2019 £m	2018 £m
US Dollars		
Assets	77.6	31.4
Liabilities	26.4	30.3
Euro		
Assets	16.1	9.2
Liabilities	10.0	12.2

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.

	2019 Profit or Loss £m	2019 Equity £m	2018 Profit or Loss £m	2018 Equity £m
Interest rate risk				
+100 basis points shift in yield curves	-	(57.2)	-	(74.4)
–100 basis points shift in yield curves	-	59.9	-	79.0
Equity risk				
10% increase in equity prices	-	20.8	-	17.7
10% decrease in equity prices	(1.9)	18.9	(8.5)	(9.2)
Currency Risk				
10% strengthening of US dollar exchange rate	-	(5.1)	-	(0.1)
10% weakening of US dollar exchange rate	-	5.1	-	0.1
10% strengthening of Euro exchange rate	-	(0.6)	-	0.3
10% weakening of Euro exchange rate	-	0.6	-	(0.3)

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.

36 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	
2019	**Gross £m**	**Net £m**	**Gross £m**	**Net £m**
Expense ratio				
1% increase in current year	(19.8)	(11.2)	(16.0)	(9.1)
1% decrease in current year	19.8	11.2	16.0	9.1
Loss ratio				
1% increase in current year	(12.8)	(7.4)	(10.4)	(6.0)
1% increase in all of the last 3 years	(38.7)	(22.6)	(31.4)	(18.3)
1% decrease in current year	12.8	7.4	10.4	6.0
1% decrease in all of the last 3 years	38.7	22.6	31.4	18.3

	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

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.

The Group is exposed to credit risk through its available for sale financial assets, reinsurance assets, insurance receivables, other receivables and cash and cash equivalents.

b Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Group or Company in full when they fall due.

The Company is exposed to credit risk through its amounts due from group undertakings and cash and cash equivalents. The Company deems the risk associated with its cash and cash equivalents to be low as the cash balances are held with a financial institution with an 'AA' credit rating and is immediately available. The amount due from group undertakings is due from Allianz SE and as such is 'AA' rated.

The Group is exposed to credit risk through its available for sale financial assets, reinsurance assets, insurance receivables, other receivables and cash and cash equivalents.

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 individual counterparties. 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

36 RISK MANAGEMENT POLICIES (CONTINUED)

b Credit risk (continued)

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, 2019 was £673.3m (2018: £683.8m).

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 Group deems the risk associated with its cash and cash equivalents to be low as the majority of the cash balances are held with financial institutions with an AAA, AA and A credit ratings and are immediately available. There is a small proportion of cash that is held with no-rated institutions but the Group deems the risk associated with this balance to be low as it is immediately available.

The Group deems the risk associated with its other receivables to be low. The amount due from group undertakings is due from Allianz SE and as such is 'AA' rated. Despite the remaining other receivables being unrated, the Company deems the associated risk to be low because these amounts are due from many separate counterparties and all receivables are due within 1 year.

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:

2019	AAA £m	AA £m	A £m	BBB £m	BB £m	Other not rated £m	Total £m
Reinsurance assets	-	1,685.3	84.1	-	-	48.4	1,817.8
Available for sale financial assets	794.1	815.3	783.2	966.3	38.5	208.5	3,605.9
Loans and receivables	-	6.7	129.9	-	-	0.4	137.0
Insurance receivables(1)	-	223.9	80.3	2.1	2.5	992.4	1,301.2
Cash and cash equivalents	298.8	151.8	685.7	-	-	39.0	1,175.3
Total	1,092.9	2,883.0	1,763.2	968.4	41.0	1,288.7	8,037.2
Percent	13.6	36.0	21.9	12.0	0.5	16.0	100.0

2018	AAA £m	AA £m	A £m	BBB £m	BB £m	Restated(2) 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 and receivables	-	7.4	29.9	-	-	0.8	38.1
Insurance receivables(1)	-	83.4	130.6	24.7	-	537.5	776.2
Cash and cash equivalents	-	-	36.5	-	-	-	36.5
Total	582.3	1,943.8	596.9	585.4	6.3	799.3	4,514.0
Percent	12.9	43.1	13.2	13.0	0.1	17.7	100.0

(1) Included in the not rated balance is £465.8m (2018: £427.8m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who, whilst not independently rated, are regulated by the Financial Conduct Authority.

(2) Refer to note 26.

36 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	Collective investment funds £m	Total £m
2019	208.5	208.5
2018	177.5	177.5

Bonds	Government £m	Corporate £m	Supranationals £m	Total £m
2019	465.0	2,619.3	313.1	3,397.4
2018	426.1	1,654.7	140.7	2,221.5

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

	2019 £m Reinsurance assets	2019 £m Insurance assets	2018 £m Reinsurance assets	2018 £m Insurance assets
Neither past due or impaired	1,815.0	1,119.4	1,263.2	622.3
Past due but not impaired	-	181.8	-	152.6
Individually impaired	2.8	-	1.0	1.3
Total	1,817.8	1,301.2	1,264.2	796.9

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:

2019	Less than 90 days £m	90-120 days £m	120-180 days £m	More than 180 days £m	Total £m
Policyholders	2.8	0.5	0.2	-	3.5
Brokers	85.7	32.9	38.7	20.0	177.3
Reinsurers	0.5	0.4	-	0.1	1.0
Total	89.0	33.8	38.9	20.1	181.8
2018					
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

36 RISK MANAGEMENT POLICIES (CONTINUED)

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 inputs is not based on observable market data.

Group 2019	Fair value as at December 31 £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Managed funds	208.5	105.8	102.0	0.7
Government and government agency bonds	778.1	215.5	562.6	-
Corporate bonds	2,619.3	14.8	2,589.3	15.2
Derivative financial assets	1.2	-	-	1.2
Own use properties	15.9	-	-	15.9
Investment properties	193.7	-	-	193.7
Total	3,816.7	336.1	3,253.9	226.7

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

The Group and Company have no financial liabilities at fair value at December 31, 2019. Financial liabilities at fair value at December 31, 2018 were as follows:

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

36 RISK MANAGEMENT POLICIES (CONTINUED)

2019	Fair value as at January 1 £m	Additions £m	Disposals £m	Unrealised gains/(losses) in profit and loss £m	Fair value as at December 31 £m
Group					
Managed funds	-	0.7	-	-	0.7
Corporate bonds	13.4	-	-	1.8	15.2
Derivative financial assets	-	1.2	-	-	1.2
Own use properties	15.9	-	-	-	15.9
Investment properties	186.9	16.5	(6.7)	(3.0)	193.7
Total	216.2	18.4	(6.7)	(1.2)	226.7

2018	Fair value as at January 1 £m	Additions £m	Disposals £m	Unrealised gains in profit and loss £m	Unrealised losses in equity £m	Fair value as at 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

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 88.76%
Rent free	0–15 months upon re-letting
Equivalent yields applied	4.45%–8.85%

Sensitivity analysis changes in key unobservable inputs:

	Net equivalent yield (NEY)	Estimated realisable value (ERV) £m	Portfolio valuation £m
Base portfolio	5.65%	12.3	193.7
+5% ERV	5.65%	12.9	201.8
-5% ERV	5.65%	11.7	185.7
+5% NEY	5.93%	12.3	184.1
-5% NEY	5.36%	12.3	204.3
-5% NEY, -5% ERV	5.36%	11.7	195.8
+5% NEY, +5% ERV	5.93%	12.9	191.8
-5% NEY, +5% ERV	5.36%	12.9	212.9
+5% NEY, -5% ERV	5.93%	11.7	176.5

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.

36 RISK MANAGEMENT POLICIES (CONTINUED)

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	24–36 months
Market Rent (MR)	£12–£33.50 per square foot (refurbished/redeveloped)
Rent free	12–18 months upon re-letting
Letting fees	15% of MR

Sensitivity analysis changes in key unobservable inputs:

	Net equivalent yield (NEY)	Estimated realisable value (ERV) £m	Portfolio valuation £m
Base portfolio	5.90%	3.7	15.9
+5% ERV	5.90%	3.9	18.3
-5% ERV	5.90%	3.5	13.8
+5% NEY	6.20%	3.7	13.3
-5% NEY	5.61%	3.7	19.0
-5% NEY, -5% ERV	5.61%	3.5	16.6
+5% NEY, +5% ERV	6.20%	3.9	15.5
-5% NEY, +5% ERV	5.61%	3.9	21.4
+5% NEY, -5% ERV	6.20%	3.5	11.2

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 funds might not be available to settle obligations when they fall due.

The Group is exposed to liquidity risk through its property and equipment, investment properties, prepayments and accrued income, provisions for other liabilities and charges, insurance contract liabilities, insurance related payables, financial liabilities, deferred tax liabilities and accruals and other payables.

The Group considers the liquidity risk associated with property and equipment and investment properties to be immaterial. The Group would have sufficient liquid assets to meet its obligations as they fall due without depending on the sale of these properties. The liquidity risk associated with prepayments and accrued income is deemed to be immaterial as the Group has sufficient other liquid assets available to meet liabilities as they fall due. The Group considers the liquidity risk associated with the deferred tax liability to be immaterial as this is balance does not require liquid funds to discharge the obligation. The Group is exposed to liquidity risk associated through its accruals and other payables, financial liabilities, insurance related payables and provisions for other liabilities and charges. The Group has sufficient liquid assets to settle these amounts as they fall due.

36 RISK MANAGEMENT POLICIES (CONTINUED)

c Liquidity risk (continued)

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 the immediately foreseeable demand.

The market value of the Group's available for sale financial assets and loans at December 31, 2019 amounted to £3,742.9m (2018: £2,437.1m) plus cash and cash equivalents (including cash pooling to Allianz SE Group of £39.0m) of £1,214.3m (2018: £80.1m). With the exception of the lent securities (see note 25), 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
2019	3,605.9	620.2	349.0	1,373.7	648.8	614.2
2018	2,399.0	371.6	227.8	562.1	758.2	479.3

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

Insurance liabilities	Carrying amount £m	Less than 1 year £m	1–2 years £m	2–5 years £m	5–10 Years £m	More than 10 years £m
2019	3,303.5	1,288.3	611.6	775.3	243.3	385.0
2018	1,713.2	838.2	346.1	361.5	68.7	98.7

The Group is also exposed to risk relating to the pension fund; these risks are disclosed in note 17.

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.

36 RISK MANAGEMENT POLICIES (CONTINUED)

c Liquidity risk (continued)

The PRA regulated subsidiary Allianz Insurance plc uses the Allianz Group Internal Model adapted 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. 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.

On December 31, 2019 the Group completed the acquisition of LV= GI and L&G GI, within which are the PRA regulated subsidiaries Liverpool Victoria Insurance Company Ltd, Highway Insurance Company Ltd and Legal & General Insurance Ltd. These subsidiaries along with the runoff subsidiaries of British Reserve Insurance Company Ltd, and Trafalgar Insurance Ltd use the Solvency II Standard Formula to determine the SCR under Solvency II. This is a set calculation prescribed by the Solvency II Directive which companies are required to adopt if they do not use an Internal Model.

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.

Each regulated subsidiary aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of pre-specified financial market and insurance shocks. This risk appetite provides for a buffer above SCR to ensure that the company is adequately capitalised in most expected circumstances. 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 Allianz Holdings plc Group's capital comprises total shareholders' equity and amounts to £2,628.7m (2018: £1,792.6m) 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, 2019 the own funds for Allianz Insurance plc amount to £929m with a surplus of 59% on SCR, the own funds for Liverpool Victoria Insurance Company Ltd amount to £589m with a surplus of 57% on SCR, the own funds for Highway Insurance Company Ltd amount to £228m with a surplus of 42% on SCR, the own funds for Legal & General Insurance Ltd amount to £165m with a surplus of 28% on SCR, the own funds for British Reserve Insurance Company Ltd amount to £10m with a surplus of 202% on Minimum Capital Requirement ("MCR"), the own funds for Trafalgar Insurance Ltd amount to £39m with a surplus of 1124% on MCR.

37 ULTIMATE PARENT UNDERTAKING

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

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

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

38 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.

39 CASH FLOWS FROM OPERATING ACTIVITIES

Group	Note	2019 £m	Restated[1] 2018 £m
Non cash items			
Amortisation of intangible assets	16	12.9	12.8
Amortisation of net deferred acquisition costs	20	176.4	180.6
Net acquisition costs deferred during the year	20	(169.2)	(168.2)
Depreciation of property and equipment	18	11.4	4.2
Loss on disposal of property and equipment		1.5	-
Impairment of property and equipment	18	2.3	-
Amortisation of available for sale financial assets		12.6	12.5
Impairment of available for sale assets		-	5.1
Interest on lease liabilities		0.4	-
Gain on consolidation		(53.2)	-
Contractual liability		37.2	-
Dilapidation adjustment		(0.5)	-
Early redemption fees on loans receivable		-	(0.3)
Prior year reinsurance recovery		-	5.1
Prior year dilapidations		-	(1.9)
Prior year contract liability		-	(1.2)
Net (gain)/loss on pension scheme		(1.4)	31.0
Net realised loss on investment property	6	2.7	1.6
Write off of intangibles		-	2.1
Net realised gains from sale of available for sale financial assets	6	(7.1)	(5.3)
Impact of change in exchange rate on available for sale financial assets		2.7	-
Net fair value losses/(gains) on investment properties	7	3.0	(2.5)
Net fair value gains on financial liabilities	7	(37.5)	(29.6)
Total non cash items		(5.8)	46.0
Changes in working capital			
Increase in pension benefit surplus	17	(41.1)	(132.5)
(Increase)/decrease in reinsurance assets	23	(4.4)	65.6
Decrease in prepayments and accrued income	24	2.2	3.3
Decrease in loans and receivables	25(b)	1.1	-
Increase in derivative assets	25(c)	(1.2)	-
Decrease in insurance receivables	25	22.2	17.4
(Increase)/decrease in other receivables	27	(59.9)	1.3
(Decrease)/increase in provisions for other liabilities and charges	30	(0.6)	14.8
Decrease in insurance contract liabilities	31	(3.9)	(113.3)
Decrease in insurance related payables	33	(2.2)	(62.4)
Increase/(decrease) in accruals and other payables	34	24.0	(1.0)
Decrease in financial liabilities	35	(7.7)	-
Total changes in working capital		(71.5)	(206.8)

[1] Refer to note 26.

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.

39 CASH FLOWS FROM OPERATING ACTIVITIES (CONTINUED)

Company	2019 £m	2018 £m
Non cash items		
Depreciation of right of use asset	0.4	-
Gain on consolidation	(53.2)	-
Impairment of right of use asset	2.4	-
Release of provision	(25.5)	-
Profit from associate	(24.5)	-
Impairment of investment in subsidiaries	42.5	-
Prior year dilapidations	-	0.1
Change in market value of derivative	(37.5)	(29.6)
Total non cash items	(95.4)	(29.5)
Changes in working capital		
(Increase)/decrease in amounts due from group undertakings	(8.0)	2.9
Decrease in investment in subsidiaries	71.2	-
Decrease in loans	0.4	0.4
Decrease in provisions for other liabilities and charges	(0.5)	(31.5)
Decrease in accruals and other payables	(43.2)	-
Decrease in financial liabilities	(7.7)	-
Total changes in working capital	12.2	(28.2)

40 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 transactions carried out during the year with related parties are as follows:

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Purchase of shareholding in group undertaking	-	1,420.2	-	-
Share of associated undertaking net income	24.5	24.5	25.7	25.7
Dividends received from subsidiaries	-	224.5	-	175.0
Dividends paid to the parent	-	-	(175.0)	(175.0)
Merger of pension fund from fellow subsidiary	-	-	14.5	-
Interest paid on loans from subsidiaries	-	(0.4)	-	(0.7)
Reinsurance contracts purchased from other related parties	(822.4)	-	(842.2)	-
Reinsurance claim recoveries from other related parties	727.0	-	540.9	-

Reinsurance contracts are made on a normal arm's length transaction basis. Transactions with pension benefit plans are detailed in note 17.

40 RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	Group 2019 £m	Company 2019 £m	Group 2018 £m	Company 2018 £m
Due from related parties at December 31				
Parent	50.9	50.9	50.9	47.1
Subsidiaries	-	84.4	-	80.6
Other related parties	1,157.3	0.4	788.0	-
Total	1,208.2	135.7	838.9	127.7
Due to related parties at December 31				
Subsidiaries	-	0.3	-	62.6
Other related parties	993.2	-	942.0	-
Total	993.2	0.3	942.0	62.6
Loans from related parties at December 31				
Subsidiaries	-	-	-	20.0
Total	-	-	-	20.0

As at December 31, 2019 a balance of £38.8m is payable to the previous parent of a Group Company. This is deemed to be a related party balance during the year but not at the reporting date. As a result, this balance has not been reported as being due to a related party at the reporting date.

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:

	2019 £m	2018 £m
Salaries and other short term employee benefits	5.4	3.9
Share based payments	1.3	1.5
Termination payments	0.9	-
Total compensation of key management personnel	7.6	5.4

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.

41 RECONCILIATION OF OPERATING PROFIT

Group	Note	2019 £m	2018 £m
Profit before tax		146.4	151.9
Adjustment to group basis on real estate[1]		(3.3)	(1.4)
Add back impact of quota share		30.3	37.5
Add back impairments	5	-	5.1
Remove realised gains	6	(57.6)	(3.4)
Remove unrealised gains	7	(33.1)	(32.1)
Add back amortisation	16	6.5	6.5
Remove restructuring charges	30	21.4	7.1
Operating profit		110.6	171.2

[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.

42 SUBSEQUENT EVENTS

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. COVID-19 has been classified as a non-adjusting event for accounting purposes. At December 31, 2019, a very limited number of cases had been reported to the World Health Organisation. Since then the spread of the virus has been rapid and the number of reported cases and deaths has increased significantly.

The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets and the impact on asset and liability values is being monitored with management plans in place to mitigate financial and operational risks. The financial impact on potential claims is difficult to estimate at this stage. However, whilst there is still a significant degree of uncertainty the Group remains in a robust position. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Group at the time of writing.

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