

Annual Report

2016



Allianz Holdings plc

Allianz 



Allianz has been the team sponsor of Saracens rugby club since July 2012. This includes their home at Allianz Park, which is a community hub offering free access to local schools. In 2016 Saracens won the Premiership final and completed a domestic and European double with victory in the European Champions Cup.

Contents

01 At a Glance

Strategic Review

02 Chief Executive's Report

06 Group Strategic Report

12 Business Report

Governance

15 Directors and Officers

16 Management Board

17 Corporate Governance

Report and Accounts

22 Report of the Directors

23 Statement of Directors' Responsibilities

24 Report of the Auditors

25 Financial Statements

31 Notes to the Financial Statements

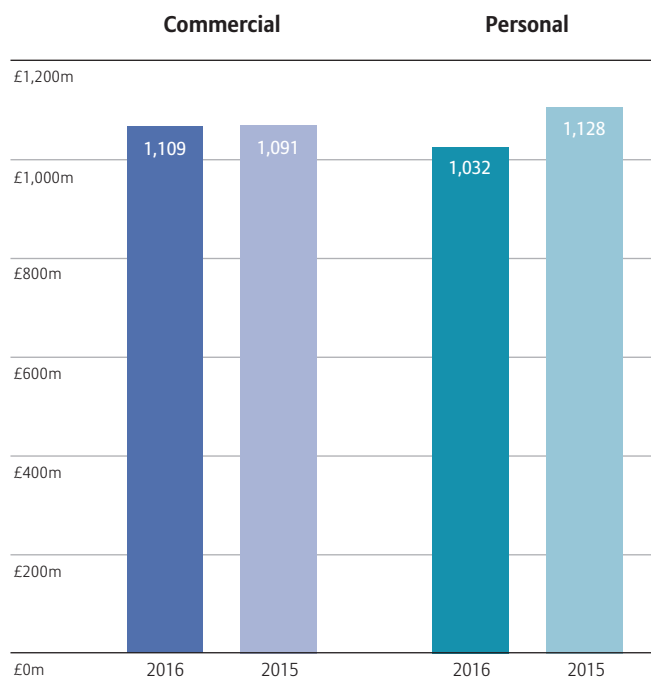
74 Group Organisation

Financial Highlights

	2016 £m	2015 £m
General insurance contracts premium revenue (Note 3)		
Gross written premiums	2,141.2	2,218.7
Net written premiums	1,041.7	1,480.3
Results		
Total revenue	1,532.6	1,907.4
Total claims and expenses	(1,450.8)	(1,845.5)
Profit before tax	81.8	61.9
Income tax charge	(13.5)	(10.5)
Profit after tax	68.3	51.4
Operating profit ¹ before quota share	96.2	36.3
Operating profit ¹ after quota share	82.6	41.3
Total equity	1,263.0	1,184.0

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

Gross Written Premiums



Chief Executive's Report

2016 was a successful year with Operating profit before quota share to the Allianz Group increasing from £36m to £96m. Premiums reduced by 3.5% largely as a result of our decision to withdraw from the direct market.



At the beginning of 2016, Allianz Insurance increased its quota share from 20% to 40%, with an Allianz Group reinsurance company. This had the benefit of improving the solvency position, coinciding with the implementation of Solvency II on January 1, 2016. Further, it keeps the profits generated by the UK business entirely within the wider Allianz Group.

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

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

Operating Profit in 2016 was £96.2m before and £82.6m after the quota share, a substantial increase from the £36.3m before and £41.3m after the quota share achieved in 2015. This includes a £58.3m before and £35.0m after quota share charge due to the recently announced changes to the Ogden rate.

On February 27, 2017, the UK Government's Lord Chancellor announced a new discount rate to be used to calculate future pecuniary losses in respect of personal injury (the 'Ogden rate'). The real discount rate used in the UK has changed from 2.5% to minus 0.75% resulting in the impact mentioned above. The rate is used to calculate the income expected to be earned through accelerated receipt and investment return.

Despite this, the turnaround was in the main due to an improvement in the private car account and the absence of a major weather event. In December 2015, floods had cost the business around £93m. The withdrawal from the direct market was announced in April 2016 and was a difficult but necessary decision

given the market conditions. At the same time we took the opportunity to reorganise the business bringing together Allianz Commercial and Allianz Retail into one trading division and consolidating our underwriting technical resource into one team. These changes will facilitate a co-ordinated business strategy and increase our focus on technical excellence.

Profit after tax was £68.3m (after quota share), against £51.4m in 2015. Gross written premium contracted by 3.5% driven by the decision to withdraw from the direct market, continued pricing action in the private motor account and the continuing low level of rate increases achievable in the commercial market.

Commercial Lines returned to profit having benefitted from benign weather conditions and improved performance in relation to prior years. This is a significant increase from a loss in 2015, which had been created by the floods, and is a pleasing result in a highly competitive market. Personal Lines sustained a third successive year of losses, although much improved compared to the prior year, and with the result being impacted heavily by the Direct business as it entered into run-off.

The written premium of Commercial Lines grew by 1.7% in 2016 despite the difficult market rating environment. Motor business retained its excellent record of profitability and the Engineering business also continued to produce very satisfactory returns. The Liability account saw a third successive year of profits, as a result of some positive prior year claim reserve releases, and the Property and Packages accounts returned to profit benefiting from the benign weather conditions.

Commission rates to intermediaries rose a little in 2016, and consolidation continues to be a feature of the broker market with larger brokers trying to increase their remuneration rates. Rate increases remained difficult in 2016, and were generally below claims inflation; consequently the business has now faced a third year of a weak rating environment. Further rate strength is needed across all Commercial lines of business.

The Personal Lines results varied significantly by account again in 2016. The Direct exit had a substantial impact on overall profitability; however this will diminish in 2017 as premiums run off. Broker motor returned to profitability and with rates now corrected, is now in a position to drive growth given the significant rate increases seen in the motor market throughout the year. The Corporate Partner motor account continued to make a loss, but improvements in profitability are expected as each scheme is reviewed. The household accounts also made losses as extreme competitiveness within the market continues to persist. Our Animal Health business had another very good year, continuing to grow strongly and deliver attractive returns.

The Legal Protection account continues to adapt its business model following the 2013 reforms and delivered profits. The Corporate Partner Animal Health business continued to grow in 2016 with an improved performance from 2015. The Corporate Partner all risks account, which is primarily mobile phone coverage, shrunk year on year, however it continues to generate reasonable profits.

Investment returns continue to be impacted by low interest rates, and these levels are expected to continue for the foreseeable future, underlining the importance of achieving strong underwriting profits. Investment policy has remained largely unchanged in 2016, with only minimal changes in exposure between investment classes. The allocation to equities and property remain as a small proportion of total assets in order to control risk. Operating investment income continued to decline as the reinvestment of maturing bonds continues to be at lower levels. The capital base of the Group at the end of 2016 was £1,263m compared to £1,184m last year.

The Group continues to pursue its strategy of only underwriting business where there is a realistic prospect of achieving a return in excess of the cost of capital. The decision made to withdraw from both the Direct home and motor markets reflected the competitive environment and that we did not believe that an acceptable return could be achieved

in a reasonable timescale. The action taken to rectify the other private motor business lines began to take effect in 2016 with improving profitability. Central to our objective of profitable growth is the continuing investment in the development of the technical, sales and leadership skills of our employees. The well-established Underwriting Academy and Claims Academy programmes are key to the continued development of technical insurance skills. We have also been running for several years an extensive programme of development in our sales skills and this continues.

The Group has continued to put significant effort into minimising its impact on the environment, including reducing its carbon emissions, where Allianz have been awarded the Carbon Trust Standard for the fourth time since 2010. In addition, Allianz continue to promote social responsibility and raising funds for charitable purposes. In February 2016, we launched a new corporate charity partnership with the Association of Air Ambulances Charity, and aim to raise £1m in 3 years. In 2016, we raised a total of £300,000, comprising employee fundraising and company contributions.

2016 was an important year in the development of our brand. Our 'Dare to Believe' work, in partnership with Channel 4, increased awareness of Allianz as an insurer to the highest levels to date. This sat alongside our partnership with ParalympicsGB, who delivered a record-breaking Games in Rio. We have since extended this partnership through to 2020, complementing Allianz Group's support of the International Paralympic Committee. We also advertised commercial and small business insurance on television for the first time, to reflect the company's focus on commercial customers.

Sponsorship of Saracens continued, and they led the way both on and off the rugby field, winning both the Premiership and European Champions Cup and with Allianz Park continuing to be used extensively by the local community, as well as the club.

As already mentioned, Solvency II was implemented at the beginning of 2016 and we optimised our capital position under the new regime by increasing the quota share with Allianz Group. During 2016, we have worked with the Allianz Group in seeking the approval of BaFin, the German regulator, the PRA and the College of Supervisors to a number of changes to our capital model. Amongst these is a model change to revise the method of allowing for the risk of our pension fund. In aggregate the changes, if approved, would see a significant fall in our required capital. The decision on approval of the model changes is anticipated in the first half of 2017.

The regulatory environment in the UK continues to be driven by the two main regulators, dealing respectively with conduct risk (the Financial Conduct Authority – FCA) and prudential risk (the Prudential Regulation Authority – PRA). We have continued to respond to the output of various thematic reviews from the FCA, and have completed implementation of the changes required under the new complaints handling rules and consumer credit authorisation. We continue to work closely with our regulators and maintain an open and regular communication.

In addition to the Ogden rate change, there continues to be legal and political pressure regarding the way personal injury claims are handled. The Government has responded on reforms it plans to introduce to contain whiplash claims in England and Wales. Small claims limits for Road Traffic Accidents will increase from £1,000 to £5,000, all other types of personal injury claims will increase to £2,000 and there will be an introduction of a general damages tariff dependent on recovery periods. It is however unlikely any changes will be implemented before October 2018 at the earliest.

Furthermore, an extension of fixed legal costs beyond the current £25k limit of injury claims has been recommended by a senior judge. Fixed costs are likely to be extended initially up to £100k but potentially up to £250k. The final report from Lord Justice Jackson is expected in July 2017.

With the continuing development of autonomous technologies within vehicles, the Government, as part of the Advanced Driver Assist Systems Consultation, will extend compulsory motor vehicle insurance creating a single insurer model to protect victims where an autonomous vehicle causes a crash in automated mode.

Looking to our customers, we continued to update our propositions, having refreshed our SME, motor trade and computer products. We also expanded our mid-corporate offering by developing a commercial combined product for media companies and developing new services which help mitigate the risk of a cyber-attack. We also continue to leverage the wider covers available within the Allianz Group and by tailoring propositions for our customers, we will continue to build on our strong reputation.

We remained the top-scoring insurer in the commercial broker and engineering market according to our 'net promoter score' (a customer loyalty metric). Our position in personal broker has slipped back slightly to market average, but considering the changes to our business and the adjustment to our motor pricing, this remains a strong performance. Petplan achieved the highest score in the market following its first benchmarked net promoter score study.

These standings fit well with the overall Allianz Group's aspiration to excel in customer centricity, and we will be developing more detailed customer insights and action in 2017 to work towards a loyalty leadership position in all core business areas.

Several individuals and teams have been recognised in the insurance industry and beyond this year, with awards covering diversity, underwriting, marketing, claims and data. We can be extremely proud of the dedication and performance of our employees, both in the UK and India.

Since the year end, Allianz Cornhill Information Services Private Limited (ACIS), a company registered in India, which supports the Allianz business across multiple functions such as claims handling, operations and IT, has been sold to another Allianz Group company. The excellent service provided by ACIS is expected to continue.

The Group remains in a strong business position relative to our competitors and we are backed by the biggest and amongst the most profitable property and casualty insurance companies in the world. In the wake of the Brexit vote in June, the impact on UK economic growth has been less negative than initially expected, although there is continuing uncertainty about the long term effect. Weak global demand continues to hold back growth and prosperity, and is a heavy dampener on interest rates which are at a record low of 0.25%. There remains surplus capacity in the insurance market and our customers are rightly as price-conscious as ever, so these features are likely to keep competition very strong. We expect to continue to see insurance business being written at rates that on too many occasions are inadequate, particularly with the backdrop of very low investment yields. Nevertheless, the Group is well equipped through its customer relationships, strong service delivery, wide range of products, robust financial position and a knowledgeable and dedicated workforce to meet these challenges and again be successful in 2017.



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 31 December 2016.

Background

Allianz Holdings plc controls the principal insurance operations of Allianz SE in Great Britain. Through its subsidiary companies Allianz Holdings is one of the country's leading general insurance groups. The Company is not required to prepare an Operating and Financial Review as recommended as best practice by the Accounting Standards Board. The Board of the Company is conscious of its position as a major financial services provider and includes in the following Strategic Report details of its performance, some of the key influences on its business in 2016 and the prospects for 2017.

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

Nature of Business

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

The Group operates through three regulated insurance companies and is organised as one trading division distributing commercial and personal products under a number of brands, supported by the major service divisions such as Technical, Claims, Operations, Finance, HR and IT. An analysis of the 2016 results and the prospects for 2017 are set out in the Business Report below.

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

Business Strategy and Overview of 2016 Results

The Group in recent years has pursued a strategy of proactively managing the insurance cycle to maximise the return for shareholders whilst carefully managing its capital base. This strategy has been highly successful and the underlying profitability of the companies that comprise the Group has been very satisfactory in recent years. 2016 returned to strong profitability levels following the floods and poor private motor performance in 2015.

The Group's overall performance and investment in a number of market leading initiatives has been widely recognised both within and beyond the insurance industry and a number of awards have been won over the last few years. In 2014, Allianz won the Insurer of the Decade and Underwriter of the Year categories at the British Insurance Awards. Throughout 2015 and continuing into 2016, awards were won in many areas, including diversity, marketing, claims and underwriting excellence.

The insurance market is subject to pricing cycles as capacity expands and contracts driven by fluctuating returns. Following more than two years of falling insurance rates in the personal lines motor market, primarily in response to changes in the civil law surrounding the costs of handling bodily injury claims, rates began to rise in 2015 and continued throughout 2016. The broker account returned to profitability in 2016 and a return to growth should be achievable in 2017 provided the market rate strength continues. The Direct motor account is now in run-off and continuing action is being taken on the loss-making Corporate Partners accounts. More detail can be found in the Chief Executive's Report.

Key Performance Indicators – before quota share	2016 £m	2015 £m	2014 £m
Gross written premium	2,141.2	2,218.7	2,163.5
Net written premium	2,023.2	2,085.8	2,042.2
Underwriting results	15.7	(54.3)	30.9
Operating profit	96.2	36.3	143.4
Profit before tax	102.7	52.2	153.8
Claims ratio	69.9%	72.9%	66.8%
Expense ratio	29.3%	29.7%	31.6%
Combined ratio	99.2%	102.6%	98.4%
UK employee turnover	19.5%	16.7%	16.2%

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

Commercial Lines, in an environment of a soft market, saw rate strength fall behind plan levels. This varied by account, with motor holding up best and property the weakest line with rate reductions. In general rate changes are behind claims inflation and consequently current accident year loss ratios are below acceptable levels for many classes. Despite the difficulties of obtaining adequate rate strength, strict underwriting discipline has been maintained to minimise the impact of the insurance cycle.

Gross written premiums for the Group were £2,141m, a 3.5% decrease over last year, with Commercial Lines growing by 1.7% and Personal Lines shrinking by 8.5% as we withdrew from Direct and took action on the private motor business to improve the loss ratio position. Operating profit at £96.2m, which includes £58.3m charge due to the change in the Ogden rate, was a strong result in the context of the year in which we closed Direct, restructured the company, interest rates fell post the Brexit referendum, and market rate strength was appreciably behind Plan. Operating profit is profit before tax adjusted for realised gains, impairments and other income on an Allianz SE Group basis. Profit before tax was £81.8m compared with £61.9m in 2015.

Future Outlook

Premium income at a gross level is expected to increase modestly in 2017, driven by rate increases, a return to growth in the private car accounts and the impact of growing Animal Health and Commercial business in particular. This is part of our medium-term plan to increase our market share in the UK. The insurance company entered into a quota share reinsurance agreement in 2015 and further increased the quota share from 20% to 40% in 2016. It is expected to remain at 40% for 2017, which will continue to reduce net premium income in return for a reduction in the capital required as the company continues to grow. There remains a risk that both growth and profitability may be tempered by the continuation of the current difficult market and by the impact of the economy on our customers. Profitability is expected to improve through 2017 as the changes in 2016 take effect and the synergies of a single trading and technical underwriting divisions are realised. The Company remains very vigilant with respect to claims fraud. By definition, insurance is an uncertain business and profitability in 2017 could also be influenced by a higher than expected level of major claims and major weather events.

Risk and Capital Management

A Risk department, independent of normal business activities, assists the Board and Management Board with the development of risk policies and the identification, monitoring and management testing of the key controls that mitigate risk. To ensure risk management is fully integrated into the business and effective control is maintained, each key risk is owned by a member of the Management Board. The Risk department has teams of both quantitative and qualitative risk analysts, and the Chief Risk Officer attends Management Board meetings and personally presents his reports to the Board Risk Committee.

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

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

All the material key controls operated by the business that guard against financial mis-statement have been reviewed, documentation updated and subjected to management, internal audit or external audit testing. No material weaknesses or significant deficiencies have arisen in either 2015 or 2016. New controls and standards have been gradually introduced so that the Group can meet the standards of governance and risk management required to satisfy Solvency II.

The Group uses Allianz SE's risk based capital model to measure its Solvency Capital Requirement as determined by Solvency II regulations. This ensures that its capital base is consistent with its risk appetite and sufficient to meet its current and future business plans. Model approval was obtained by BaFin, the PRA and the College of Supervisors in 2015 for commencement on 1 January 2016.

The model is used internally for determining capital adequacy and allocation, as well as for discussions with the ultimate parent company. Capital is allocated to line 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 Group has little exposure to either industrial disease claims arising from asbestos exposure or pollution claims. Historically the Group wrote a very limited portfolio of UK liability business but did write some London market marine and non-marine business which is now in run-off and is where most of the exposure arises. This exposure has been reduced in 2016 by the settlement of claims and commutation of reinsurance wherever possible. There are many uncertainties determining disease reserves but based on the available evidence, the Group believes it is fully reserved for the remaining liabilities.

Share Capital

There were no changes in the capital structure or issued share capital of the Company during the year. The Company owns 100% of all its subsidiaries. All employee incentive share schemes use the shares of Allianz SE.

Group Organisation

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

The Group employ around 4,800 people in the UK and a further 1,200 in India in an offshore service centre which will continue to be dedicated to the UK business post the ACIS sale. The offshore service centre principally provides IT and administration services to the Group's businesses. The number of people employed in India is expected to remain at similar levels in 2017.

Employees

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

The Group has a comprehensive management and development training programme. The Group is an Investor in People, and has been accredited at the Gold level.



Research and Development

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

Case study: Personal development with societal benefits

Pathways – Social Impact Projects

Our Pathways senior leadership programme combines personal development with social impact. Our leadership talent is matched with emerging social enterprises (organisations that are achieving social and environmental impact and are or aim to be financially sustainable). Together they co-develop solutions and tackle the social enterprise's critical organisational challenges in order to improve business operations and better achieve their social and environmental impact. In 2016, we engaged with the following organisations: Student Hubs, Third Space Learning, The One Brand, The Severn Project, Hubbub, and GoodGym.

Routes to Success – Charity Projects

Our junior leadership programme, 'Routes to Success', brings aspiring leaders together with charitable organisations, utilising their professional expertise and skills to deliver a project brief of the charities' choice. These projects aim to raise awareness of the impact the charities' work, contribute to CSR goals, develop the individuals as project managers and team leaders, consulting on a topic outside of their normal business role and bringing lessons learnt back to the workplace. In 2016 we worked with Cycling UK, Back Up Trust, Saracens, Association of Air Ambulance Charity and Surrey Youth Focus.

Corporate Social Responsibility

Allianz is committed to being a socially responsible company and "doing the right thing". We are, and want to be known as, a company that is governed responsibly and behaves ethically, that is open and transparent in its business dealings, that invests in communities and protects the environment; and that provides a great place to work where our employees are treated well and are given the opportunity to be all they can be.

Our corporate social responsibility (CSR) strategy guides our work across four main areas, which are underpinned by our ethical standards and good governance:

Community investment – we invest in local communities and support causes that align with our company purpose and values. In February 2016, we launched a new corporate charity partnership with the Association of Air Ambulances Charity, and aim to raise £1m in 3 years. In 2016, we raised a total of £300,000, comprising employees fundraising and company contributions.

We support our employees to volunteer in their local communities. In 2016, around 850 employees gave over 5,500 hours of voluntary work to local organisations. We also work with charities and social enterprises through two of our leading personal development programmes, which help to develop our employees' skills, whilst benefiting society (see case study box).

In 2016, we also supported a range of other causes, including the Petplan Charitable Trust, the Insurance Charities, the Prince's Trust, Back Up Trust, Mind and Brake. In total, our company contributions exceeded £500,000.

Environmental protection – Allianz has a long-standing climate change strategy, which aims to use resources more efficiently, to minimise waste and pollution. Our target is to reduce our carbon footprint per employee by 33% by 2020, compared to 2010 levels. By the end of 2016, we had achieved a 32% reduction.



Allianz Engineering employees completed a week-long, 600-mile relay walk between air ambulance bases across the midlands and south of England. They finished at London's Air Ambulance in July 2016. In total the event raised £15,000.

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

Inclusive workplace – ensuring that age, gender, race and health do not limit an employee's engagement and success in the workplace will help us achieve our business goals and make us a great place to work.

In 2016 we undertook a survey of all employees to find out how we can better support those with disabilities, long-term health conditions or other impairments in the workplace. We also introduced new training and awareness programmes for all employees to make improvements to workplace accessibility and drive a culture of diversity and inclusion across the business. We will remain focused on this work throughout 2017.

Responsible Business – Our reputation is based on the trust that customers, shareholders, employees and the general public have in our integrity. We maintain good underwriting practices and fair claims handling, and offer a selection of sustainable products and services that support a low-carbon society and foster economic development at the same time.

We understand that the prudent management of environmental, social and governance issues presents a major opportunity to reduce risks in underwriting for us and our customers. At the same time, we aim to ensure that all organisations in our supply chain uphold our sustainable and ethical standards, whether supplying products and services to Allianz, or to customers on our behalf.

Business Report

During 2016, Allianz Commercial and Allianz Retail consolidated into one single trading division which will deliver synergies, drive best practice and bring us more closely in line with the structure that has underpinned the success of the wider Allianz Group.

We also consolidated the relevant actuarial and underwriting teams into one Technical unit which will increase the level of expertise and synergies as we continue to invest in technical excellence and cycle management.

Commercial Lines

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

All figures below are shown before the quota share reinsurance agreement.

In aggregate, Allianz Commercial net written premiums increased to £1,033.3m. The underwriting profit of £44.3m which includes a £38.3m charge due to the change in the Ogden rate, benefitted from benign weather conditions and improved performance in relation to prior years. This is a significant increase from a £23.3m loss in 2015, which had been impacted by floods, and is a strong result in a highly competitive market.

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

Allianz is one of the top five commercial insurers in the UK market. Despite a difficult market rating environment, moderate rate increases and some small growth in underlying volumes, 2016 saw net written premiums

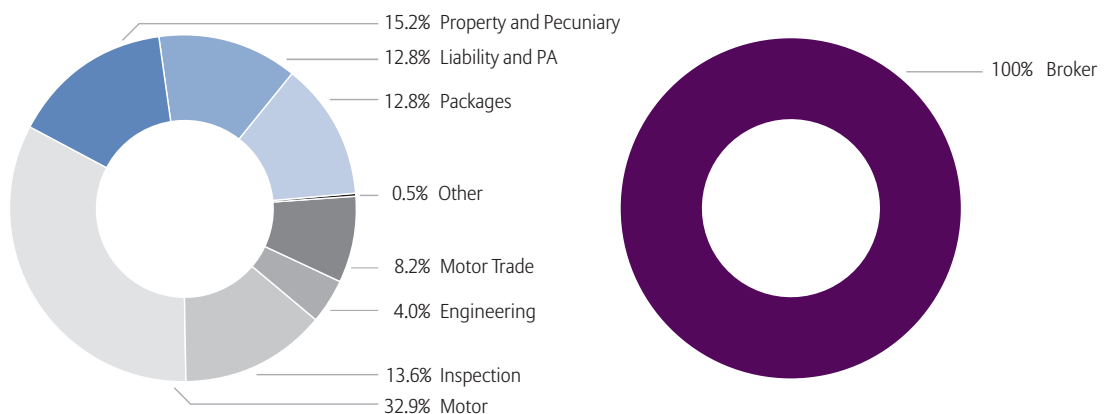
grow by 1.9%. Rate increases across the motor, packages and engineering inspection accounts more than offset reductions in other lines but, in aggregate, were behind claims inflation and so were not at the levels needed to sustain market profitability. Further rate strength is needed across all insurance lines of business with a return to rate increases for liability and property.

The motor account continued to perform very well, with good profitability despite rate increases being below claims inflation. Low levels of weather-related claims enabled the property dominated accounts to return to a healthy profit in 2016, following the floods in 2015. Despite a continuing competitive market for liability business, continued focus on smaller risks and the effect of underwriting actions taken in earlier years have kept the account in profit.

The engineering insurance and inspection business is distributed through intermediaries and is among the largest specialist engineering insurers in the UK. In the core insurance account premiums grew by 3.9% despite continuing competitive pressure. Rate increases and increases in the underlying volumes within the inspection business drove premium growth of 6.1%. In aggregate, premiums in the engineering business were 5.3% above the previous year. The business delivered another year of very satisfactory underwriting profit at £11.7m, in a highly competitive market. As market leader with unrivalled standards and levels of service to clients, the business is well positioned to maintain its market leading performance despite continuing competitive trading conditions.

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

Products and Distribution by Net Written Premiums



Personal Lines

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

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

In aggregate, Allianz Personal net written premiums reduced by 7.6% in 2016 to £990.0m. This reduction was largely driven by the withdrawal from the direct market, however, premiums also declined in Broker and, to a smaller degree, Corporate Partner. Animal Health business continued to grow strongly, with a 9.7% increase in net written premium. Legal protection business continued to reduce as a result of changes to the business model following the reform of the civil justice system.

The underwriting result was a loss of £35.7m which includes a £20m charge due to the change in the Ogden rate, compared to a loss of £66.5m reported last year. The result was impacted heavily by the direct business, which delivered a £21.4m loss for the year (£60.3m loss in 2015).

Volumes in the Broker private car account were deliberately reduced in light of market conditions and the unacceptable loss ratios. However, a strong result in the Commercial Vehicle account has helped return Broker motor to profit. Corporate Partner saw premium growth in motor but profitability remains an issue though changes to key schemes should lead to an improved performance in future years.

Net written premiums in the household business grew by 13.5% in 2016, but poor claims experience drove a loss of £26.9m. Work is underway to improve the position for 2017.

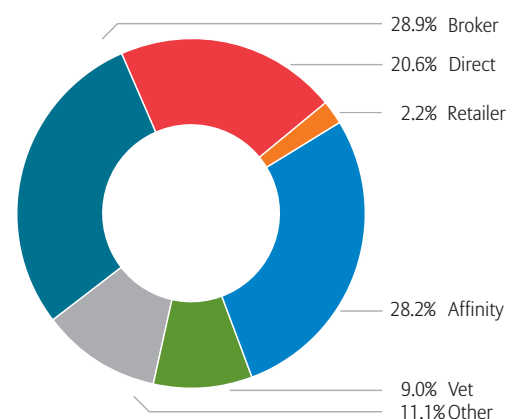
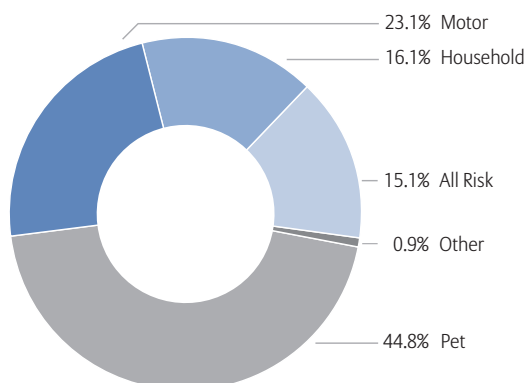
The warranty and creditor accounts continue to shrink as they run-off. The all risks account (mostly mobile phone) also reduced in volume, but remains profitable.

Through the widely recognised and well established Petplan brand, the Group is the clear market leader in the provision of small animal and equine insurance for the leisure market. Although the small animal segment remains extremely competitive, net written premiums rose by 9.7% and attractive returns continue to be made. Profits were also strong in the market-leading specialist musical insurance account with slightly increased volumes despite increased competition from on-line and digitally optimised new entrants.

The legal protection business has a leading position in the after the event market. Before the event policies are also written on a strictly controlled basis. Following the 2013 reforms of the civil justice system the business has successfully adapted its business model and enjoyed another year of profits. Net written premiums were down 46.2% on 2015 as the consequences of the change in the business model continue to flow through. We believe we are well positioned to continue to react to future changes in the justice system.

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 business and volumes and profit were up in 2016 and remain at satisfactory levels.

Products and Distribution by Net Written Premiums



Investments

Investments are managed in a conservative manner to minimise risk to the core insurance operations.

Investment strategy has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. The allocation to equities and property remain as a small proportion of total assets in order to control risk. Cash and short-term investments are maintained at low levels as returns in these classes remain low. The allocation to high quality corporate and securitised bonds remained overweight to enhance returns. Allianz Holdings uses the expert investment management facilities available within the wider Allianz Group, particularly in managing the fixed interest portfolio.

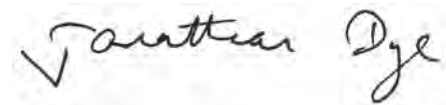
Assets backing technical reserves continue to be invested in cash and government securities, with limited and controlled exposure to corporate and securitised bonds. The duration of the fixed interest portfolio is monitored in comparison with the duration of the insurance liabilities and strict limits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

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

The Group owns a small commercial property portfolio consisting of well diversified investments in office, retail and industrial properties. The quality of the portfolio, the length of leases and a very low void ratio continued to support a strong income stream. The portfolio slightly underperformed the IPD benchmark over the year due to a one-off valuation adjustment by the new valuation company.

As the majority of the Group's business is undertaken in the UK, the major part of the investment portfolio is in sterling denominated assets. Exposures to the US dollar and the Euro were reduced to reflect the decrease in overseas technical reserves. The company is invoiced in Indian rupees for some of its costs and holdings of rupees are maintained in order to fix the sterling cost of these services over the coming year.

Investment income in 2016 was £79.5m compared to £90.2m in 2015. The decline in investment income was mainly due to lower market yields and the increase in ceded investment income to the Quota Share reinsurer. Realised gains amounted to £10.4m, compared to £12.6m in 2015. Looking ahead, pure investment income will continue to be impacted by lower returns as new cash flows and maturing funds are reinvested at lower yields.



J M Dye
Director

Governance

Non-Executive Directors

A. G. Theis
(Chairman)

B. Bovermann

C. W. T. Dinesen

R. O. Hudson

R. M. Murison

D. A. Torrance

Executive Directors

J. M. Dye
(Chief Executive)

M. J. Churchlow

Management Board

J. M. Dye

J. B. I. Abboud

M. J. Churchlow

N. A. Clutterbuck
(appointed 01.5.16)

P. J. Gennoy

G. A. Gibson

S. C. McGinn

S. Smith

K. P. Wenzel

D. J. Knowles
(resigned 31.1.16)

N. D. Brettell
(resigned 30.4.16)

Secretary

S. J. Hutchings

Auditors

KPMG LLP
15 Canada Square
London E14 5GL

Registered Office

57 Ladymead
Guildford
Surrey GU1 1DB
Registered No. 5134436

Management Board



Jon Dye,
Chief Executive Officer

Age 50. Joined Allianz in 2003 as Director, Claims then appointed General Manager, Retail in 2007. Previously held senior Claims Management positions in insurance.



Graham Gibson,
Chief Claims Officer

Age 50. Joined Allianz in 2008 having previously held senior positions in Claims in the insurance industry.



Jacob Abboud,
Chief Information Officer

Age 56, Joined Allianz in 2015 as CIO. Previously held various C-level IT leadership roles in insurance and banking.



Simon McGinn,
General Manager, Commercial & Personal

Age 46. 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.



Mark Churchlow,
Chief Financial Officer

Age 58. Joined Allianz in 1989 and held a number of positions, including Appointed Actuary, in Life division before becoming Chief Actuary in 1998 and Chief Financial Officer in 2010.



Stephanie Smith,
Chief Operating Officer

Age 48, Joined Allianz as IT Senior Manager in 2009. Appointed Retail Operations Director in 2010 and COO in 2015. Previously held senior management positions at British Airways and Deloitte Consulting.



Neil Clutterbuck
Chief Underwriting Officer

Age 50. Joined Allianz in 2003 as Regional Manager London. Appointed Chief Underwriting Officer in 2016. Previously held underwriting positions in the insurance industry.



Kevin Wenzel,
Chief Actuary

Aged 45. Joined Cornhill's Life Division in 1999 and worked in many areas of the business, including Allianz Global Risks, Allianz Commercial and Allianz Retail. Appointed Chief Actuary in May 2014 and is a Fellow of the Institute and Faculty of Actuaries.



Philip Gennoy,
Chief HR Officer

Age 58. Joined Allianz in 1999. Previously held senior HR and Sales and Marketing positions in the oil and dairy industries.

The Group is committed to high standards of corporate governance

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

The Board and its Committees

The Board currently comprises a non executive Chairman, five non executive directors and two executive directors. The Chairman and one of the non executive directors are representatives of the shareholder. The Board is responsible for organising and directing the affairs of the Company in the best interests of stakeholders.

The Board's responsibilities include strategy, internal control, the overall operation of the Company and meeting legal and regulatory requirements.

The Board has established a Statement of Business Principles to provide guidance on the standards expected from all employees when conducting business on behalf of the Group.

The Board has established a number of Committees and a system of internal control to ensure the efficient and effective operation of the business. The Board, its main Committees and membership of those Committees for the year ended December 31, 2016 are detailed below:

	Board	Management Board	Compensation Committee (1)	Audit Committee	Finance Committee	Board Risk Committee	Model Committee (2)	Operational Risk Committee (2)	Management Risk Committee (2)	Underwriting Committee (2)	Investment Committee	Reinsurance Panel	Financial Reporting Committee	Financial Reporting and Disclosure Committee	Commercial (3)	Retail (3)	Commercial & Personal (3)	Run-off
Number of Meetings	4	13	4	3	3	4	3	2	2	2	6	2	4	4	2	2	2	4
A G Theis	4		4	3	1	4												
B Bovermann	4		4	2	2	3												
C W T Dinesen	4			3		4												
R O Hudson	4			3		4												
R M Murison	4		4	3		4												
D A Torrance	4			3		4												
M J Churchlow	4	11			3	4	3		2		5	2	4	2	2	2	2	4
J M Dye	4	13			2						6	2	4		2	2	2	4
J B I Abboud		12						2										
N D Brettell Resigned: 30/04/2016		5										1				1		
N A Clutterbuck Appointed 01/05/2016		9					2			2		1			1	1	2	
P J Gennoy		13	4					2								2		
G A Gibson		13						2							2		2	4
D J Knowles Resigned: 31/01/2016		1																
S C McGinn		13						0		0		2			2	1	1	
S Smith		13						2										
K P Wenzel		12					3		2			2	4	4	2	2	2	4

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

(1) formerly called Remuneration Committee

(2) from July 1, 2016 Management Risk Committee split to become Underwriting Committee, Operational Risk Committee and Model Committee

(3) from July 1, 2016 Commercial and Retail Loss Reserve Committees merged and became the Commercial & Personal Loss Reserve Committee

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

The Audit Committee is a Committee of the Board. Membership of the Committee comprises a non executive director who acts as Chairman and all the other non executive directors. A representative from the external auditors (KPMG LLP), the Head of Internal Audit, a representative from the Internal Audit Department of Allianz SE, the Group Compliance Officer, the Chief Executive Officer, the Chief Risk Officer and the Chief Financial Officer usually attend by invitation. The Committee monitors the integrity of the financial statements, financial reporting developments, financial controls and the system of internal control. Reports on these matters are provided to the Committee by the external auditors and Internal Audit as appropriate.

The Board Risk Committee is a Committee of the Board. Membership of the Committee comprises a non executive director who acts as Chairman, all the other non executive directors, the Chief Financial Officer and the Chief Risk Officer. The Chief Executive Officer and the Allianz SE Group Risk Coverage Officer are standing guests. The Committee is responsible for oversight of risks, the links between different risks, the Enterprise Risk Management Framework within which the Company manages those risks, and the activities of the Risk Department.

The Board Risk Committee is also responsible for oversight of its sub-Committees: the Operational Risk Committee, the Underwriting Committee and the Model Committee. These sub-Committees replaced the Management Risk Committee in 2016 and allowed the streamlining of other sub-ordinate meetings that had been taking place. Whilst the Management Risk Committee considered all risk types, the new set of executive risk 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 first met on September 7, 2016, although some of its members previously met as the Operational Risk and Control Group. The Operational Risk Committee membership is comprised of the Chief Risk Officer who acts as Chairman, the Chief Operating Officer, the Chief Information Officer, the General Manager, the Chief Claims Officer, the Chief HR Officer, the Group Compliance Officer, the Chief Legal Officer, the Company Secretary and the Head of Enterprise Risk Management. The following are standing guests: the Head of Internal Audit and the Allianz SE Group Risk Coverage Officer.

The Underwriting Committee first met on September 9, 2016, although the Company's Commercial Division had previously run an underwriting committee dealing with division specific subject matter. The Underwriting Committee is comprised of the Chief Underwriting Officer (CUO) who acts as Chairman, the General Manager, the Chief Risk Officer, the Directors of Technical for Commercial and Personal Lines, the Head of Technical and Business Standards, the Head of Underwriting Data and MI, the Director, Actuarial, the Group Compliance Officer and the Head of Technical Claims. The following are standing guests: the Head of Internal Audit, the Allianz SE Group Risk Coverage Officer, the Enterprise Risk Manager and the Executive Assistant to the CUO.

The Model Committee first met on July 6, 2016, although all its members previously met as the Model Assessment Group. The Model Committee membership is comprised of the Chief Financial Officer who acts as Chairman, the Chief Actuary, the Chief Underwriting Officer and the Chief Investment Officer. The Chief Risk Officer is a standing guest. Differences apply when the Model Committee is reviewing technical provisions, as opposed to internal model related matters: the Chief Risk Officer replaces the Chief Actuary in the membership and the Director, Actuarial is a standing guest.

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

The Investment Committee is a sub-Committee of the Finance Committee. Membership comprises the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Investment Officer and the Regional Chief Investment Officer of Allianz Investment Management SE. The Chief Risk Officer is a standing guest. The role of the Investment Committee is to monitor portfolio performance and after taking into account anticipated economic trends recommend investment strategy to the Finance Committee. In 2016, the Investment Committee also accepted responsibility for investment-related risk matters: market risk, credit risk (investments), liquidity risk and all pension-related risk (including longevity). It reports to the Board Risk Committee on these investment-related risks.

The Reinsurance Panel is a sub-Committee of the Management Board. Membership comprises the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Actuary, the Chief Accountant, the Director, Actuarial, the General Manager, the Reinsurance Manager, and the Directors of Technical for Commercial and Personal Lines. The Chief Risk Officer is a standing guest. The Reinsurance Panel monitors the performance of the Group's reinsurance programme and reinsurance security and determines future reinsurance purchasing policy after taking into account business requirements, risk appetite, cost, capital implications and developments in the insurance market.

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

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

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

The remuneration of the Management Board members comprises a combination of basic salary, appropriate benefits and a performance related bonus paid in a combination of cash and Allianz Group Equity Incentives. Details of the share based payments are disclosed in Note 12 on page 44. The performance related bonus is based upon a combination of Company performance against target and personal performance against specific objectives, broadly the same arrangements that apply to all employees. Notice periods for members of the Management Board are consistent with other senior managers in the Company.

The Commercial & Personal Loss Reserve Committee, having replaced the Commercial and Retail Loss Reserve Committees, first met on October 3, 2016. The Committee is a sub-Committee of the Management Board and its membership is comprised of the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Actuary, the General Manager, the Director, Actuarial, the Chief Claims Officer and the Chief Underwriting Officer. The Committee considers and recommends to the executive directors, loss reserves for the Commercial and Personal Division business at the end of each quarter.

The Run-Off Loss Reserve Committee is a sub-Committee of the Management Board and its membership is comprised of the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Actuary, the Director, Actuarial and the Chief Claims Officer. 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.

On November 30, 2016 the Board established a Nomination Committee. Membership of the Committee comprises at least three directors, a majority of whom must be independent non executive directors. Currently the Committee comprises three non executive directors. The Chief HR Officer is a standing guest and the Chief Legal Officer and the Company Secretary attends as Secretary.

The Nomination Committee is responsible for identifying non executive director candidates for Board approval, and for ensuring that robust succession plans are in place for directors, non executive directors and Management Board Members. No senior management appointment is made without the applicant undertaking a comprehensive assessment to determine the level of his or her management skills.

Report and Accounts

- 22 Report of the Directors
- 23 Statement of Directors' Responsibilities
- 24 Report of the Auditors
- 25 Financial Statements
- 31 Notes to the Financial Statements
- 74 Group Organisation

Allianz first partnered with the British Paralympic Association in January 2016. We supported the team throughout the year, including a record-breaking Games in Rio in which ParalympicsGB finished second in the medal table. We're delighted to have extended our partnership with BPA through to 2020, including both the PyeongChang 2018 Winter Games and Tokyo 2020 Summer Games.



The Directors present their report and the audited financial statements for the year ended December 31, 2016.

Principal Activity and Review of the Business

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

A review of the Group's trading activities, approach to capital management and prospects is included in the Chief Executive's Report and the Group Strategic Report on pages 2 to 14 and should be read in conjunction with this Report.

Results and Dividends

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

The Group results are set out in the Financial Highlights on page 1 and in the Group Statement of Comprehensive Income on page 25. The Group Balance Sheet is set out on page 26.

The Directors are not recommending the payment of a final ordinary dividend. No dividend was paid in respect of the year ended December 31, 2016 (2015 £nil).

Basis of Preparation

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

Directors

The names of the current Directors are shown on page 15. All served throughout this period.

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 "Accounting for Insurance Contracts". The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The Allianz Holdings plc group has established parallel workstreams in the UK supporting the overall group project.

Charitable Donations

During the year donations to charities have been made amounting to £274,162 (2015 £275,835). No political donations were made.

Employees

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

Financial Instruments

The Group's policies in respect of financial instruments and risk management are given in Note 34 to the Financial Statements on page 61.

Directors Responsibility to the Auditors

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

Auditors

KPMG LLP have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the Board
S J Hutchings
Secretary
Allianz Holdings plc
Registered Number: 5134436
March 16, 2017

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

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group and parent company for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; 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 responsible for keeping adequate accounting records that are sufficient to show and explain the Group's 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and parent company and to prevent and detect fraud and other irregularities.

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

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

We have audited the Group and parent company financial statements of Allianz Holdings plc for the year ended December 31, 2016 set out on pages 25 to 73. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those Standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the Financial reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at December 31, 2016 and of the group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;

- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

Chartered Accountants
15 Canada Square
London
E14 5GL

March 16, 2017

	Notes	2016 £m	2015 £m
Continuing operations			
Gross earned premiums	3	2,184.9	2,210.8
Reinsurers' share of gross earned premiums	3	(918.7)	(525.0)
Net insurance revenue		1,266.2	1,685.8
Reinsurance commission		176.5	112.5
Net investment income	4	79.5	90.2
Net realised gains	5	10.4	12.6
Net fair value gains	6	-	6.3
Other revenue		266.4	221.6
Total revenue		1,532.6	1,907.4
Gross insurance claims paid		(1,502.5)	(1,368.3)
Reinsurers' share of gross insurance claims paid		297.6	(9.9)
Gross change in insurance liabilities		(9.9)	(135.9)
Reinsurers' share of gross change in insurance liabilities		338.3	297.7
Net insurance claims		(876.5)	(1,216.4)
Commission		(359.7)	(381.7)
Net fair value losses	6	(10.6)	-
Other operating and administrative expenses	7	(204.0)	(247.4)
Other expenses		(574.3)	(629.1)
Total claims and expenses		(1,450.8)	(1,845.5)
Profit before tax		81.8	61.9
Income tax charge	10	(13.5)	(10.5)
Profit for the year		68.3	51.4
Profit for the year attributable to:			
Equity holders		68.3	51.4
Other comprehensive income			
Net change in fair value of available for sale financial assets		64.2	(46.4)
Net change in fair value of available for sale financial assets transferred to profit or loss		(3.0)	(7.9)
(Loss)/gain on pension fund		(46.0)	16.0
Foreign currency translation adjustments		(0.6)	0.1
		14.6	(38.2)
Tax on fair value movements		(8.8)	11.4
Tax on (loss)/gain on pension fund		4.9	(9.1)
Other comprehensive income for the period, net of tax		10.7	(35.9)
Total comprehensive income for the period		79.0	15.5
Total comprehensive income attributable to:			
Equity holders		79.0	15.5

The notes on pages 31 to 73 are an integral part of these financial statements.

	Notes	2016 £m	2015 £m
ASSETS			
Intangible assets	15	92.7	84.0
Property and equipment	17	28.0	31.3
Investment properties	18	142.4	154.3
Deferred acquisition costs	19	206.5	218.5
Deferred tax	21(b)	24.1	44.7
Reinsurance assets	22 & 30	1,321.6	798.6
Prepayments and accrued income	23	30.4	32.8
Financial assets:			
Available for sale financial assets ⁽¹⁾	24(a)	2,330.2	2,298.5
Loans	24(b)	342.9	340.6
Foreign exchange forward contracts		-	0.9
Insurance receivables	25	778.4	786.0
Other receivables	26	103.1	95.8
Cash and cash equivalents	27	164.5	103.3
Assets classified as held for sale	14(b)	32.9	-
Total assets		5,597.7	4,989.3
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	28	828.0	828.0
Fair value reserve		88.6	36.2
Retained earnings		996.9	970.3
Capital reserve		(650.5)	(650.5)
Total equity		1,263.0	1,184.0
LIABILITIES			
Defined benefit pension plan deficit	16	107.3	98.3
Provisions for other liabilities and charges	29	3.1	0.5
Insurance contracts liabilities	30	2,833.7	2,861.2
Reinsurers' share of deferred acquisition costs	19	81.3	44.6
Insurance related payables	32	1,027.1	627.0
Tax payable	21(a)	3.4	12.1
Accruals and other payables	33	258.4	161.6
Liabilities classified as held for sale	14(b)	20.4	-
Total liabilities		4,334.7	3,805.3
Total equity and liabilities		5,597.7	4,989.3

⁽¹⁾ Included within available for sale financial assets are £105.3m (2015 £290.9m) of lent securities. See note 24.

The notes on pages 31 to 73 are an integral part of these financial statements.

	Notes	2016 £m	2015 £m
ASSETS			
Investment in group undertakings	14	929.6	931.6
Subsidiary held for sale	14	2.0	-
Tax receivable	21(a)	0.2	-
Financial assets:			
Loans	24(b)	1.5	-
Amounts due from group undertakings	26	76.7	84.8
Cash and cash equivalents	27	80.0	-
Total assets		1,090.0	1,016.4
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	28	828.0	828.0
Retained earnings		105.6	106.1
Total equity		933.6	934.1
LIABILITIES			
Loans from group undertakings		20.0	20.0
Provisions for other liabilities and charges	29	0.5	-
Accruals and other payables	33	135.9	62.3
Total liabilities		156.4	82.3
Total equity and liabilities		1,090.0	1,016.4

The notes on pages 31 to 73 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on March 16, 2017 and signed on its behalf by:



J M Dye
Director

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Profit before tax		81.8	61.9
Non cash items	37	27.7	79.7
Changes in working capital	37	(29.2)	(23.9)
Income tax (paid)/received	10(c)	(6.0)	4.2
Net cash inflow from operating activities		74.3	121.9
Cash flows from investing activities			
Purchase of property and equipment	17	(8.6)	(8.6)
Proceeds from sale of property and equipment	17	1.9	2.4
Intangible assets cost capitalised	15	(12.0)	(6.6)
Proceeds from sale of Investment Property	18	2.3	6.8
Purchase of available for sale financial assets		(782.5)	(843.6)
Proceeds from sale of available for sale financial assets		794.3	742.2
(Increase)/decrease in loans		(5.4)	4.9
Proceeds from sale of foreign exchange forward contracts	18	2.4	-
Net cash outflow from investing activities		(7.6)	(102.5)
Cash flows from financing activities			
Dividends paid during the year	13	-	-
Net cash outflow from financing activities		-	-
Net increase in cash and cash equivalents		66.7	19.4
Cash and cash equivalents at the beginning of the year	27	103.3	84.1
Effects of exchange rate changes on cash and cash equivalents		(1.6)	(0.2)
Cash and cash equivalents at the end of the year	27	168.4	103.3

The notes on pages 31 to 73 are an integral part of these financial statements.

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
(Loss)/profit before tax		(0.5)	21.6
Non cash items	37	-	(9.7)
Changes in working capital	37	82.2	(23.4)
Income tax paid	21(b)	(0.2)	(0.3)
Net cash outflow from operating activities		81.5	(11.8)
Cash flows from investing activities			
Investment in group undertaking		-	(5.8)
Proceeds from sale of available for sale financial assets		-	11.8
(Increase)/decrease in loans		(1.5)	5.8
Net cash inflow from investing activities		(1.5)	11.8
Cash flows from financing activities			
Dividends paid during the year	13	-	-
Net cash outflow from financing activities		-	-
Net increase in cash and cash equivalents		80.0	-
Cash and cash equivalents at the beginning of the year	27	-	-
Cash and cash equivalents at the end of the year	27	80.0	-

The notes on pages 31 to 73 are an integral part of these financial statements.

Group	Note	Attributable to equity holders of the parent				Total equity £m
		Share capital £m	Fair value reserve £m	Retained earnings £m	Capital reserve £m	
Balance as at January 1, 2015		828.0	79.1	911.9	(650.5)	1,168.5
Net change in fair value of available for sale financial assets		-	(46.4)	-	-	(46.4)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	(7.9)	-	-	(7.9)
Gain on pension fund		-	-	16.0	-	16.0
Foreign currency translation adjustments		-	-	0.1	-	0.1
Tax on fair value movements		-	11.4	-	-	11.4
Tax on gain on pension fund		-	-	(9.1)	-	(9.1)
Net profit for the year		-	-	51.4	-	51.4
Total recognised income and expense for the year		-	(42.9)	58.4	-	15.5
Dividends paid during the year	13	-	-	-	-	-
Balance as at December 31, 2015		828.0	36.2	970.3	(650.5)	1,184.0
Net change in fair value of available for sale financial assets		-	64.2	-	-	64.2
Net change in fair value of available for sale financial assets transferred to profit or loss		-	(3.0)	-	-	(3.0)
Loss on pension fund		-	-	(46.0)	-	(46.0)
Foreign currency translation adjustments		-	-	(0.6)	-	(0.6)
Tax on fair value movements		-	(8.8)	-	-	(8.8)
Tax on loss on pension fund		-	-	4.9	-	4.9
Net profit for the year		-	-	68.3	-	68.3
Total recognised income and expense for the year		-	52.4	26.6	-	79.0
Dividends paid during the year	13	-	-	-	-	-
Balance as at December 31, 2016		828.0	88.6	996.9	(650.5)	1,263.0

Company	Note	Share capital	Fair value reserve	Retained earnings	Total
		£m	£m	£m	£m
Balance as at January 1, 2015		828.0	6.7	105.0	939.7
Net change in fair value of available for sale financial assets		-	-	-	-
Net change in fair value of available for sale financial assets transferred to profit or loss		-	(6.7)	-	(6.7)
Tax on fair value movements		-	-	(20.5)	(20.5)
Net profit for the year		-	-	21.6	21.6
Total recognised income and expense for the year		-	(6.7)	1.1	(5.6)
Dividends paid during the year	13	-	-	-	-
Balance as at December 31, 2015		828.0	-	106.1	934.1
Net loss for the year		-	-	(0.5)	(0.5)
Total recognised income and expense for the year		-	-	(0.5)	(0.5)
Dividends paid during the year	13	-	-	-	-
Balance as at December 31, 2016		828.0	-	105.6	933.6

The notes on pages 31 to 73 are an integral part of these financial statements.

1. ACCOUNTING POLICIES

1.1. Company and its operations

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

The registered office of the Company is 57 Ladymead, Guildford, Surrey, GU1 1DB, United Kingdom. The consolidated financial statements of Allianz Holdings plc for the year ended December 31, 2016 were authorised for issue in accordance with a resolution of the Directors on March 16, 2017.

The consolidated financial statements of the Company for the year ended December 31, 2016 comprise the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its group.

1.2. Statement of Compliance

The consolidated financial statements of Allianz Holdings plc have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). These financial statements do not include a statement of comprehensive income for the parent company as the Company has taken advantage of the exemption conferred by Section 408(4) of the Companies Act 2006.

1.3. Basis of preparation

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

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

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

A number of new accounting standards and amendments to standards are effective for the annual periods beginning January 1, 2016 but are not mandatory and have not been early adopted by the Group. The significant ones are:

IFRS 9 'Financial Instruments' – effective for the annual periods commencing on or after January 1, 2018 with early adoption permitted.

IFRS 15 'Revenue from contracts with customers' – effective for the annual periods commencing on or after January 1, 2018 with early adoption permitted.

1. ACCOUNTING POLICIES (CONTINUED)

1.4. Summary of significant accounting policies

Allianz Holdings plc has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance provisions, deferred acquisition costs, the ascertainment of fair values of financial assets and liabilities and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgments based on information and financial data that may change in future periods.

Since these involve the use of assumptions and subjective judgments as to future events and are subject to change, the use of different assumptions or data could produce materially different results. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 2.

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

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Allianz Holdings plc and its subsidiaries that are controlled by the Group. All the financial statements included are uniformly prepared in conformity with IFRS and adopting consistent accounting policies as at December 31, 2016.

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

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

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

(b) Property and equipment

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

Owner occupied properties are initially recognised at cost and are subsequently carried at fair value, as assessed by qualified external valuers. Fair value is the estimated amount for which a property can be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Depreciation has not been charged as the amounts are deemed to be immaterial.

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

(c) Investment properties

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

Investment properties are initially measured at cost. Subsequently, at each balance sheet date such properties are carried at fair value as assessed by qualified external valuers. Fair value is the estimated amount for which a property can be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Investment properties are derecognised when they are disposed of or when permanently withdrawn from use and no future benefit is expected from their disposal.

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

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

(d) Intangible assets

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

Goodwill

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

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

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

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

Customer relationships acquired in business combinations

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Software

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

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

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

Renewal Rights

The cost of acquiring renewal rights to portfolios of insurance business is amortised on a straight line basis over the expected life of the intangible asset. The Company has assessed the useful life of the renewal rights to be 10 years.

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

(e) Deferred acquisition costs

Commission and other acquisition costs (both gross and reinsurance) incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised on a straight line basis. All other acquisition costs are recognised as an expense when incurred. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written which is unearned at the balance sheet date.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount.

(f) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income.

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

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

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

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

(g) Reinsurance assets

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

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

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

(h) Fair values of financial assets and liabilities

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

(i) Derivative financial instruments

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

(j) Financial assets

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

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

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

Available for sale financial assets

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

Securities lending

The Group is party to various securities lending agreements under which securities are loaned to third parties. The loaned securities are not derecognised, to the extent that the Group retains the risks and rewards associated with ownership of these securities, they continue to be recognised within the appropriate investment classification. The Group's policy is that collateral in excess of 100% of the fair value of securities loaned is required from all securities' borrowers.

Loans

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

Impairments

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

(k) Reserves

Fair value reserve

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

Capital reserve

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

(l) Insurance receivables

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

(m) Cash and cash equivalents

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

(n) Product classification

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

(o) Provision for other liabilities

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

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

(p) Insurance contracts liabilities

Insurance contracts liabilities

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

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the statement of comprehensive income in order that revenue is recognised over the period of risk.

Liability adequacy test

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

(q) Levies

The Group adopted IFRIC 21 "Levies" on January 1, 2014.

IFRIC 21 provides accounting guidance for an obligation to pay a levy, if that liability is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Levies are imposed by governments in accordance with legislation and do not include income taxes. The interpretation addresses the diversity in practice of when the liability to pay a levy is recognised. IFRIC 21 defines an obligating event as the activity that triggers the payment of the levy, as identified by legislation. 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. The fact that an entity is economically compelled to continue to operate in the future, or prepares its financial statements on a going concern basis, does not create an obligation to pay a levy that will arise in a future period as a result of continuing to operate.

The Group had previously provided for levies during the year that the business upon which the levy would be based was written. Levies are now only recognised at the date of the obligating event to pay the levy.

(r) Pension benefit obligation

The Group sponsors two pension schemes:

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

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

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

(s) Revenue recognition

Premium income

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

Estimates of premiums written as at the balance sheet date but not yet processed, are assessed based on estimates from underwriting or past experience and the appropriate portion is included in premiums earned.

Reinsurance commission

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

Investment income

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

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

Realised gains and losses recorded in the statement of comprehensive income

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

Unrealised gains and losses recorded in the statement of comprehensive income

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

1. ACCOUNTING POLICIES (CONTINUED)

(t) Claims

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

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

(u) Finance cost

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

(v) Foreign currency translation

The Group's presentational currency is Sterling. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non monetary items that are measured in terms of historical cost are translated using the exchange rate as at the date of initial transaction. Non monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of comprehensive income, unless required to be taken to equity.

(w) Off setting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to off set the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

(x) Current, non current disclosure

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

(y) Dividends

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

(z) Non-current assets held for sale and discontinued operations

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

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

2. USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

(a) Claims liability arising from insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty for some types of policies. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. Further details of the claims estimation process are described in note 31. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Claims provisions are not discounted for the time value of money except for claims being settled by periodic payments.

The carrying value at balance sheet date for these general insurance contracts is £2,833.7m, (2015 £2,861.2m).

(b) Fair value measurement of financial assets

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

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

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

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

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

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

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

(c) Surplus or deficit on defined benefit pension scheme

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

(d) Deferred tax asset

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

3. NET INSURANCE REVENUE

	Note	2016 £m	2015 £m
(a) Gross written premiums			
Direct insurance		2,141.1	2,218.2
Assumed reinsurance		0.1	0.5
Total gross written premiums	30	2,141.2	2,218.7
Gross change in unearned premium provision	30	43.7	(7.9)
Total gross earned premiums		2,184.9	2,210.8
(b) Reinsurers' share of gross written premiums			
Direct insurance		(1,099.4)	(738.6)
Assumed reinsurance		(0.1)	0.2
Total reinsurers' share of gross written premiums	30	(1,099.5)	(738.4)
Reinsurers' share of change in unearned premium provision	30	180.8	213.4
Total reinsurers' share of gross earned premiums		(918.7)	(525.0)
Total net insurance revenue		1,266.2	1,685.8

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

4. INVESTMENT INCOME

	2016 £m	2015 £m
Available for sale financial assets		
Interest income	55.4	57.8
Dividend income	3.2	2.7
Impairment of loans	-	0.5
Interest income from loans	19.5	19.3
Cash and cash equivalents interest income	5.4	6.7
Rental income from investment properties	10.2	9.8
Ceded investment income	(14.2)	(6.6)
Total investment income	79.5	90.2

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

	Note	2016 £m	2015 £m
Available for sale financial assets			
Realised gains			
Equity securities		-	10.6
Debt securities		9.7	8.1
Investment properties		0.4	0.6
Realised losses			
Debt securities		(0.3)	(1.9)
Investment properties		-	(4.1)
Financial liabilities			
Realised gains/(losses)		0.6	(0.7)
Total net realised gains recorded in the statement of comprehensive income		10.4	12.6

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

	Note	2016 £m	2015 £m
Net (loss)/gain on investment properties	18	(10.0)	3.2
Net (loss)/gain on own use properties		(1.5)	2.3
Net gain on financial liabilities		0.9	0.8
Total net fair value (loss)/gain recorded in the statement of comprehensive income		(10.6)	6.3

7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	Note	2016 £m	2015 £m
Acquisition costs		70.7	101.8
Movement in deferred acquisition costs	19	48.7	58.1
Administration expenses		75.1	86.4
Restructuring charges	29	8.6	-
Unwind of discount on PPO claims reserves		0.9	1.1
Total other operating and administrative expenses		204.0	247.4

8. EMPLOYEE RELATED COSTS

	2016 £m	2015 £m
Wages and salaries	177.2	172.3
Social security costs	20.9	20.2
Pension costs – defined benefit scheme	2.6	12.8
Pension costs – GPPP	24.9	21.9
Total employee related costs	225.6	227.2

	2016	2015
The average monthly number of employees including executive directors during the year was:		
Management	525	538
Underwriting and claims	3,968	4,248
Finance and administration	2,618	2,239
Total	7,111	7,025

The Company itself does not have any employee related costs.

9. AUDITOR'S REMUNERATION

	2016 £m	2015 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	0.1	0.1
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiaries pursuant to legislation	0.5	0.5
Audit-related assurance services	0.3	0.2
Total auditors' remuneration	0.9	0.8

10. INCOME TAX

<i>(a) Income tax recognised in profit or loss</i>	2016 £m	2015 £m
Current tax:		
In respect of the current year	(8.3)	13.7
In respect of prior years	(1.6)	(1.9)
Total current tax (credit)/charge	(9.9)	11.8
Deferred tax:		
In respect of the current year	26.6	1.4
In respect of prior years	(0.2)	(0.4)
Adjustments to deferred tax attributable to changes in tax rates and laws	(3.0)	(2.3)
	23.4	(1.3)
Total income tax expense recognised in the current year relating to continuing operations	13.5	10.5

10. INCOME TAX (CONTINUED)

	2016 £m	2015 £m
The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit before tax from continuing operations	81.8	61.9
Income tax expense calculated at 20.0% (2015: 20.25%)	16.4	12.5
Effect of expenses not deductible for tax purposes	0.6	1.3
Effect of franked investment income	(0.7)	(0.5)
Effect of capital gains	(0.1)	(1.3)
Effect of prior year adjustment	(1.8)	(2.3)
Effect of overseas tax	2.1	3.0
Effect of changes in statutory tax rate	(3.0)	(2.3)
Effect of imputed transfer pricing adjustments	-	0.1
Income tax expense recognised in profit or loss (relating to continuing operations)	13.5	10.5

The tax rates used for the 2016 and 2015 reconciliations above are the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax will be 19.0% for 2017.

	2016 £m	2015 £m
(b) Income tax recognised in other comprehensive income		
Current tax	8.8	(11.4)
Deferred tax	(4.9)	9.1
Total income tax recognised in other comprehensive income	3.9	(2.3)

	Group 2016 £m	Group 2015 £m
(c) Tax paid for cash flow purposes		
Current tax payable at January 1	12.1	8.2
Amounts charged to the statement of comprehensive income	13.5	10.5
Amounts charged to other comprehensive income	3.9	(2.3)
Movements in deferred tax in the statement of comprehensive income	(23.4)	1.3
Movements in deferred tax to other comprehensive income	4.9	(9.1)
Prior year adjustment	-	4.0
Other movements	-	(4.7)
Tax (paid)/received during the year	(6.0)	4.2
Current tax payable at December 31	5.0	12.1

11. DIRECTORS' EMOLUMENTS

	2016 £	2015 £
Emoluments	2,581,149	2,087,084
The amounts in respect of the highest paid Director are as follows:		
Emoluments	992,236	992,958

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

There are no Directors accruing retirement benefits under a defined benefit scheme.

The highest paid Director was the only Director who was a member of the Allianz Retirement Savings Plan (a Group Personal Pension defined contribution retirement scheme). The Director opted out of the Plan during the year and up to that point the Group made related scheme contributions totalling £4,775 in respect of that Director.

Two Directors waived their right to receive emoluments.

12. SHARE BASED PAYMENTS

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

SARs constitute the right to receive the difference, in cash, between the price of an Allianz share at the time of grant and the price at the time of exercise subject to certain conditions having been met. SARs are subject to a vesting period of four years (up to 2008 two years) and can only be exercised between the third year and seventh year from the date of grant. No value attaches to SARs until the vesting period has expired, the value of the Allianz share price has increased by a minimum of 20% compared with the price at the date of grant and has outperformed the Dow Jones Europe Stoxx Price Index (600) once on five consecutive trading days. The maximum value of a SAR is restricted to 150% of the price at time of grant.

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

The fair value of the SARs (based on standard valuation models – Black-Scholes or Binomial Method) and RSUs (equal to the market price of one Allianz SE share less expected future dividends) is expensed over the respective vesting periods. The fair value is remeasured at each reporting period. The amount debited through the statement of comprehensive income was £1.8m (2015 £4.6m). The liability recorded in the financial statements in respect of the SARs and RSUs as at December 31, 2016 was £7.3m (2015 £8.4m).

SARs and RSUs are allocated annually. The number of SARs and RSUs allocated to an individual are 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 2016, RSUs were allocated to members of the Management Board and other executives.

SAR plan awards granted, forfeited and exercised as of December 31, 2016

Grant Date	Vesting period years	Reference price €	SARs granted	SARs forfeited/lapsed	SARs exercised	SARs transferred ⁽¹⁾
March 2008	2	117.38	25,980	2,796	18,440	4,744
March 2009	4	51.95	39,139	1,458	36,508	1,173
March 2010	4	87.36	45,010	1,699	37,351	5,960

RSU plan awards granted, forfeited and exercised as of December 31, 2016

Grant Date	Vesting period years	RSUs granted	RSUs forfeited	RSUs exercised	RSUs transferred ⁽¹⁾
March 2010	5	22,342	843	19,262	2,237
March 2011	4	26,294	-	23,311	2,983
March 2012	4	30,742	-	27,179	3,563
March 2013	4	27,837	-	1,660	4,117
March 2014	4	24,229	980	1,304	-
March 2015	4	20,938	893	1,273	-
March 2016	4	15,510	522	364	-

⁽¹⁾ In 2011 and 2013, some Executives' employment was transferred to fellow group undertakings outside the Allianz Holdings plc group of companies, along with their respective SARs and RSUs.

13. DIVIDENDS

	2016 £m	2015 £m
Dividends on ordinary shares:		
Interim dividends paid of nil per share (2015 £nil)	-	-
Total	-	-

14. INVESTMENT IN GROUP UNDERTAKINGS

(a) Subsidiary undertakings of Allianz Holdings plc

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

All of the above shareholdings were also held at December 31, 2015. The figures for percentage holdings all relate to the ordinary share capital of the subsidiaries.

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

(b) Non-current assets held

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

	2016 £m	2015 £m
Assets classified as held for sale		
Property and equipment	3.5	-
Deferred tax	2.1	-
Prepayments and accrued income	0.7	-
Available for sale financial assets	14.7	-
Other receivables	8.0	-
Cash and cash equivalents	3.9	-
	32.9	-
Liabilities classified as held for sale		
Tax payable	1.6	-
Accruals and other payables	18.8	-
	20.4	-

15. INTANGIBLE ASSETS

Group	Goodwill £m	Software £m	Other intangible assets £m	Total £m
Cost				
At January 1, 2015	76.3	27.9	32.4	136.6
Additions arising from internal development	-	4.2	-	4.2
Additions acquired separately	-	2.4	-	2.4
Disposals	-	(0.5)	-	(0.5)
At December 31, 2015	76.3	34.0	32.4	142.7
Additions arising from internal development	-	12.0	-	12.0
Disposals	-	(0.1)	-	(0.1)
At December 31, 2016	76.3	45.9	32.4	154.6
Accumulated amortisation and impairment				
At January 1, 2015	2.9	21.7	31.8	56.4
Amortisation charge for the year	-	1.9	0.4	2.3
Disposals	-	-	-	-
At December 31, 2015	2.9	23.6	32.2	58.7
Amortisation charge for the year	-	3.1	0.2	3.3
Disposals	-	(0.1)	-	(0.1)
At December 31, 2016	2.9	26.6	32.4	61.9
Carrying amount				
At December 31, 2015	73.4	10.4	0.2	84.0
At December 31, 2016	73.4	19.3	-	92.7

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

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

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

The Company itself does not have any intangible assets.

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

The carrying value (including goodwill) of the CGU is compared to the discounted future pre-tax cashflows of that CGU. The cashflows are discounted at the Group's cost of capital rate, 7.7% 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 2016 test indicated that no impairment was required to the carrying value of goodwill in either CGU as at December 31, 2016.

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

16. PENSION BENEFIT OBLIGATION

The Group sponsors two pension schemes:

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

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

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

Contributions payable to the ARDBF do not affect the measurement of the defined benefit liability or asset recognised on the 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 Company has taken into account that the trustees do not have unilateral powers to wind up the ARDBF or modify benefits.

Group Personal Pension Plan

The assets of the GPPP are held separately in independently administered funds. The cost of providing benefits in the GPPP is determined as the contributions payable during the year and so for 2016, was £24.9m (2015: £13.1m).

Allianz Retirement and Death Benefits Fund

Prior to 30 June 2015 the following disclosures for the ARDBF include the combined total of the defined contribution section and the defined benefit section. Following the GPPP being established, and benefits no longer building up in the ARDBF, a significant proportion of defined contribution section of the ARDBF assets was transferred to the GPPP in 2015. The remaining assets were transferred during 2016. Given these changes to the ARDB, figures from 30 June 2015 in the following disclosures exclude the assets and liabilities of the defined contribution section. The assets and liabilities of the defined contribution section are equal and so this treatment has no net effect on the figures. This equal reduction in the assets and liabilities is included within a separate “DC section transfer to GPPP” line in the defined benefit liability reconciliation.

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

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

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

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

As a result of the deficit in the ARDBF, the trustee board and the Group agreed a recovery plan of £40m pa payable annually until 31 March 2022. The next actuarial valuation is scheduled to have an effective date of 31 March 2017, when a new recovery plan may be agreed.

The amount of Group contributions paid into the ARDBF during 2016 was £40.0m (2015 £59.1m). Group contributions to the ARDBF over 2017 are expected to be £40.0m.

The assets of the ARDBF are held in separate trustee administered funds. In consultation with the Group, the trustee board regularly reviews the investment strategy of the ARDBF with the aim of meeting benefit payments as they fall due and maintaining the funding position at an appropriate level subject to an appropriate level of risk. These broad principles have led to the investment strategy below. The assets of the ARDBF were significantly de-risked over 2015 and 2016, moving a large allocation from equities to debt instruments. There is no exact matching of assets and liabilities in the form of insurance policies or derivatives.

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

Growth assets	15%
Marking assets	85%
	100%

16. PENSION BENEFIT OBLIGATION (CONTINUED)

The liability figures in this disclosure also include figures in respect of a small unfunded post-retirement medical healthcare arrangement and a small unfunded top-up pension benefit arrangement provided to certain senior employees, with a combined IAS19 present value of defined benefit obligation at December 31, 2016 of around £6.5m.

The defined benefit section of the ARDBF, unfunded post-retirement medical healthcare arrangement and unfunded top-up pension benefit arrangement expose the Group to longevity risk, inflation risk, interest rate risk and investment risk.

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.

	2016	2015	2014
Discount rate	2.9% pa	3.9% pa	3.7% pa
RPI inflation	3.3% pa	3.0% pa	3.0% pa
Life expectancy of male aged 60 at the balance sheet date	28.4 years	28.3 years	28.2 years
Life expectancy of male aged 60 at the balance sheet date plus 20 years	30.4 years	30.3 years	30.2 years
Life expectancy of female aged 60 at the balance sheet date	30.6 years	30.5 years	30.4 years
Life expectancy of female aged 60 at the balance sheet date plus 20 years	32.6 years	32.5 years	32.4 years

As at December 2016, the Group has adopted an updated approach for deriving the discount rate. The Group believes that the updated approach uses a more robust method to extrapolate the corporate bond yield curve, given the current conditions in financial markets. The new approach has increased the discount rate adopted as at December 31, 2016 by around 0.15% pa which has reduced the defined benefit obligation as at December 31, 2016 by approximately £33m.

Other IAS19 assumptions used include:

	2016	2015	2014
General salary increases	n/a	n/a	2.8% pa
Pension increases in deferment	3.3% pa	3.0% pa	3.0% pa
Pension increases in payment (RPI up to maximum of 5% pa)	3.1% pa	2.9% pa	2.9% pa
Pension increases in payment (RPI up to maximum of 2.5% pa)	2.1% pa	2.0% pa	2.0% pa
Real long-term healthcare inflation	2.5% pa	2.5% pa	2.5% pa

At 31 December 2016, the weighted average duration of the defined benefit obligation of the ARDBF was 18.8 years (2015 18.0 years).

The actual return on the ARDBF assets over the year was £190.0m (2015 £21.5m). The current allocation of the ARDBF assets is as follows:

	2016	2015	2014
Assets with a quoted market price in an active market			
- Equity instruments	-	77.6	429.7
- Debt instruments	770.0	570.7	298.5
- Other	65.4	13.8	10.5
	835.4	662.1	738.7
Assets without a quoted market price in an active market			
- Debt instruments	61.0	44.1	46.4
- Property	93.9	92.3	131.2
- Other	-	0.8	0.8
	154.9	137.2	178.4
Total	990.3	799.3	917.1

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

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.

16. PENSION BENEFIT OBLIGATION (CONTINUED)

	Liabilities		Assets		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Balance at 1 January	897.6	1,066.8	(799.3)	(917.1)	98.3	149.7
Included in profit or loss						
Current employer service cost	-	17.3	-	-	-	17.3
Interest cost/(income)	34.2	36.3	(31.6)	(32.0)	2.6	4.3
Total expense included in profit or loss	34.2	53.6	(31.6)	(32.0)	2.6	21.6
Included in OCI						
Re-measurement loss (gain):						
- Actuarial loss (gain) arising from:						
- demographic assumptions	-	14.3	-	-	-	14.3
- financial assumptions	213.7	(27.4)	-	-	213.7	(27.4)
- experience adjustment	(9.3)	(16.0)	-	-	(9.3)	(16.0)
- Return on plan assets excluding interest income on assets	-	-	(158.4)	13.1	(158.4)	13.1
Total loss/(gain) included in OCI	204.4	(29.1)	(158.4)	13.1	46.0	(16.0)
Other						
Contributions by the employer (incl employee contribution via salary sacrifice)	-	-	(41.3)	(59.2)	(41.3)	(59.2)
Benefits paid	(38.6)	(30.4)	38.6	30.4	-	-
DC Section transfer to GPPP	-	(163.3)	-	163.3	-	-
Total other	(38.6)	(193.7)	(2.7)	134.5	(41.3)	(59.2)
Administration costs	-	-	1.7	2.2	1.7	2.2
Balance at 31 December	1,097.6	897.6	(990.3)	(799.3)	107.3	98.3
Represented by:						
Net defined benefit liability					107.3	98.3

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

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

	Defined benefit obligation	
	Increase £m	Decrease £m
Discount rate (0.5% movement)	(93.8)	107.6
Increases prior to payment (0.25% movement) ¹	16.0	(15.6)
Increases in payment (0.25% movement) ²	24.0	(23.3)
Life expectancy (one-year movement)	35.2	(35.2)

¹Increases prior to payment include only deferred increases to pensions.

²Increases in payment include only increases to pensions after retirement.

17. PROPERTY AND EQUIPMENT

Group	Property £m	Equipment £m	Motor vehicles £m	Total £m
<i>Cost or valuation</i>				
At January 1, 2015	14.6	7.2	19.2	41.0
Additions	-	1.1	7.5	8.6
Disposals	-	(0.6)	(6.4)	(7.0)
Net fair value gains	2.5	-	-	2.5
At December 31, 2015	17.1	7.7	20.3	45.1
Additions	-	3.7	4.9	8.6
Disposals	-	(0.3)	(5.4)	(5.7)
Transfer to asset held for sale	-	(11.1)	(0.2)	(11.3)
Net fair value losses	(1.7)	-	-	(1.7)
At December 31, 2016	15.4	-	19.6	35.0
<i>Accumulated depreciation</i>				
At January 1, 2015	-	6.0	7.9	13.9
Depreciation charge for the year	-	0.7	3.8	4.5
Disposals	-	(0.1)	(4.5)	(4.6)
At December 31, 2015	-	6.6	7.2	13.8
Depreciation charge for the year	-	1.1	3.7	4.8
Disposals	-	-	(3.8)	(3.8)
Transfer to asset held for sale	-	(7.7)	(0.1)	(7.8)
At December 31, 2016	-	-	7.0	7.0
<i>Carrying amount</i>				
At December 31, 2015	17.1	1.1	13.1	31.3
At December 31, 2016	15.4	-	12.6	28.0

The Company itself does not hold any property or equipment.

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

18. INVESTMENT PROPERTIES

Group	Note	2016 £m	2015 £m
At January 1		154.3	161.4
Disposals		(2.3)	(6.8)
Realised gains/(losses)	5	0.4	(3.5)
Net fair value (loss)/gain	6	(10.0)	3.2
At December 31		142.4	154.3

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

The rental income arising from investment properties during the year amounted to £11.3m (2015 £11.2m), which is included in investment income. Direct operating expenses (charged against investment income) arising in respect of such properties during the year amounted to £1.1m (2015 £1.4m).

19. DEFERRED ACQUISITION COSTS

Group	Gross Reinsurance 2016		Gross Reinsurance 2015	
	£m	£m	£m	£m
At January 1	218.5	(44.6)	234.8	(2.8)
Impact of quota share	-	(42.7)	-	(45.2)
	218.5	(87.3)	234.8	(48.0)
Costs deferred during the year	465.4	(186.7)	497.4	(102.9)
Amortisation charge for the year	(477.4)	192.7	(513.7)	106.3
At December 31	206.5	(81.3)	218.5	(44.6)

Acquisition costs comprise the commission and management expenses of acquiring insurance policies written during the year.

Acquisition costs which relate to a subsequent financial year are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

20. LEASES

Group	2016 £m	2015 £m
The total of future minimum lease payments under non-cancellable operating leases are set out below:		
Not later than one year	8.2	7.4
Later than one year and not later than five years	27.3	28.1
Later than five years	20.9	14.8
Total	56.4	50.3

Operating lease rentals for the year were £8.1m (2015 £8.2m).

Group	2016 £m	2015 £m
The total of future minimum lease receipts expected to be received under non-cancellable leases at the balance sheet date are set out below:		
Not later than one year	9.9	14.4
Later than one year and not later than five years	35.5	55.1
Later than five years	40.0	25.8
Total	85.4	95.3

Lease receipts for the year were £11.5m (2015 £11.4m).

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

21. TAX ASSETS AND LIABILITIES

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
<i>(a) Current tax assets and liabilities</i>				
Current tax assets	-	-	0.2	-
Current tax liabilities	3.4	12.1	-	-

(b) Deferred tax balances

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

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Deferred tax assets	42.4	67.4	-	-
Deferred tax liabilities	(18.3)	(22.7)	-	-
	24.1	44.7	-	-

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

	Group Opening balance £m	Group Recognised in profit or loss £m	Group Recognised in other comprehensive income £m	Group Transfer to asset held for sale £m	Group Closing balance £m
2015					
<i>Deferred tax assets/(liabilities) in relation to:</i>					
Pensions	29.9	(3.1)	(9.1)	-	17.7
Properties	4.2	(2.1)	-	-	2.1
Provisions and other temporary differences	3.9	0.3	-	-	4.2
Tax losses	31.6	11.8	-	-	43.4
Technical reserves	6.2	(6.2)	-	-	-
Claims equalisation reserve	(23.3)	0.6	-	-	(22.7)
	52.5	1.3	(9.1)	-	44.7

22. REINSURANCE ASSETS

Group	Note	2016 £m	2015 £m
Reinsurers share of insurance contracts liabilities	30	1,321.6	798.6
Total reinsurance assets		1,321.6	798.6

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

23. PREPAYMENTS AND ACCRUED INCOME

Group	2016 £m	2015 £m
Prepayments		
Prepaid expenses	0.7	0.8
Total prepayments	0.7	0.8
Accrued income		
Interest	29.7	32.0
Total accrued income	29.7	32.0
Total prepayments and accrued income	30.4	32.8

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

24. FINANCIAL ASSETS

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

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Available for sale financial assets	2,330.2	-	2,298.5	-
Loans	342.9	1.5	340.6	-
Total financial assets	2,673.1	1.5	2,639.1	-
	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
(a) Available for sale financial assets				
At fair value				
Equity securities				
Unlisted	105.5	-	98.5	-
Total equity securities at fair value	105.5	-	98.5	-
Debt securities				
Listed	2,217.0	-	2,180.7	-
Total debt securities at fair value	2,217.0	-	2,180.7	-
Deposits with credit institutions	7.7	-	19.3	-
Total available for sale financial assets at fair value	2,330.2	-	2,298.5	-
At cost				
Equity securities				
Unlisted	97.8	-	97.8	-
Total equity securities at cost	97.8	-	97.8	-
Debt securities				
Listed	2,120.5	-	2,138.4	-
Total debt securities at amortised cost	2,120.5	-	2,138.4	-
Deposits with credit institutions	7.7	-	19.3	-
Total available for sale financial assets at cost	2,226.0	-	2,255.5	-

The fair value of the loans made by the Group is £373.8m (2015 £378.5m) and of those made by the Company is £1.5m (2015 £nil). Other carrying amounts disclosed above reasonably approximate fair values at year end.

The Group has holdings in collective investment trusts of £105.5m (2015 £98.5m). These are included within the unlisted total above, and whilst there are quoted prices for the holdings, only £91.5m (2015 £81.6m) of the holdings is readily realisable.

Included within the deposits with credit institutions is £7.7m (2015 £6.5m) 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.

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, 2016, the Group had lent £105.3m (2015 £290.9m) and held collateral under such agreements of £116.4m (2015 £360.9m).

24. FINANCIAL ASSETS (CONTINUED)

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
(b) Loans and receivables				
Loans to related parties	340.0	-	340.0	-
Other loans	2.9	1.5	0.6	-
Total loans	342.9	1.5	340.6	-
	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Current loans	1.2	0.4	0.6	-
Non current loans	341.7	1.1	340.0	-

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

25. INSURANCE RECEIVABLES

Group	2016 £m	2015 £m
Due from policyholders	395.7	369.4
Due from reinsurers	4.5	22.1
Due from agents, brokers and intermediaries	378.2	394.5
Total insurance receivables	778.4	786.0

Group	2016 £m	2015 £m
Current insurance receivables	713.2	701.2
Non current insurance receivables	65.2	84.8

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

26. OTHER RECEIVABLES

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Amounts due from related parties	61.3	76.7	55.9	84.8
Other	41.8	-	39.9	-
Total other receivables	103.1	76.7	95.8	84.8

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Current other receivables	103.1	76.7	95.8	84.8
Non current other receivables	-	-	-	-

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

27. CASH AND CASH EQUIVALENTS

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Cash at bank	105.8	80.0	48.0	-
Short-term deposits (including demand and time deposits)	58.7	-	55.3	-
Total	164.5	80.0	103.3	-

Deposits are subject to an average interest rate of 0.6% (2015 0.7%) and have an average maturity of 1 day (2015 1 day). The carrying amounts disclosed above reasonably approximate fair values at year end.

28. SHARE CAPITAL

	Issued 2016 £	2015 £
Ordinary shares of £1 each fully paid	827,996,234	827,996,234

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

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Group	Note	Severance pay £m	IT £m	Indemnities	Total £m
At January 1, 2015		-	-	0.5	0.5
Amount charged to the statement of comprehensive income	7	-	-	-	-
At December 31, 2015		-	-	0.5	0.5
Amount charged to the statement of comprehensive income	7	7.6	1.0	-	8.6
Utilised in the year		(5.0)	(1.0)	-	(6.0)
At December 31, 2016		2.6	-	0.5	3.1

The above provision is all current.

Restructuring

During 2013, indemnities were transferred to the Company from Allianz UK. These indemnities relate to the sale of M.I. Group Limited to Sanlam Netherlands Holding BV ("Sanlam"), in particular, provisions against pensions mis-selling. Under the indemnity the Company will reimburse Sanlam if the costs of compensation and administrative expenses exceed agreed amounts.

During 2016 the Group made the decision to withdraw from the Direct Motor and Home market. It was necessary to reorganise the structure of the Group into distinct trading and technical areas spanning both Commercial and Personal lines. Restructuring charges were split between severance pay and IT. The reorganisation is expected to be complete in 2017.

There is uncertainty regarding the future payments to be made under these indemnities but the Directors believe that the provision at December 31, 2016 is reasonable, based on the information currently available.

30. INSURANCE CONTRACTS LIABILITIES

Group	Insurance contracts liabilities £m	2016 Reinsurers' share of liabilities £m	Net £m	Insurance contracts liabilities £m	2015 Reinsurers' share of liabilities £m	Net £m
Provisions for claims reported by policyholders	1,645.4	(737.4)	908.0	1,637.2	(428.5)	1,208.7
Provisions for claims incurred but not reported	105.8	(117.8)	(12.0)	97.8	(84.5)	13.3
Total claims reported and IBNR	1,751.2	(855.2)	896.0	1,735.0	(513.0)	1,222.0
Provision for unearned premiums	1,082.5	(466.4)	616.1	1,126.2	(285.6)	840.6
Total general insurance contracts liabilities	2,833.7	(1,321.6)	1,512.1	2,861.2	(798.6)	2,062.6
Current general insurance contracts liabilities	1,237.9	(545.0)	692.9	1,263.1	(308.3)	954.8
Non current general insurance contracts liabilities	1,595.8	(776.6)	819.2	1,598.1	(490.3)	1,107.8

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

Group	Insurance contracts liabilities £m	2016 Reinsurers' share of liabilities £m	Net £m	Insurance contracts liabilities £m	2015 Reinsurers' share of liabilities £m	Net £m
At January 1	1,735.0	(513.0)	1,222.0	1,593.2	(211.7)	1,381.5
Foreign exchange adjustment	2.7	(1.1)	1.6	(1.0)	0.6	(0.4)
Impact of quota share	-	(304.9)	(304.9)	-	(275.7)	(275.7)
Unwind of discount on PPO claims reserves	3.6	(2.8)	0.8	3.8	(2.4)	1.4
	1,741.3	(821.8)	919.5	1,596.0	(489.2)	1,106.8
Claims incurred in the current accident year	1,556.0	(637.9)	918.1	1,602.3	(339.1)	1,263.2
Movement on claims incurred in prior accident years	(43.6)	2.0	(41.6)	(95.0)	49.5	(45.5)
Claims paid during the year	(1,502.5)	602.5	(900.0)	(1,368.3)	265.8	(1,102.5)
At December 31	1,751.2	(855.2)	896.0	1,735.0	(513.0)	1,222.0

The provision for unearned premiums may be analysed as follows:

Group	Notes	Insurance contracts liabilities £m	2016 Reinsurers' share of liabilities £m	Net £m	Insurance contracts liabilities £m	2015 Reinsurers' share of liabilities £m	Net £m
At January 1		1,126.2	(285.6)	840.6	1,118.2	(72.1)	1,046.1
Foreign exchange adjustment		-	-	-	0.1	(0.1)	-
Impact of quota share		-	(202.4)	(202.4)	-	(202.6)	(202.6)
		1,126.2	(488.0)	638.2	1,118.3	(274.8)	843.5
Premiums written in the year	3	2,141.2	(897.1)	1,244.1	2,218.7	(535.8)	1,682.9
Premiums earned during the year	3	(2,184.9)	918.7	(1,266.2)	(2,210.8)	525.0	(1,685.8)
At December 31		1,082.5	(466.4)	616.1	1,126.2	(285.6)	840.6

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

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

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

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

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of periodic payments established under the Courts Act 2003. As at the end of 2015 there were thirty-nine of these claims outstanding. During 2016 one further settlement was agreed on this basis and one claimant died. Total reserves that are discounted are £121.7m (2015 £118.8m) gross and £34.1m (2015 £42.7m) net of reinsurance. The corresponding undiscounted amounts are £292.1m (2015 £295.1m) gross and £69.9m (2015 £93.0m) net.

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques.

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

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

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

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

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

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

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

Case estimates for large injury claims have been set using Ogden Tables discounted at 2.5% as a base. On February 27, 2017 the Lord Chancellor announced a reduction in the discount rate to -0.75%, effective from March 20, 2017. This will serve to increase the level of future bodily injury claims settlements. An estimate of the expected increase in cost has been included within the booked reserves.

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

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

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

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

Assumptions on claim reporting patterns are derived in the main from those historically observed, as described above.

External claim handling costs are included in the cost of claims, while an assumption on the cost of internal claims handling has been made for each line of business.

Changes in assumptions from the prior period have caused a £40.0m decrease (2015 £94.3m decrease) in gross insurance provisions. The net effect after reinsurance is £40.5m decrease (2015 £45.4m decrease). The major reasons for this change are:

- improvements in the liability, commercial motor and personal motor accounts; and
- reduction in the amounts needed in respect of the December 2015 weather events.

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

Loss development triangle

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

Group	Note	Accident Year										Total	
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
Gross of reinsurance		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year		1,129.8	1,041.2	999.0	1,061.2	1,103.8	1,214.3	1,196.2	1,343.8	1,602.3	1,556.0		
One year later		1,113.8	1,005.2	1,000.0	1,100.9	1,107.8	1,197.5	1,223.5	1,374.8	1,568.8			
Two years later		1,058.3	970.9	978.9	1,072.2	1,102.8	1,168.5	1,185.8	1,376.3				
Three years later		1,047.9	963.4	972.6	1,068.7	1,103.2	1,166.5	1,179.4					
Four years later		1,033.2	959.2	970.0	1,074.4	1,084.1	1,178.3						
Five years later		1,023.9	960.1	967.6	1,078.2	1,077.2							
Six years later		1,035.4	962.3	976.1	1,076.2								
Seven years later		1,034.6	959.2	957.9									
Eight years later		1,031.2	958.3										
Nine years later		1,030.4											
Current estimate of cumulative claims		1,030.4	958.3	957.9	1,076.2	1,077.2	1,178.3	1,179.4	1,376.3	1,568.8	1,556.0	11,958.8	
Cumulative payments to date		1,005.5	935.1	928.0	1,035.7	1,041.1	1,108.5	1,082.2	1,145.3	1,228.0	907.8	10,417.2	
Reserve in respect of prior years												209.6	
Total gross liability as per the balance sheet	30	24.9	23.2	29.9	40.5	36.1	69.8	97.2	231.0	340.8	648.2	1,751.2	

Group	Note	Accident Year										Total
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Net of reinsurance		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year		1,054.9	1,000.1	969.7	1,040.7	1,096.0	1,187.1	1,168.5	1,314.9	1,263.2	918.1	
One year later		1,040.1	965.0	955.1	1,074.3	1,082.6	1,172.8	1,193.6	1,230.2	1,238.6		
Two years later		1,004.6	939.1	937.6	1,056.6	1,081.9	1,152.9	1,110.7	1,222.5			
Three years later		996.2	932.9	923.1	1,052.9	1,082.4	1,119.3	1,108.5				
Four years later		982.0	930.9	922.0	1,054.3	1,047.0	1,124.3					
Five years later		973.2	932.9	918.2	1,044.1	1,043.4						
Six years later		973.3	934.1	915.7	1,042.7							
Seven years later		971.5	924.7	910.6								
Eight years later		965.1	924.1									
Nine years later		964.3										
Current estimate of cumulative claims		964.3	924.1	910.6	1,042.7	1,043.4	1,124.3	1,108.5	1,222.5	1,238.6	918.1	10,497.1
Cumulative payments to date		954.3	911.4	901.4	1,025.6	1,027.9	1,087.6	1,056.5	1,098.1	1,049.9	553.4	9,666.1
Reserve in respect of prior years												65.0
Total net liability as per the balance sheet	30	10.0	12.7	9.2	17.1	15.5	36.7	52.0	124.4	188.7	364.7	896.0

32. INSURANCE RELATED PAYABLES

Group	2016 £m	2015 £m
Arising out of direct insurance operations		
Third parties	61.3	86.7
	61.3	86.7
Deposits received from reinsurers		
Amounts due to related parties	901.3	464.3
Third parties	0.1	0.1
	901.4	464.4
Arising out of reinsurance operations		
Amounts due to related parties	9.8	12.5
Third parties	54.6	63.4
	64.4	75.9
Total insurance related payables	1,027.1	627.0
	2016 £m	2015 £m
Current insurance related payables	1,027.0	371.5
Non current insurance related payables	0.1	255.5

33. ACCRUALS AND OTHER PAYABLES

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Amounts due to related parties	97.5	135.9	13.5	61.8
Accrued expenses	36.3	-	29.4	-
Social security and other taxes	43.3	-	34.4	-
Other	81.3	-	84.3	0.5
Total accruals and other payables	258.4	135.9	161.6	62.3

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

34. RISK MANAGEMENT POLICIES

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

Insurance

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

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

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

The Group limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition, the Group uses both proportional and non proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather-related claims. Maximum exposure for each line of business (motor, liability, property and business interruption claims) is limited according to risk appetite, capital requirements and the return on capital. The Group uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses. Based upon the modelling work undertaken, the Group buys reinsurance protection for a 1-in-250-year single event. In order to protect its risk capital from extreme events the group also purchases catastrophe reinsurance for a modelled 1-in-500-year loss event.

Effective from 2016, Allianz Insurance plc placed a 40% (2015 20%) quota share treaty with the parent company's reinsurance company, in order to reduce the capital requirements and improve the solvency position under the Solvency II regime.

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

As detailed below under Financial risk policy - b) Credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full. Members of the Allianz Societas Europaea group of companies are the Group's largest reinsurers.

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

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

Claims liabilities 2015	Gross £m	Reinsurers' Share £m	Net £m
Motor	744.0	(248.9)	495.1
Household	72.9	(14.5)	58.4
Property and business interruption	256.8	(81.6)	175.2
Liability	523.4	(137.7)	385.7
Speciality pecuniary	105.6	(21.9)	83.7
Other	32.3	(8.4)	23.9
Total	1,735.0	(513.0)	1,222.0

Note 31 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Group's estimation techniques for claims payments.

Financial risk

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

a) Market risk

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

The Group manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders funds. A substantial part of the Group's financial assets are invested in UK Government 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, 2016 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.3 years (2015 3.2 years) compared with the average duration of the insurance contract liabilities which is estimated to be 2.1 years (2015 2.2 years).

(ii) Equity risk

As stated in accounting policy 1.4(h), the portfolio is valued at the bid market price. Equity market risk is the risk that the market price of the available for sale financial assets will fall in value as a result of adverse stock market movements. To manage this risk the Group limits its exposure to stock markets to a modest proportion of its total investment portfolio. Stocks held are limited to United Kingdom equities with the maximum investment in any one stock being controlled by the application of strict investment controls. These controls limit the maximum exposure to any one stock or sector of the FTSE 100 index in order to minimise risk. The largest exposure to a single stock holding was £nil (2015 £nil).

(iii) Currency risk

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

The Group has a policy of broadly matching currency liabilities with assets denominated in the same currency in order to minimise currency risk. Rebalancing of net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values. At December 31, 2016 the Group held Euro nil m (2015 Euro 17.5m) and USD nil m (2015 USD 15.0m) of foreign exchange forward contracts to minimise the impact on comprehensive income arising from exposure to these currencies. At December 31, the largest currency exposures were:

	2016 £m	2015 £m
US Dollars		
Assets	37.2	29.0
Liabilities	33.4	31.7
Value of USD forward contract	-	10.2
Euro		
Assets	13.5	2.0
Liabilities	10.0	16.5
Value of Euro forward contract	-	12.9

(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.

	2016 Profit or Loss £m	2016 Equity £m	2015 Profit or Loss £m	2015 Equity £m
Interest rate risk				
+100 basis points shift in yield curves	-	(60.6)	-	(62.9)
-100 basis points shift in yield curves	-	67.5	-	67.8
Equity risk				
10% increase in equity prices	-	10.6	-	9.8
10% decrease in equity prices	(2.4)	(10.6)	(9.4)	(9.8)
Currency Risk				
10% strengthening of US dollar exchange rate	-	(0.4)	0.8	0.6
10% weakening of US dollar exchange rate	-	0.4	(0.8)	(0.6)
10% strengthening of Euro exchange rate	-	(0.4)	(0.2)	(0.1)
10% weakening of Euro exchange rate	-	0.4	0.2	0.1

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

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

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

	Profit or Loss		Equity	
	Gross £m	Net £m	Gross £m	Net £m
2015				
Expense ratio				
1% increase in current year	(22.1)	(16.8)	(17.6)	(13.4)
1% decrease in current year	22.1	16.8	17.6	13.4
Loss ratio				
1% increase in current year	(14.7)	(11.5)	(11.7)	(9.2)
1% increase in all of the last 3 years	(38.0)	(29.6)	(30.3)	(23.6)
1% decrease in current year	14.7	11.5	11.7	9.2
1% decrease in all of the last 3 years	38.0	29.6	30.3	23.6

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

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

b) Credit risk

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

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

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

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Group's liability as primary reinsurer. If a reinsurer fails to pay a claim for any reason the Group remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Group's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Group's major clients. Where there is a significant or potentially significant exposure to an individual captive additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2016 was £693.6m (2015 £344.5m).

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

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

	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
2016								
Reinsurance assets	9.9	1,236.4	10.9	0.1	-	0.7	63.6	1,321.6
Available for sale financial assets	489.8	812.6	352.1	547.5	22.7	-	105.5	2,330.2
Loans	-	340.0	-	-	-	-	2.9	342.9
Insurance receivables (1)	0.2	89.2	137.6	17.1	-	-	534.3	778.4
Cash and cash equivalents	-	-	164.5	-	-	-	-	164.5
Total £m	499.9	2,478.2	665.1	564.7	22.7	0.7	706.3	4,937.6
Per cent	10.1	50.2	13.5	11.4	0.5	0.0	14.3	100.0
	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
2015								
Reinsurance assets	9.6	712.9	12.5	0.2	-	0.4	63.0	798.6
Available for sale financial assets	588.3	687.2	361.7	537.8	25.0	-	98.5	2,298.5
Loans	-	340.0	-	-	-	-	0.6	340.6
Insurance receivables (1)	-	70.4	154.3	52.0	-	-	509.3	786.0
Cash and cash equivalents	-	52.4	50.9	-	-	-	-	103.3
Total £m	597.9	1,862.9	579.4	590.0	25.0	0.4	671.4	4,327.0
Per cent	13.8	43.1	13.4	13.6	0.6	0.0	15.5	100.0

1. Included in the not rated balance is £395.7m (2015 £369.4m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who, whilst not independently rated, are regulated by the Financial Conduct Authority.

The available for sale financial assets shown in the above table are made up of equity securities £105.5m (2015 £98.5m), bonds £2,217.0m (2015 £2,180.7m) and other deposits £7.7m (2015 £19.3m).

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

Equities	AIM £m	Collective investment trusts £m	Unlisted £m	Total £m
2016	-	105.5	-	105.5
2015	-	98.5	-	98.5

Bonds	Government £m	Corporate £m	Supranationals £m	Total £m
2016	495.8	1,637.3	83.9	2,217.0
2015	518.7	1,612.2	49.8	2,180.7

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

	2016 £m Reinsurance assets	2016 £m Insurance receivables	2015 £m Reinsurance assets	2015 £m Insurance receivables
Neither past due or impaired	1,321.4	664.8	798.0	710.9
Past due but not impaired	-	112.4	-	73.8
Individually impaired	0.2	1.2	0.6	1.3
Total	1,321.6	778.4	798.6	786.0

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.

	Less than 90 days £m	90-120 days £m	120-180 days £m	More than 180 days £m	Total £m
2016					
Policyholders	1.7	-	-	-	1.7
Brokers	41.0	22.8	13.4	33.5	110.7
Reinsurers	-	-	-	-	-
Total	42.7	22.8	13.4	33.5	112.4
2015					
Policyholders	0.7	-	-	-	0.7
Brokers	39.7	12.4	10.0	11.0	73.1
Reinsurers	-	-	-	-	-
Total	40.4	12.4	10.0	11.0	73.8

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

Fair value hierarchy

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

Level 1: quoted prices in active markets for identical assets. Additional criteria was applied to Corporate Bonds which were only included if they were AAA-rated and government-backed. Other Corporate Bonds were included in Level 2.

Level 2: Corporate Bonds which did not meet the criteria necessary to qualify for Level 1.

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

Group 2016	Fair value as of December 31, £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Equity securities	105.5	91.5	-	14.0
Government and government agency bonds	579.7	579.7	-	-
Corporate bonds	1,637.3	13.1	1,624.2	-
Deposits with credit institutions	7.7	7.7	-	-
Own use properties	15.4	-	-	15.4
Investment properties	142.4	-	-	142.4
Total	2,488.0	692.0	1,624.2	171.8
Group 2015	Fair value as of December 31, £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Equity securities	98.5	81.6	-	16.9
Government and government agency bonds	568.5	568.5	-	-
Corporate bonds	1,612.2	52.3	1,559.9	-
Deposits with credit institutions	19.3	19.3	-	-
Own use properties	17.1	-	-	17.1
Investment properties	154.3	-	-	154.3
Total	2,469.9	721.7	1,559.9	188.3

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

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

	Fair value as of January 1, £m	Additions £m	Disposals £m	Unrealised gains/(losses) in profit and loss £m	Unrealised gains/(losses) in equity £m	Fair value as of December 31, £m
2016						
Group						
Equity securities	16.9	-	-	-	(2.9)	14.0
Own use properties	17.1	-	-	(1.5)	(0.2)	15.4
Investment properties	154.3	-	(1.9)	(10.0)	-	142.4
	Fair value as of January 1, £m	Additions £m	Disposals £m	Unrealised gains/(losses) in profit and loss £m	Unrealised gains/(losses) in equity £m	Fair value as of December 31, £m
2015						
Group						
Equity securities	16.3	-	-	-	0.6	16.9
Own use properties	14.6	-	-	2.3	0.2	17.1
Investment properties	161.4	-	(10.3)	3.2	-	154.3

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

Equity securities

Included in Level 3 is the Group holding in a property fund. The fair value of this holding £14.0m (2015 £16.9m) is based upon the net asset value of the fund.

Investment properties

Valuation technique:

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

Significant unobservable inputs:

Rental growth	Factored into the yield applied (location/sector specific)
Voids	0–18 months
Occupancy rate	Approximately 99.4% (excluding care homes)
Rent free	0–12 months upon re-letting
Equivalent yields applied	5.5%–14.2%

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

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

Own use properties

Valuation technique:

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

Significant unobservable inputs:

Rental growth	Factored into the yield applied (location/sector specific)
Voids	24–33 months
ERV	£12–£31.50 per square foot (refurbished/redeveloped)
Rent free	12–18 months upon re-letting
Letting fees	15% of MR

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

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

c) Liquidity risk

Liquidity risk is the risk that cash might not be available to pay obligations when they fall due at a reasonable cost. The Group is exposed to daily calls on its available cash resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Group's available for sale financial assets and loans at December 31, 2016 amounted to £2,673.1m (2015 £2,639.1m) plus cash and cash equivalents of £168.4m (2015 £103.3m). With the exception of the lent securities (see note 24), nearly all of these are readily realisable. As a result, the Group's exposure to potential liquidity risk is extremely low and in the various risk capital models used by the Group no capital is allocated to this risk.

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

	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
Available for sale financial assets						
2016	2,344.9	381.8	161.9	610.7	623.2	567.3
2015	2,298.5	365.5	256.9	502.2	597.8	576.1

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

	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
Insurance liabilities						
2016	1,751.2	751.6	398.4	400.2	102.2	98.8
2015	1,735.0	749.7	367.1	397.9	116.7	103.6

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. The capitalisation required is derived from the Allianz SE Internal Model, approved for use to determine the SCR under Solvency II for Allianz Insurance Plc, the largest member of the Group. This process involves undertaking a comprehensive assessment of the risks in the business and then quantifying the amount and composition of the capital the Group needs to hold to mitigate these risks to an agreed level of confidence.

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

Several of the companies in the Group are regulated in respect of Prudential requirements (including capitalisation) by the Prudential Regulation Authority (PRA). The Group aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of one of a series of pre-specified financial market and insurance shocks. This Risk Appetite provides for a buffer above SCR to ensure that the Group is adequately capitalised in most expected circumstances.

The Group also aims to maintain at least an "A" rating with Standard and Poors. It has been designated a "Strategically important" subsidiary of the ultimate parent, and therefore its rating is usually pegged to that of the ultimate parent.

The Group capital comprises total shareholders' equity and amounts to £1,263.0m (2015 £1,184.0m) on the basis reported in these accounts.

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

35. ULTIMATE PARENT UNDERTAKING

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

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

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

36. CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

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

37. CASH FLOWS FROM OPERATING ACTIVITIES

Group	Notes	2016 £m	2015 £m
Non cash items			
Amortisation of intangible assets	15	3.3	2.3
Amortisation of net deferred acquisition costs	19	284.7	407.4
Net acquisition costs deferred during the year	19	(236.0)	(349.3)
Depreciation of property and equipment	17	4.8	4.5
Amortisation of available for sale financial assets		16.5	18.6
Net realised gains from sale of available for sale financial assets	5	(10.4)	(16.9)
Net fair value (gains)/losses on available for sale financial assets		(45.8)	15.3
Net fair value losses on investment properties	6	10.0	0.3
Net fair value losses/(gains) on own use property	6	1.5	(2.5)
Net fair value gains on financial liabilities	6	(0.9)	-
Total non cash items		27.7	79.7
Changes in working capital			
Increase in provisions for other liabilities and charges	29	2.6	-
Increase/(decrease) in pension benefit surplus	16	9.0	(51.4)
Increase in reinsurance assets	22	(523.0)	(514.8)
Decrease/(increase) in prepayments and accrued income	23	1.7	(0.5)
Decrease/(increase) in insurance receivables	25	7.6	(83.3)
(Increase)/decrease in other receivables	26	(15.3)	11.8
(Decrease)/increase in insurance contracts liabilities	30	(27.5)	149.8
Increase in insurance related payables	32	400.1	488.4
Increase/(decrease) in accruals and other payables	33	115.6	(23.9)
Total changes in working capital		(29.2)	(23.9)

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

Company	Notes	2016 £m	2015 £m
Non cash items			
Net realised gains from sale of available for sale financial assets	1.9	-	(9.7)
Total non cash items		-	(9.7)
Changes in working capital			
Increase in other receivables	26	8.1	(38.3)
Increase in accruals and other payables	33	73.6	14.9
Increase in provisions for other liabilities and charges		0.5	-
Total changes in working capital		82.2	(23.4)

38. RELATED PARTY TRANSACTIONS

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

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

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Purchase of shareholding in fellow subsidiary company	-	-	-	5.8
Dividends received from subsidiaries	-	-	-	12.6
Interest received on loans to ultimate parent	19.4	-	19.3	-
Interest received on loans to subsidiaries	-	-	-	-
Dividends paid to the parent	-	-	-	-
Interest paid on loans from subsidiaries	-	(0.7)	-	(0.7)
Reinsurance contracts purchased from other related parties	(845.5)	-	(475.3)	-
Reinsurance claim recoveries from other related parties	647.9	-	269.2	-

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

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

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Due from related parties at December 31,				
Parent	50.9	47.1	51.0	47.1
Subsidiaries	-	35.5	-	37.7
Other related parties	7.9	-	4.9	-
Total	58.8	82.6	55.9	84.8
Due to related parties at December 31,				
Subsidiaries	-	61.7	-	61.8
Other related parties	985.3	80.0	490.3	-
Total	985.3	141.7	490.3	61.8
Loans from related parties at December 31,				
Subsidiaries	-	20.0	-	20.0
Total	-	20.0	-	20.0
Loans to related parties at December 31,				
Subsidiaries	-	-	-	-
Ultimate parent	340.0	-	340.0	-
Total	340.0	-	340.0	-

(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:

	2016 £m	2015 £m
Salaries and other short term employee benefits	4.4	2.9
Post employment pension benefits	1.3	0.2
Share based payments	2.3	2.3
Total compensation of key management personnel	8.0	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.

(d) Director's interest in contract

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

39. SUBSEQUENT EVENTS

Sale of subsidiary

The sale of Allianz Cornhill Information Services Private Limited was completed in January 2017 for a consideration of £49.1m and a pre-tax gain of £36.6m was recorded. The assets and liabilities classified as held for sale as at the balance sheet date are detailed in Note 14(b).

Loan repayment

In February 2017, the £340.0m loan to the ultimate parent company was repaid early. This repayment is a non adjusting event in accordance with IAS10. For 2016 reporting, the loan has been included as 'non current' in Note 24(b).

GREAT BRITAIN

Head Office

57 Ladymead, Guildford, Surrey GU1 1DB

Allianz Commercial & Personal

57 Ladymead, Guildford, Surrey GU1 1DB

Engineering

Haslemere Road, Liphook, GU30 7UN

Petplan

Great West House (GW2), Great West Road, Brentford, Middlesex TW8 9DX

