Registered number: 00084638

Annual Report and Financial Statements 2022

Allianz Insurance plc

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Company Information

Directors	C W T Dinesen F K Dyson P J Evans C J Holmes (appointed 22 February 2022) D J Larnder S C McGinn (appointed 22 February 2022) R M Murison (ceased 25 September 2022) T Robson-Capps (appointed 13 April 2022) D A Torrance C G Townsend S Treloar J R Vazquez (appointed 1 June 2022)
Company secretary	C M Twemlow
Registered office	57 Ladymead Guildford Surrey GU1 1DB
Registered number	00084638
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

Strategic Report for the Year Ended 31 December 2022

The Directors present their strategic report for the year ended 31 December 2022.

Principal activities

Allianz Insurance plc (“Allianz”, “the Company”) is a wholly owned subsidiary of the Allianz Holdings plc ("AZH") group of companies (“the Group”) which is one of the largest general insurers in the United Kingdom (“UK”) measured by gross written premium. The Company offers a wide range of products focused predominantly in the commercial and pet insurance markets. The Company distributes its products almost entirely in the UK.

The Company distributes products under a number of brands. An analysis of the 2022 results and the prospects for 2023 are set out below.

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

Business Review

Throughout 2022 the Company continued to be recognised for its achievements in insurance, as well as an inclusive employer. Allianz won Commercial Lines Insurer of the Year at the British Insurance Awards, as well as the Major Loss prize at the British Claims Award. At the Insurance Times Awards, Allianz achieved Silver for the Insurer Diversity & Inclusion Excellence Award and Colm Holmes was named Insurer CEO’s CEO of the Year. AZH ranked 14th in the Inclusive Top 50 UK Employers, Silver in the Stonewall Workplace Equality Index and three colleagues were recognised at the Women in Insurance Awards.

In 2021 the Group was restructured to create two trading divisions, Allianz Personal and Allianz Commercial, supported by the integrated shared services of Finance, Risk and HR. Therefore, the pet products sold by the Company now form part of the Allianz Personal business along with products sold by fellow group subsidiaries within the Liverpool Victoria General Insurance Group (“LVGIG”). This structure aligns with the distinct needs of our individual customer groups and gives us more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling us to focus on specific markets.

Globally, the Allianz SE Group was the number 1 globally operating insurance brand in Brand Finance Global 500, and for the fourth year running the Allianz SE Group was the world’s number one insurer in Interbrand’s Best Global Brands Ranking.

The Company has a quota share reinsurance arrangement with an Allianz Societas Europaea (“Allianz SE”) Group reinsurance company. The arrangement is that 40% of premiums and claims are ceded and the Company receives a contribution of 25.5% of ceded earned premiums against incurred expenses and commission. This has the benefit of improving the solvency position by reducing the capital the Company is required to hold. The quota share arrangement keeps the profits generated by the Company entirely within the wider Allianz SE Group. The Company remains responsible for optimising the results of the business prior to this quota share. For this reason, and to facilitate comparison with prior years, the numbers quoted in this commentary are before quota share, unless stated otherwise.

The UK continues to experience tough economic conditions with the heightened inflationary environment continuing to pose a significant challenge to the market. As a result, significant rate increases have been implemented and this will continue to be closely managed with latest expectations that inflation will remain high until the end of 2023. Although performance was impacted by this, as well as several large weather events, the business still achieved growth and a combined operating ratio ("COR") of 95.6% in 2022 (the COR calculation methodology is described in the Key Performance Indicators ("KPIs") section on page 3).

Gross written premiums grew by 7.2% to £1,994.7m (2021: £1,860.5m) supported by significant rate increases that have been implemented to mitigate inflationary impacts. Commercial lines premiums increased by 6.4% with strong growth across all lines except Packages. Commercial Property and Engineering experienced double-digit percentage growth and Liability also experienced strong growth, partially offset by Packages which was slightly lower than 2021. Personal lines premiums increased 8.8% with strong growth in Pet partially offset by small reductions in run-off lines of business.

The Company delivered a COR of 95.6% (2021: 94.8%) supported by strong performance in the Pet and Property accounts and robust operating expense management. Overall expense ratio (the expense ratio calculation methodology is described in the KPIs section on page 3) reduced to 26.8% in comparison to 28.0% in 2021 due to a reduction in operating expenses.

Claims performance saw significant pressure in 2022 as a result of high inflation and several significant weather events. However underlying trading performance remained strong. In particular, Motor has experienced a multitude of challenges including rising repair costs, labour shortages and supply chain issues. Motor claims frequency continued to increase in the first half of the year as drivers returned to the road after the final coronavirus ("COVID-19") lockdown, although remaining below pre-pandemic levels. Within Property lines, the February storms and prolonged cold weather in December drove claims above the planned allowance.

Strategic Report for the Year Ended 31 December 2022 (continued)

Whilst there is less uncertainty surrounding COVID-19 related business interruption claims than in the past, uncertainty still exists. These claims will continue to be monitored closely as the experience emerges. The Company has continued to adopt a responsible approach to dealing with these claims, settling quickly and fairly from the outset. Only more complex cases remain open which are awaiting additional judicial determination. During 2022, the ultimate cost relating to COVID-19 related business interruption claims has reduced from £133.3m to £104.1m (net of reinsurance, but before quota share). A reduction in the uncertainty surrounding COVID-19 business interruption claims and improved outlook for the Ogden Discount Rate change in 2024 has driven a reduction in the claims margin over 2022.

Investment income has benefited from higher yields, however this is offset by impairments and realised losses, some of which relate to the invasion of Ukraine. Overall, the Company has reported a profit before tax (post quota-share) of £50.0m in 2022, an improvement from a profit before tax of £29.1m in 2021.

In January 2023, legal proceedings to recover costs incurred relating to PPI mis-selling redress concluded and the Company received a settlement of £49.5m. Further details are provided in notes 5 and 34.

Key performance indicators ("KPI's")

The key financial performance indicators monitored by the Company are (all pre-quota share except where indicated):

	2022 **£ m**	**2021** **£ m**
Gross written premium	1,994.7	1,860.5
Net written premium	1,877.0	1,740.8
Underwriting result(1)	81.9	88.0
Profit before tax(5)	50.0	29.1
Claims ratio(2)	68.8%	66.8%
Expense ratio(3)	26.8%	28.0%
COR(4)	95.6%	94.8%
SCR coverage ratio(5)	173.5%	156.1%

(1)Underwriting result is the sum of premiums earned less incurred claims and expenses.
(2)Claims ratio is defined as incurred claims as a percentage of earned premiums.
(3)Expense ratio is defined as incurred expenses and commission as a percentage of earned premiums.
(4)COR is defined as incurred claims, expenses and commission as a percentage of earned premiums.
(5)Post quota-share

The underwriting result can be reconciled to the profit before tax reported in the Statement of Profit and Loss and Other Comprehensive Income on page 29 as follows:

	2022 **£ m**	**2021** **£ m**
Underwriting result	81.9	88.0
Impact of quota share	(34.4)	(38.1)
Investment income net of finance costs	53.2	19.2
Net realised (losses)/gains	(14.4)	5.2
Unrealised losses	(29.5)	(3.4)
Other operating and administrative expenses	(6.8)	(41.8)
Profit before tax	**50.0**	**29.1**

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

Net Promoter Score (“NPS”) performance - Commercial:
- Achievement: Achieved Above Market in 2022.
- Target: Improve to Loyalty Leader in 2023.

NPS performance - Pet
- Achievement: Achieved joint Loyalty Leader in 2022.
- Target: Maintain Loyalty Leader in 2023.

NPS is an important indicator of our customer service which captures customers and brokers’ willingness to recommend us and is benchmarked against our competitors. We ask our customers, and those of our competitors, for honest and anonymous feedback and then benchmark the results. We achieved Loyalty Leadership positions in Pet and Above Market in Commercial. These results are a credit to our frontline teams.

Strategic Report for the Year Ended 31 December 2022 (continued)

Principal risks and uncertainties
We continually assess the principal risks and uncertainties facing our business, monitoring potential impacts and where necessary implementing mitigation and management solutions. Details of our principal risks and uncertainties can be found below and in note 30.

The Risk Function, alongside Internal Audit and Compliance, monitors both known and unknown risks that could affect the Company, while collaborating with the business units to mitigate any identified issues. In 2022, particular focus was on:

- **Inflation and the macro-economic environment** - Inflation continues to bring material uncertainty to current and future performance and has created challenging trading conditions. The impacts which have been experienced include supply chain issues caused by materials shortages, rising energy costs, claims inflation costs, increased general expenses as well as the impact on asset valuations of increased interest rates and credit spreads. The risks associated with the macro-economic conditions are likely to extend into the medium term in the context of a potential UK recession in 2023 and the continued impact of the war in Ukraine.
- **Information security** - throughout 2022 further enhancements were made to the capabilities and effectiveness of Allianz cyber defences and abilities to prevent, detect and respond to the risks posed by cyber threats.
- **Management stretch** - a significant and complex change agenda throughout the Company, in part relating to new regulation, has increased the risk of management stretch impacting the delivery of the business plan.
- **Supplier risk** - underperformance of third-party suppliers is a material contributor to operational incidents. The Company continues to carefully monitor third parties in order to ensure its on-going operational resilience.
- **Transformation** - an extensive change programme exists within the Company consisting of various business and regulatory priorities. Any cost challenges or delays could impact competitive positioning in the longer term.
- **Brand risk** - with cost of living challenges as well as pricing changes required by the FCA’s General Insurance Pricing Practices reforms, the risk to the Company’s brands from negative media and customer perception has heightened during 2022.
- **Conduct risk** – there is a continued Company focus on the importance of doing the right thing for our customers, recognising and responding to the needs of those more vulnerable in the current economic climate. In 2022, we continued to enhance our activities, management information and oversight of Conduct Risk throughout the business. The Customer and Conduct Committee plays a key role in providing oversight and control of conduct risk.
- **Climate change** - ensuring we remain a conscientious Company which considers sustainability in all our business activities is a key focus across the Allianz SE Group and locally in the UK. Continued progress is being made towards our Environmental, Social, Governance (ESG) and Climate Change ambitions, with significant work undertaken in our Underwriting and Investment departments.
- **People risk** - the macro-economic environment and market conditions have generally led to increased attrition and difficulty in recruiting and retaining people with the required skills and capability.

During 2022, the UK economy has experienced great uncertainty and turmoil not only due to geo-political and macro-environmental conditions caused by the Ukraine conflict, but also due to the domestic political uncertainty which has seen 3 different Prime Ministers in the space of 4 months. Whilst a technical recession has been avoided for now, the risk of entering a recession remains heightened in 2023.

The ongoing conflict in Ukraine continues to be a source of uncertainty for the Company. Management has reviewed the risks to the Company, considering in particular, underwriting and direct investment exposures along with the wider macro-economic impacts of sanctions, information security threats and potential disruption to the supply chain.

Whilst the Company has no direct underwriting exposure to Russia or Ukraine, a minimal level of travel insurance claims are anticipated arising from trip cancellations and repatriations. The Company’s policies include a War exclusion, and at this stage there is not expected to be any material impact on the premium levels in the short term. Management are monitoring closely any impacts of the event in Ukraine on claims’ supply chains and inflation for the core Motor and Property & Casualty portfolios. During 2022, external factors including the crisis in Ukraine led to a material rise in claims inflation. Looking forward, the long-term effects are uncertain and dependent on the duration of the disruption.

The wider macro-economic impacts including those arising from sanctions and further upward pressure on inflation are primarily driven by rising energy costs. This further increases the pressure on our customers and the cost of our claims liabilities. The Company also recognises that in response to sanctions, there is a risk of state sponsored cyber-attacks targeted at the UK, resulting in disruption to national infrastructure or third party organisations in the supply chain. Through monitoring of emerging threats and identification of incidents, our organisational structure enables a coordinated response to cyber events within our local and global Crisis Management framework.

Due to the high-inflationary environment, pricing has been a challenging area for the Company as well as the broader market, in particular, to achieve a sufficient level of rate that covers claims inflation whilst being commercial but also competitive. These challenges are likely to continue into 2023.

Strategic Report for the Year Ended 31 December 2022 (continued)

The investment strategy of the Company has continued to concentrate on containing risk to the core insurance operations from which the investment cash flows are derived. We invest insurance assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the nature and duration of our insurance liabilities. In respect of underwriting risk, Allianz has a robust control environment around underwriting and also has reinsurance arrangements in place providing risk mitigation.

Our investment portfolio is well diversified and high quality. Since the crisis commenced, market values of corporate and emerging market bonds have declined due to rising spreads. Values of developed market bonds initially benefited from a flight to safety but have since declined as yields increased. Securitised assets, real estate and private debt funds have been relatively unaffected by the crisis and continue to provide stable income. We have limited direct investment exposure to Russian, Ukrainian and Belarussian issuers through emerging market debt investments. Overall liquidity remains strong with a sufficient level of cash being retained in the Allianz SE Group cash pool (an Allianz SE treasury service which optimises surplus cash returns by investing in short term money market instruments).

Future outlook

We move into 2023 in a strong position despite the ongoing competitive market conditions in the UK and challenges presented by the economic environment, in particular the increased rate of inflation which is expected to remain at high levels until the end of the year. The Company is well equipped through its diverse product portfolio, customer relationships and robust financial position to manage these challenges and continue to deliver for customers and brokers. Inflation will continue to be monitored and appropriate actions taken to ensure pricing is adequate to maintain profitability and cover increased claims costs whilst offering competitive solutions for customers.

Building on the success of our outperforming ‘Renewal Agenda’ global strategic blueprint, we’re placing ‘simplicity at scale’ at the core of our operations. By achieving a consistent look and feel across client interfaces, simple and transparent products and processes, as well as quicker customer service, we expect to achieve significant productivity and efficiency gains that will benefit our customers, employees and stakeholders.

Underpinned by the stability and scale of Allianz SE globally, the Company continues to invest in digitalisation, simplifying our business and, above all, our focus on customers.

Premium income at a gross level is expected to increase in 2023 with underlying growth in both Personal and Commercial. The quota share reinsurance will remain at 40% for 2023, which will continue to reduce net premium income in return for a reduction in the capital required.

Profitability is expected to improve through 2023 as the benefits of the continued investment in productivity initiatives and technical excellence are realised, supported by premium growth as a result of both volume and price increases. The Company remains vigilant with respect to claims fraud and continues to maintain good underwriting and pricing discipline with a focus on pursuing long term profitable growth. By definition, insurance is an uncertain business and profitability in 2023 is susceptible to further impacts as a result of economic uncertainty, as well as the potential for a higher than expected level of major claims or weather events. However the Company will continue to monitor these impacts, in particular the impact of climate change on the frequency and severity of weather events.

There remains a risk that both growth and profitability may be tempered by ongoing pressures within the market and economy.

Going concern

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

Section 172(1) Companies Act 2006 Statement

Section 172 (1) of the Companies Act 2006 requires the Directors of a company to act in a way that promotes the success of the company for the benefit of its members as a whole. The Directors of the Company are committed to promoting a healthy corporate culture and understand that striving to achieve the Company’s strategic aims will ultimately increase the value of the Company, its parent, the Group and the wider Allianz SE Group.

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

The Company’s Board is collectively responsible for the long term success of the Company. The Board is responsible for setting the Company’s strategic aims and ensuring that the necessary resources are in place to meet its objectives. The Board sets the Company’s purpose, strategy, culture, values and standards and ensures that its obligations to stakeholders and others, as well as other matters set out under section 172 of the Companies Act 2006, are considered when taking decisions and in its discussions.

Strategic Report for the Year Ended 31 December 2022 (continued)

The Board of the Company meets at least quarterly alongside the board of directors of AZH, its immediate shareholder and the boards of directors of other key regulated entities and holding companies within the Group (collectively, the “Boards”). The Boards have adopted the same terms of reference by which they operate, and the Directors of the Boards are the same. The governance framework applied to the key regulated entities and holding companies within the Group and the combined approach to governance, ensures that the Company’s Board also has regard to the overall strategy, interests and direction of the Group as a whole, when taking decisions and in its discussions. This includes considering the impact on the broader stakeholders of the Group, the environment in which the Company and the Group operate and the long term success of the Company and the Group as a whole.

The Board receives information from across the business in the form of Board reports and presentations when making decisions and these reports include information about how stakeholder interests have been considered. Information is also presented, where relevant, regarding any impact on the Company’s or Group’s reputation, impact on the environment or on the communities in which the Company or Group operate and other matters set out in section 172 of the Companies Act 2006.

The Board has undertaken a review of its effectiveness during the year and is in the process of implementing actions to further improve Board governance arrangements. An external review of governance is underway in 2023 the outcome will be shared with the Board and resulting actions for improvement reported back to it at quarterly meetings. Further information on the review is set out in the Corporate Governance report on page 13.

Stakeholder engagement

This section of the Company’s report explains the Company’s engagement activities in relation to the Group’s customers, suppliers, employees, regulators and other stakeholders relevant to the Company.

The Company's Board is collectively responsible for the long term success of the Company. The Board is responsible for setting the Company's strategic aims and ensuring that the necessary resources are in place to meet its objectives. The Board sets the Company's purpose, strategy, culture, values and standards and ensures that its obligations to stakeholders and others, as well as other matters set out under section 172 of the Companies Act 2006, are considered when taking decisions and in its discussions.

The Board and individual Directors engage with some stakeholders directly on specific issues. However, due to the size of the Group and how it operates, stakeholder engagement more regularly takes place at an operational level. This allows the Group to be responsive to stakeholder needs. As described above, the Company’s Board receives reports when making decisions or where matters are escalated and these reports include information about how stakeholder interests have been considered. The reporting templates for the Board include consideration around stakeholder engagement. This provides the Board with an overview of stakeholder interests when making decisions even where they have not engaged directly with those stakeholders themselves.

Customers

The Group is committed to ensuring good outcomes for its customers. Customer centricity is fundamental to the Company’s growth and development and is one of five important themes underpinning the Allianz SE business strategy which the Group and the Company have adopted. This is further explained in the Corporate Governance report within the Director’s Report on page 14. The Group’s focus is on maintaining high levels of service, and supporting our customers. Throughout 2022, as the country recovered from the effects of the pandemic and faced a cost of living crisis, the Company and the Group's employees continued to support customers, suppliers and communities through what continues to be a difficult time for many.

A key method of engaging with our customers across the Group’s businesses and ensuring that a customer-centric culture is embedded is the Net Promoter Score ("NPS"). The NPS is explained above under KPI's on page 3. Feedback is sought and the Group’s performance across different brands is benchmarked against competitors. The NPS results are a KPI for the Company and the results are shared with the Board so this information can be considered when making decisions.

In addition, on a day-to-day basis the Group’s customer facing people engage and foster relationships with our brokers and customers directly. Direct and indirect feedback received from brokers and customers is collated and reviewed, together with other data such as complaints received and the number of complaints referred to, and upheld by, the Financial Ombudsman Service. This information is fed back to the Customer & Conduct Committee of the Board for its consideration.

The Customer & Conduct Committee is responsible for overseeing customer conduct matters for the Group and its subsidiaries. The Customer & Conduct Committee receives reports on a variety of matters including reports from the business, including customer dashboards, metrics which help it to understand the customer experience and reports from the Allianz Commercial Strategic Customer Forum. The forum focuses on customer value underpinned by metrics around conduct risk, customer experience and customer culture for the Company. The Customer & Conduct Committee also receives reports from the Allianz Personal business regarding customers, including information regarding the pet business, for example. The Customer & Conduct Committee reports into the Boards, ensuring that the Directors have sight of customer engagement metrics to factor into decision making and ensuring good outcomes for customers. During the year, the Board approved the Consumer Duty implementation plan and performance against the plan is reported to the Customer & Conduct Committee.

Strategic Report for the Year Ended 31 December 2022 (continued)

In addition, during 2021, the Group engaged an independent third party to undertake a review of culture across the Group, including, amongst other things, how the culture supports the delivery of good customer outcomes. The Board reviewed the findings and actions were put in place to ensure it continues to receive relevant and useful information in relation to culture. As a result, a new iteration of the culture dashboard was designed speaking to the four drivers the FCA associate to culture. This dashboard is used to help the Board and executives better monitor culture, including metrics and inform decisions to continually enable good customer outcomes. A common set of values has been agreed by the Board and rollout of these has commenced, supporting the further embedding of a customer-centric culture.

Employees

The Company does not have any employees. During the year, Allianz Management Services Limited (“AMS”) and LVGIG, companies within the Group, provided administration services and staff resources to the Company and to other Group companies. AMS and LVGIG have a high level of resources and expertise which benefit the Company and the Group. Employee engagement is led by the Chief Human Resources Officer of the Group, with the Human Resources team working directly across the Group’s activities. The approach taken across the Group to employee engagement is explained below. However, there are some variances in methods used across Allianz Commercial and Allianz Personal, where appropriate or required.

Engaged people are key to the success of the business, not only do they create positive experiences for customers and colleagues but they help our business thrive. Each year we invite our people to complete a confidential survey to provide feedback. It remains a key priority to ensure that employees are fully engaged as Allianz continues to develop during 2023.

Throughout 2022 there have been regular townhalls in which senior executives joined the CEO to discuss important topics and answer questions raised by employees. The Allianz Personal Executive Committee conducts monthly webinars with the leadership team to share the Allianz Personal strategy and to provide updates on particular topical items of interest. Each year there are a number of leadership conference meetings to further share important messages and facilitate discussion and debate. These messages are then cascaded throughout the organisation. Within Allianz Commercial, there are regular ‘employee broadcast calls’ for employees working within that business (including central services) led by the Allianz Commercial Executive Committee members, where employees are encouraged to ask questions directly to key speakers.

New ’ways of working’, including hybrid working, have provided opportunities for more engagement between the Board, including the non-executive Directors, and Group employees, with onsite days being scheduled at different office locations in the UK to facilitate more engagement.

The Group seeks feedback and measures the engagement of employees in a variety of ways. Engagement methods include the Allianz Engagement Survey (“AES”) and additional ‘pulse’ surveys sent to employees on various topics, townhall presentations (which have been virtual following the impact of COVID-19) and newsletters via the employee intranets.

In 2022, the AES continued to provide a valuable employee feedback platform and remains an important indicator of the Group’s corporate culture and employee engagement. The AES results include the ‘Inclusive Meritocracy Index’ which covers aspects of leadership, performance, collaboration, trust and respect, and is derived from the responses to a specific set of questions in the annual AES. A Work Well Index plus is also used to measure the quality of the work environment, practices and opportunities. ‘Inclusive Meritocracy’ describes the Group’s target culture. This is underpinned by four People Attributes with underlying target behaviours, helping employees understand what is expected of them.

The AES results are collated to give a Group-wide result and are also broken down by division and team. Action plans are then developed based on the feedback received within teams. The results of the survey are directly linked to the performance objectives of the AZH Executive Committee and key leaders within the Group. This approach ensures that employee sentiment and impact on the workforce are carefully considered by the leadership team when making decisions. In 2022, AZH ranked 14th in the Inclusive Top 50 UK Employers 2022/23 list.

Having a strong focus on Diversity and Inclusion enables our organisation to better understand the customers we serve and our people. The Group has a clear Diversity and Inclusion strategy, which covers ’Our people’, ‘our customers’ and ‘our brand and reputation’. In 2022, Allianz embarked on several initiatives in support of its aim to foster an inclusive environment where a valued and diverse workforce can be heard, contribute, grow and feel a sense of belonging.

The Group understands the importance of continuing to have flexible working options available to all its employees, as they adapt to new work-life balances. To make sure that the Group and the Allianz SE Group are evolving their approach and to keep encouraging talent to join the business, a working group has been set up to foster a flexible working culture. Our aim is to encourage more uptake in flexible working options, especially amongst men who currently only make up a small proportion of those benefiting from flexible working patterns.

Strategic Report for the Year Ended 31 December 2022 (continued)

The Board has considered the impact of the global uncertainty arising from the aftermath of the pandemic and the Russian invasion of Ukraine on the Group's employees which has informed its decisions. Allianz engages regularly with Unite, a trade union for some staff within the Group, which exists to protect and improve employee interests. Discussions with Unite are escalated to the Board and its committees as appropriate. We are committed to making sure our people are rewarded fairly through regular review of pay levels to ensure they are competitive with market rates. All our people are paid at least the Living Wage Foundation rates of pay. Allianz understands that the needs of its employees are different, so through a flexible benefits platform employees are given the opportunity to select the benefits most suited to their individual needs and lifestyles.

Suppliers

Significant Group supplier contracts, either strategic or by reason of size and significance, which are relevant to the Company, are considered by the Boards following engagement between procurement and business teams, supported by senior management where appropriate. In 2022, significant supplier contracts, supported by summary documents, were provided to the Boards to enable an informed decision to be made covering areas such as performance, cost, risk and strategic alignment. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures standards are met in relation to ethics, labour and, more recently in 2022, environmental sustainability.

In addition, the sourcing process itself is governed across the Group by adherence to requirements laid out in the Allianz Global Standard for Procurement, via the Local Procurement Standard. As a consequence, in 2022, the Boards gave due consideration to significant intended supplier arrangements and their suitability and ability to meet the Group's requirements including but not limited to areas such as information security, data privacy, risk, protection and resilience. Alongside this, work has been done in 2022 to meet the PRA's SS2/21 statement regarding the management and oversight of third parties, further increasing the governance and control of new and existing relationships.

Once a supplier relationship is in place, in line with Allianz's Supplier Relationship Management Framework, relevant executives assume responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance. Regular reports on supplier performance, inclusive of inputs from fellow safeguarding functions such as Information Security, Operational Resilience, and Risk, were made available to the Board in the course of 2022 to ensure effective oversight and control.

All of these measures come together to form a productive, secure, and mutually beneficial working relationship with each supplier. This has been especially important in 2022 given the turbulent economic environment. These strong working relationships with suppliers have enabled the organisation to manage costs, mitigate risk, and work collaboratively to support strategic organisational objectives.

Regulators

The Company is regulated by the Financial Conduct Authority ("FCA") and authorised and regulated by the Prudential Regulation Authority ("PRA"). Maintaining a good relationship with the Company's regulators is a priority for the Board and regulatory considerations are given close scrutiny when making decisions.

Regulations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the Board and taken into account when considering matters for approval. In addition the Board carefully considers and takes into account any letters received by the Company from the regulators. In 2022, the Board considered the Periodic Summary Meeting ("PSM") letter from the PRA and the Firm Evaluation Letter ("FEL") from the FCA and received regular updates on progress in relation to findings and action plans from the regulators. This has informed the planned focus areas of the supervisory engagement throughout the year.

The Board's executive and non-executive Directors have regular direct contact and dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which will then be brought into Board discussions. Other engagement methods with regulators include regular meetings, responding to regulatory market reviews and attendance at Board meetings.

The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. Any reviews or changes required as a result of regulatory updates or recommendations are considered and the implementation of recommendations is owned and overseen by the Board. This ensures that regulatory matters are of key importance with a top-down approach led by the Board.

In relation to its regulatory requirements, the Board also reviewed and approved its relevant Solvency II Reports, including the Solvency and Financial Condition Report, and the Company's Recovery and Resolution Plan.

Strategic Report for the Year Ended 31 December 2022 (continued)

Shareholder

The Company has regard to the interests of its immediate shareholder, AZH, and the wider Group and Allianz SE Group when making decisions. The Company's strategy is closely aligned with the Group's strategy and the Allianz SE Group strategy. Allianz SE nominate a non-executive Director to the Board of the Company. In 2022, the Board received regular updates from the Allianz SE Group on key matters being considered within the wider group. Shareholder views have been factored into various decisions made by the Board during the year including those on strategy, budget, investments, distributions and Board appointments.

Community and the Environment

An ESG strategy ensures the Group is a leader in sustainability, and a committed corporate citizen with responsible and trusted businesses. The Group focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of our businesses. The Group, including the Company, has undertaken its own initiatives during the year in relation to ESG and reviewing how that strategy is implemented in the UK. The Group is fully ESG principles and consideration of our impact in these areas is an important part of Company and Group discussions. Examples of initiatives undertaken by the Group include partnerships with the mental health charities, Mind and Scottish Action on Mental Health, which benefit people across the UK as well as the Group's employees as the partnership has been utilised to expand the employee mental health support resources that are in place.

The Allianz Net Zero Accelerator ("Accelerator") was also launched in 2022 to support our broker partners in their journey to net zero. The Accelerator provided training on how to transition business operations to net zero, as well as offering brokers a way to calculate their carbon footprint and get personalised advice on how to lower their impact. The Group also offset any emissions tracked through the process. Training was also offered to our suppliers as part of the programme.

The Group participated in an activity co-ordinated by the Allianz SE Group to help Ukraine including making a global corporate donation to the German Red Cross, supporting our employees who were hosting Ukrainian families and offering temporary car insurance. Employees also took part in a global initiative, the Allianz World Run, which donated to the German Red Cross.

A community fund coordinates donations to organisations local to the Company's registered office in Guildford. In addition, during 2022 we continued our engagement via the Allianz Sports Fund, which donated £0.1m to grassroots sports clubs over the year.

During the year, the Board considered the ESG 2025 plan and 2022 objectives and targets for each functional area working on ESG matters, including the opportunities and risks climate change poses.

Board decision-making

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

Dividend

Section 172 considerations*: promoting the success of the Company for the benefit of the Company's members, long-term consequences, maintaining a reputation for high standards*

Stakeholders: *shareholder, regulators*

In May 2022 the Board recommended the payment of an interim dividend of £50,000,000 to its sole shareholder, AZH. In approving the payment of the interim dividend, the Directors considered the impact on the Company and the views of its stakeholders. Amongst other things, the Directors considered the needs and views of the Company's shareholder and its ultimate parent company, Allianz SE, who require dividends to be paid to ensure the long-term success and viability of the Allianz SE Group as a whole. In addition, the Board sought a no objection confirmation from the regulators prior to the payment of dividend. To ensure the dividend was prudent from a regulatory perspective, the Board reviewed analysis and stress tests produced by the Risk function assessing various stress tests and the Company's solvency ratio post dividend-payment. The Board reviewed the level of distributable reserves for the Company and was content there were sufficient reserves available to make the distribution to AZH. In making the decision, the Board considered interests of the shareholder and the regulator as the key stakeholders who need the Company and the Group as a whole to maintain a reputation for high standards in decision making and to hold sufficient capital to meet its long-term requirements. After considering these factors, together with other considerations when paying a dividend, the Directors' concluded that the payment of the interim dividend would promote the success of the Company for the benefit of its members.

Strategic Report for the Year Ended 31 December 2022 (continued)

System of Governance Annual Review

Section 172 considerations*: maintaining a reputation for high standards, long term consequences of decisions*

Stakeholders: *customers, regulators, shareholder*

During the year the Board (together with the board of AZH and a number of other key Group entities) approved a review of the System of Governance ("Review"). The System of Governance is designed to ensure that the Group has sound and prudent management of its business. This is in place due to UK and EU regulatory requirements, and also to ensure the Group's business and risk profile aligns with the Allianz SE Group. The Review was considered by the AZH Executive Committee and Risk Committee before receiving Board approval and involved approval of a Statement of Accountability to confirm an effective system of governance with all necessary processes and controls remaining in place. The Review set out its findings for consideration by the Board and introduced activities for 2022 to further strengthen the Group's governance framework. The Review was considered a key decision in light of the Board's duty to ensure the Company maintains a reputation for high standards of business conduct and assure Allianz SE Group that the Company and the Group has a sound and prudent system of governance. In overseeing this important matter, the Board had regard to the requirements of the Company's regulators and interests of the shareholder as well as the potential long term consequences of any decisions made.

Culture Dashboard

Section 172 considerations: *maintaining a reputation for high standards, consequences of decisions in the long term, interests of employees, the impact of operations on fostering relationships with customers and suppliers*

Stakeholders: *customers, regulators, employees*

During the year, the Board received regular updates on performance against the culture action plan including development of the culture dashboard. Culture remains an essential component which underpins how Allianz operates and encompasses a broad range of topics affecting most key stakeholder groups. It is recognised by the regulator that a healthy culture is essential to consumer protection and well-functioning markets. The Board considers it an essential element to defining the Company's purpose, strategy and expectations for employees. A new culture dashboard was rolled out in 2022 as a key deliverable within the culture action plan which encompassed a range of cross-functional projects and actions for embedding good customer outcomes on performance, reward and talent management policies across the Group. The new culture dashboard was first considered by the Board in May 2022 and has been further developed throughout the year striving to build a consistent view of measures against four drivers of culture identified by the FCA namely purpose, governance, people, policies and leadership, to support the delivery across the business of good customer outcomes. The dashboard aims at presenting a trend view of key metrics for the business, which is an aggregated view of a number of sub-component metrics and provides the Board with visibility and understanding of the culture within Allianz and any changes. The Board has oversight of and reviews progress made under the culture action plan, including the culture dashboard, underpinning it's duty to foster good customer outcomes, to consider the interests of employees and to maintain a reputation for high standards of business conduct.

Operational Resilience – Self Assessment Questionnaire

Section 172 considerations: *maintaining a reputation for high standards, consequences of decisions in the long term*

Stakeholders: *customers, regulators*

During the year the Board continued its oversight of the operational resilience project, initiated to ensure compliance with the regulatory policies on Operational Resilience, issued jointly by the PRA and FCA. In 2022, the Board considered a response to the FCA's Operational Resilience self-assessment questionnaire which the regulator had issued to a number of firms, including Allianz. The questionnaire was issued to enable the regulator to assess the level of operational resilience maturity within firms, and contributed to the FCA's aim of ensuring that regulated firms are proactively managing risks to minimise impacts during major disruptive event incidents. The Board reviewed Allianz's responses to the questionnaire at its February and March meetings seeking additional assurance from the second line prior to confirming the response. The Board noted the use of subject matter experts throughout the process for providing responses to the questionnaire with a record of responses being maintained. Implementing the policies on Operational Resilience in the right way for the business and its stakeholders is critical to the success of the Company and important in maintaining the Company's reputation for high standards with the regulator and putting customers at the heart of the business.

Strategic Report for the Year Ended 31 December 2022 (continued)

Consumer Duty Implementation Plan

Section 172 considerations: *maintaining a reputation for high standards, fostering relations with customers, long term consequences of decisions*

Stakeholders: *customers, regulators, shareholder*

Following the introduction of the FCA's new Consumer Duty, which sets rigorous and transparent standards for consumer protection across financial services, Allianz has focused significant resources in ensuring readiness for the new standards, the primary purpose of which is to deliver good outcomes for customers. The new Consumer Duty, which comes into effect on 31 July 2023 for new and existing books of business, requires that firms put in place and document an implementation plan to deliver against the requirements. During the year, a Consumer Duty Implementation Plan was therefore presented to the Board for review, challenge and approval and a Board member appointed as Consumer Duty champion in order to maintain close oversight of the implementation at Board level. As part of the plan, monthly updates are provided to the AZH Executive Committee to ensure the project remains on track for delivery in line with regulatory deadlines, and the Customer & Conduct Committee also maintains close oversight of performance against the plan. In approving the Consumer Duty Implementation plan, the Board gave due regard to its duty to consider the interests of and ensure good outcomes for the Group's customers, as well as considering the interests of the regulator.

The Company has reported against The Wates Corporate Governance Principles for Large Private Companies which contains further information regarding the governance of the Company, how the Board makes decisions for the long-term success of the Company and its stakeholders. The Corporate Governance Report can be found on page 13.

On behalf of the Board

F K Dyson
Director

5 April 2023

Directors' Report for the Year Ended 31 December 2022

The Directors present their annual report and financial statements for the year ended 31 December 2022.

As permitted by section 414C(11) of the Companies Act 2006, certain information is not included in the Directors' Report because it has instead been shown in the Strategic Report. This information is:

- Customers, suppliers and others statement;
- Results for the year;
- Principal activities of the Company; and
- Business review and Future prospects.

Stakeholder Engagement statement
Details of how the Board has had regard to the need to foster the Company's business relationships with customers, regulators, suppliers and other stakeholders and the effect of that regard on the principal decisions taken by the Company's Board is contained in the Section 172(1) statement on page 6 of the Strategic Report.

Directors
The Directors, who held office during the year, and up to the date of signing the financial statements, were as follows:

C W T Dinesen

F K Dyson

P J Evans

C J Holmes (appointed 22 February 2022)

D J Larnder

S C McGinn (appointed 22 February 2022)

R M Murison (ceased 25 September 2022)

T Robson-Capps (appointed 13 April 2022)

D A Torrance

C G Townsend

S Treloar

J R Vazquez (appointed 1 June 2022)

Directors' liabilities
A qualifying third party indemnity was in force during the financial year and also at the date of approval of the financial statements.

Results and dividends
The results for the year are set out in the Statement of Profit and Loss and Other Comprehensive Income on page 29. A review of the Company's business activities and any likely future developments can be found in the Strategic Report on page 5.

An interim dividend of £50.0m was paid during the year ended 31 December 2022 (2021: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: £nil).

Future outlook
The future outlook for the Company is outlined in the Strategic Report on page 5.

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

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

One.Finance
In 2016, the Allianz SE Group launched a project "One.Finance". Included in the objectives is compliance with the forthcoming standards IFRS 9 "Financial instruments" and IFRS 17 "Insurance contracts". The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The Company has established parallel work streams in the UK supporting the overall Allianz SE Group project and to ensure local readiness. The implementation date of IFRS 9 and IFRS 17, is 1 January 2023. Parallel runs have been completed for prior years.

Streamlined Energy and Carbon Reporting ("SECR")
The Company fulfils the statutory requirements for SECR which includes disclosure of the Company's carbon emissions. Under the Companies Act 2006 and SECR Regulations, 'Large' companies are required to report their annual emissions in their Directors' report. It should be noted that the information disclosed relates to several entities within the Group as this is the lowest level of granularity for which the data is collected. Information relating to the Company alone is not available and identical disclosure has been made by all Companies meeting the reporting requirement.

The SECR statement covers the reporting period 1 January 2022 to 31 December 2022 and has been prepared in line with the requirements of the Streamlined Energy and Carbon Reporting regulations and the relevant areas of the Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard.

A 'Dual Reporting' methodology has been used to indicate emissions using UK electricity grid average emission factors (known as the 'Location Based' method), and also emissions using supplier specific generation emission factors (the 'Market Based' method).

'Location based' Method

The total energy consumption for 2022 was 16,034,389.25 kWh (2021: 16,645,135.03 kWh) equating to 3,432.989 tCO2e (2021: 3,532.599 tCO2e).
Carbon intensity: Emissions of tCO2e/full-time equivalent during 2022 was 0.786 tCO2e (2021: 0.831 tCO2e)

However, the Company strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin ("REGO") certificates. Through this strategy, within the above 2022 total energy consumption, the Company has sourced a total of 5,124,261.79 kWh (2021: 4,768,921.54 kWh) of REGO backed (zero emission) electricity equating to 98.57% (2021: 92.44%) of total electricity use. The remaining use can be attributed to Electric Vehicle Off-Site Charging.

'Market Based' Method

The total energy consumption for 2022 was 16,034,389.25 kWh (2021: 16,645,135.03 kWh) equating to 2,388.140 tCO2e (2021: 2,503.965 tCO2e). Carbon intensity: Emissions of tCO2e/full-time equivalent during 2022 was 0.547 tCO2e (2021: 0.589 tCO2e)

Energy Efficiency actions taken during 2022:

- During the refurbishment of the Milton Keynes office the following actions were taken: Adapted landlord energy efficient air-con system and added two energy efficient air-con wall mounted units in the Comms Room. Also adapted landlord energy efficient LED light fittings and PiR controls (movement sensors).

Over 90% of the Group's waste is recycled. The Group's aim is to divert 100% of waste from landfill. This includes office closures where the aim is to repurpose or recycle old office equipment or donate this to local charities.

The Group is committed, via a Science Basted Target, to being net zero in operations by 2030. This means reducing emissions by 70%, versus the 2019 baseline, by strengthening environmental management and sourcing 100% renewable electricity by 2023. The key drivers to delivering the emissions reduction target will be the shift to a fully electric corporate car fleet by latest 2030 and a reduction of 40% GHG emissions deriving from travel activities by 2025.

Corporate Governance Report
For the year ended 31 December 2022 the Company applied the Wates Corporate Governance Principles for large private companies ("Wates Principles") to its business and this report sets out how the Wates Principles were applied.

The Company is a wholly owned subsidiary of AZH and leverages the governance structure of the Group. The composition of the Company's Board and that of the other key regulated entities are aligned, so the same Directors sit on these Boards and apply the same Group governance structure.

Directors' Report for the Year Ended 31 December 2022 (continued)

Principle One – Purpose and Leadership

Purpose and Strategy

The Company's purpose of "We Secure your Future" is aligned with that of the Group and the wider Allianz SE Group. The Group's and the Company's ambition is to be the best loved and most recommended by customers and partners, to attract and retain the best people and consistently exceed target returns and be recognised as leading the industry in its approach to ESG. The purpose and ambition is implemented through commitment to the Allianz SE Group's business strategy of "Simplicity at Scale". The key strategic objectives of the Allianz SE Group's strategy are to "Outperform, Transform and Rebalance" and is underpinned by the Renewal Agenda which comprises five important themes of customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. The Company aims to deliver attractive and consistent returns to its immediate shareholder and consequently to the Group and Allianz SE Group.

In line with the Company's purpose, the Board sets its strategy and oversees performance against the strategic objectives. The Company's strategy is approved by the Board as a part of the Group's strategy as a whole and by the Company's Board as well as being discussed and agreed with the ultimate shareholder, Allianz SE, through the annual Planning Dialogue and Strategic Dialogue processes. The Chair is responsible for leading Board discussions on strategy matters. The aligned strategy of the Group is then segmented and the Company's Board and senior leadership team focus on the Company's part in the wider strategy and plans and how these will be delivered and aligned with the Company's Purpose. Segmenting the plans allows Allianz Commercial and Allianz Personal and their respective lines of business to be differentiated as required to meet the overall strategy and objectives of the Group and the Allianz SE Group.

The CEO of AZH is responsible for delivery of the overall strategy of the Group, along with the AZH Executive Committee which includes senior leadership from both Allianz Commercial, Allianz Personal and central functions which support the Group. The CEO of Allianz Commercial is responsible for implementation of the Company's commercial strategy and there is an Allianz Commercial Executive Committee to support the CEO. The Personal lines business is the responsibility of the CEO of Allianz Personal, supported by the Allianz Personal Executive Committee.

In addition, there is continued focus on operating in an ethical, environmentally friendly and sustainable manner and ensuring employees of all backgrounds feel included and able to succeed. AZH was ranked 14th by the Inclusive Top 50 UK Employers list up from 26th in 2021, showing the continued focus on this area.

Values and Culture

The Group's values are embedded within its culture and policies it upholds. In line with our purpose, we are committed to securing the future for our customers, our people and their environment.

The Board has a strong emphasis on integrity and honesty. During 2022, the Group initiated a programme to engage its entire leadership population on the topic of purposeful leadership to maintain continued focus on building a customer-centric culture. Furthermore, the roll out of a common set of values has commenced across the entire UK business.

The Group's policies and practices help reinforce the Group's values and required behaviours and attitudes amongst employees. The values are underpinned by the four "People Attributes" – customer and market excellence, collaborative leadership, entrepreneurship and trust. The performance of all of our people is measured against attributes and success factors which are aligned with our values, which for employees are Be Brave; Inspire Trust; With Heart and Everyone Counts.

Allianz's people help to shape the culture of the business in delivering good customer outcomes across the organisation. A culture dashboard has been operationalised within the business, under the supervision of the Board, which aims to align the key drivers of culture: purpose, governance, people (policies) and leadership. People Attributes which underpin people policies are being aligned across Allianz's businesses in order to provide a consistent approach that explicitly considers supporting the delivery of good customer outcomes across the organisation. Delivering 'friendly' systems with a core focus on execution and delivering with pace is being prioritised.

Allianz annually rolls out an employee engagement survey and conducts more frequent pulse surveys. The results are reported to the Board along with actions for improving performance. Comparative reporting against the prior year's survey is also considered by the Board.

The Board recognises that Diversity and Inclusion ("D&I") is fundamental to Allianz's ability to understand representation within the workforce and measure progress. D&I is a key aspect of culture and therefore a critical measure of success for Allianz.

When the Group procures products and services from third parties, it looks to do so in a sustainable manner and with an unwavering commitment to transparency within any supply chain. With respect to Allianz's own products and services, they must always be clearly explained and honestly marketed. Allianz uses its sustainable procurement charter to encourage its suppliers to adopt and develop sound ESG practices. For tender assessments, Allianz will apply a minimum weighting to ESG factors, as a way of prioritising suppliers that have embedded sustainable and ethical practices within their organisation. Allianz will also provide support and education to suppliers who are invested in ESG. The insurer wants to partner with suppliers who understand the nature of the materials, products and services they're providing and the importance of protecting the environment and fostering good relations with their employees and their local communities.

Directors' Report for the Year Ended 31 December 2022 (continued)

The Company piloted a partnership with Kaleida International in 2022 to diversify its suppliers. Kaleida is an inclusive business-to-business ("B2B") marketplace for tenders. The suppliers listed on Kaleida are businesses which are at least 51% owned and operated by women, veterans, people from ethnic minorities, from LGBTQ+ communities, or people who are neurodivergent or have disabilities.

Allianz’s ESG strategy is embedded within the business and has been reviewed by the Board. Under this strategy Allianz believes that its role is to set the tone from the top on governance, culture and purpose and to be collectively responsible for the long-term success of the Company. For the Board, this means not only ensuring that the culture is fully embedded throughout the workplace, but ensuring that Allianz complies with all relevant laws and regulations, has high standards of internal control and risk management, and that the business is run with integrity. Allianz knows that by acting responsibly it can provide products and services that meet its customers’ needs, reduce the impact of its operations by being environmentally efficient and help the transition to a low carbon economy.

The Group promotes, amongst many other things: staff wellbeing; managing supply chains in a socially responsible manner, exploring opportunities for strategic growth through new product development and new channels of distribution, as well as providing excellent customer service.

Principle Two – Board Composition

Composition, Size and Structure

As of 31 December 2022, the Board of the Company comprised six independent non-executive directors, including an independent non-executive Chair, one shareholder nominated non-executive director and four executive directors. During the year, the Board was strengthened by the appointment of T Robson-Capps on 13 April 2022 and J R Vazquez on 1 June 2022 as independent non-executive directors, whilst R M Murison stepped down from her role as a non-executive director on 25 September 2022.

The executive Directors include the Group CEO (C J Holmes), the Allianz Personal and Commercial CEOs (S Treloar and S C McGinn respectively) as well as the Group CFO (F K Dyson). C J Holmes and S C McGinn were appointed during the year on 22 February 2022. The role of the Chair (being the Chair of the Board of AZH as well as the Company) and the role of Group CEO and the Allianz Commercial and Personal CEOs are separate and clearly defined. The Chair is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making.

The Group CEO as well as the CEOs of Allianz Commercial and Allianz Personal are responsible for executing the strategy of the Company. The CEO of the Group also fulfils the role of CEO of the Company which includes both commercial and personal products.

The current composition of the Board is considered appropriate for the size and nature of the business, and provides the appropriate combination of skills, experience and knowledge required for the Board to carry out its responsibilities.

Balance and Diversity

The Board remains committed to increasing diversity across the business and the Group operates a diversity policy to encourage a more diverse and inclusive environment at all levels of the business. Diversity and inclusion is an important topic within the Group and is fully supported by the Board and the AZH Executive Committee.

Within the Group a diversity and inclusion steering committee sponsored by the Group CEO develops the diversity and inclusion action plan. During the year, a member of the AZH Executive Committee was also on the Allianz SE Group Global Inclusion Council that develops and drives the global strategy. The Group had developed a range of employee-led networks across the business which specialise in and promote aspects of diversity and inclusion. These include working parents and carers, intergenerational working, gender balance, LBGTQIA+, cultural and ethnic diversity, disability and long-term health conditions and mental health. Further details on Gender Pay Gap reporting by Allianz are provided within Principle Five of the Corporate Governance report.

In relation to the Board, as at 31 December 2022, two of the eleven members (18%) of the Board were female. New appointments to the Board are recommended by the Compensation & Nomination Committee after consideration of the Board’s composition in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. The Board recognises that its own membership is not as diverse as it should be and this will be taken into account as and when new directors are appointed to the Board, including when existing non-executive Directors come to the end of their term in office.

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

Effectiveness

An external provider is engaged to carry out a Board Governance effectiveness review every three years and in the intervening years there are annual Board self-assessment effectiveness reviews undertaken. The effectiveness reviews cover the Company, AZH and the other key entities within the Group.

Directors' Report for the Year Ended 31 December 2022 (continued)

During 2022 the Board undertook a review of Board governance effectiveness (the “Review”), led by the Chair of the Board in conjunction with the Chief Legal Officer and Company Secretary. An independent third party was also engaged to assist with carrying out the effectiveness surveys and collating the findings.

The Review covered Board and Committee effectiveness in all respects and also considered specific areas such as ensuring that customer outcomes and conduct risks were fully considered in all major decisions. The methodology used included a director skills assessment, director behavioural feedback and the effectiveness survey. Reports from the Review were considered at the September 2022 Board and Committee meetings. The Review concluded that there was an overall improvement in the effectiveness of the Board and its Committees relative to the outcomes from the 2021 review.

Opportunities for improvement were identified from the Review and actions plans drawn up with progress against the embedding of actions to be considered by the Board and relevant Board Committees at quarterly intervals. Since the Review many improvements have been made and the actions will continue to be tracked throughout 2023. An independent governance review is being progressed this year which includes the Board and Committee effectiveness.

The Directors are provided with a comprehensive and tailored induction on joining the Board and regularly meet with senior managers across the business. During the year, J R Vazquez and T Robson-Capps were appointed as independent non-executive directors. They received a full induction, spending time getting to know the business and key individuals within it.

A Board on-site day was organised in 2022 when directors had the opportunity to visit Allianz’s Bournemouth office and meet key management personnel operating within that location. Board on-site days have also been scheduled in 2023 to build greater awareness amongst directors around the cultural feel, situational context and office climate as well providing an opportunity for direct feedback from employees.

A schedule of Board training and deep dive topics is maintained by the Company Secretary which evolves based on the Board’s development and training requirements. External advisors are invited for deep dive and training sessions on various topics as required in order to support the ongoing professional development of Directors. Non-executive Directors have access to the Company Secretary and can take independent professional advice at the Company’s expense.

During the year, the Directors received training by participating in four quarterly deep dive sessions with management. These sessions are structured to enable updates and in-depth discussion on certain topics. The topics varied between those which focused on one area of the business and those which focused on the Group. At the deep dive sessions held during the year the following topics were discussed: Competition law; market development following the Personal injury reforms; IT Risk Framework and the status of each Risk domain; IFRS 17 market update; inflation monitoring; Emerging Risks and Top Risk Assessment; CBEST industry insight; Consumer Duty; Best practice for data analytics, Artificial intelligence ("AI"), data sources and machine learning; reinsurance review; culture; Risk Strategy and Appetite Statement; and Risk and Recovery Plan.

Principle Three – Director Responsibilities

Accountability

The Board operates under a corporate governance framework that provides the required structure to enable prudent yet entrepreneurial management. The Board held quarterly meetings during 2022 as well as strategy sessions with members of the Executive Team.

There were also a number of ad hoc meetings during the year. The agenda for each Board meeting is carefully considered by the Chair, Group CEO and Company Secretary to ensure that all regulatory and governance matters are considered appropriately. This ensures that the Board is accountable and can effectively carry out its responsibilities.

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

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

All Directors are expected to report any interests they have including any potential conflicts of interest as they arise. The Directors note interests at each Board meeting. Where required, appropriate mitigations to actual or potential conflicts are put in place, including where necessary a member recusing themselves from a particular agenda item or decision to ensure the interests of the Company are not compromised.

Directors' Report for the Year Ended 31 December 2022 (continued)

Board Committees

The composition of the Company's Board and that of the other key regulated entities are aligned, so the same Directors sit on these Boards, with each Company discussing matters relevant to it and the Directors considering matters from the perspective of each relevant Company for each item on the agenda. The Boards and the Company's Board delegate certain activities to committees including the AZH Executive Committee, the Audit Committee, the Risk Committee, the Customer & Conduct Committee, the Compensation & Nomination Committee and the Finance & Investment Committee. All of these committees (save for the AZH Executive Committee and the Finance & Investment Committee) are chaired by a non-executive Director who provides constructive challenge and oversight across the work carried out by those committees. The Finance & Investment Committee has one non-executive Director member and is chaired by the CEO of AZH. Rolling forward agendas are reviewed at quarterly committee meetings and updated as required, to ensure members have an advanced view of the key matters for consideration throughout the year.

The AZH Executive Committee consists of the accountable executives for the Group. All of the Committees consider matters for the Group as a whole and matters which pertain to a particular division or Group company, as required. However, there are also separate Allianz Commercial and Allianz Personal Executive Committees, chaired by the respective CEOs, which are forums to help the respective CEOs lead those divisions. In addition, during the year the terms of reference of each of the Committees were reviewed and updated to ensure the duties and authorities delegated to the Committees are clearly set out and defined and that the allocation of responsibilities between the Committees is clear. However, the Board retains ultimate responsibility for decisions for matters reserved under its terms of reference and where relevant each Committee recommends matters put to it to the Board for approval.

Integrity of Information

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

There are formal and robust internal processes to ensure that the systems and controls in place are operating effectively, and that the Board receives accurate, regular and timely information about the performance of the business. Following the roll out of new Board reporting templates in 2020 and 2021, guidance and training continues to be provided to ensure that papers are clear, determine what action is required of the Board, contain an executive summary and conclusions. Appropriate service level agreements are in place to ensure Board and committee packs are delivered to agreed timescales allowing sufficient time for Directors to review ahead of meetings and facilitate useful debate and challenge at meetings. The efficacy of the processes is reviewed by the Board as part of the Board Governance Effectiveness review undertaken annually in addition to interim feedback provided by the Directors on processes and management information.

Information provided to the Board includes financial information, review of actual performance against plan, strategy updates, project updates, certain metrics and data and market developments.

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

Principle Four – Opportunity and Risk

Opportunity

The Board actively considers and approves strategic opportunities as these are key drivers of the strategy to outperform in our chosen markets. At Allianz, our Change Management framework provides an overarching framework for management and delivery of strategic change opportunities. This incorporates the appropriate regulatory, customer and commercial considerations to review opportunities and to ensure successful delivery. The executive team meets quarterly to review the opportunities pipeline, set priorities and to provide oversight with required escalations to the Board. Strong alignment exists with Allianz SE Group's purpose and strategy, with ongoing strategic dialogue and increased leveraging of group architecture, technologies and solutions.

The Board reviews and approves strategy and as part of this exercise considers threats and opportunities (including Allianz's risk appetite) following a planning dialogue each year with inputs from the ultimate shareholder. Further information on the strategy setting process is provided under Principle One.

Directors' Report for the Year Ended 31 December 2022 (continued)

Risk

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

All businesses face uncertainty, and the challenge for management is to determine the nature and extent of uncertainty the Company is prepared to accept, in pursuit of its strategic objectives, as it strives to grow stakeholder and customer value. Uncertainty presents both risk and opportunity, with the potential to either erode or enhance value.

The ERM framework forms the overarching framework for management to deal with the various risks the Company may encounter, as well as for how they are monitored and reported. This also ensures that the Group has processes in place by which it assesses the risks to which it is exposed, both on a current and forward-looking basis.

The Board delegates oversight of risk management to the Risk Committee and the Chief Risk Officer (“CRO”). The CRO is a member of the AZH Executive Committee and a standing attendee at the Board. The CRO is supported by the Risk function which is made up of qualitative and quantitative risk experts. However, managers within business units remain collectively and individually responsible for managing risk in their own areas.

To ensure that the Company is as well prepared as possible to identify and manage risks (including its principal risks) in a rapidly changing environment, there are a number of key risk management processes and policies in place. These processes are enabled by an appropriate governance structure to support effective risk management processes and the appropriate risk culture.

The Group has an Internal Control Framework, which is articulated in the Board Governance and Control Policy. The Board is able to make informed and robust decisions based on information delivered via risk management systems described in the Risk Policy. The Risk Committee monitors risk management performance and the evolution of the risk profile through the quarterly Own Risk and Solvency Assessment ("ORSA") process. Any significant deviations from the policy or other issues identified are communicated to the Board by the Risk Committee.

The Corporate Governance team, overseen by the Chief Legal Officer and Company Secretary, supports the Board and AZH Executive Committee in fulfilling their responsibilities in respect of the effectiveness of the Company’s system of governance. The AZH Executive Committee consists of senior leadership within the Company who oversee the Company’s system of governance and seek assurance that the governance framework is appropriate and effective. The system of governance is subject to annual review to ensure it continues to facilitate sound and prudent management of the business of the Company (with a Statement of Accountability being signed by the Group CEO and Group CFO and provided to the Allianz SE Group as part of its own governance review).

Responsibilities

The Board’s responsibilities include approving the strategy, strategic asset allocation, establishment and maintenance of the system of internal control, approval of new appointments to FCA/PRA Controlled functions and oversight of the overall operation of the Company.

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

In relation to the objectives in the annual corporate plan, the Company aims to ensure that it is not unduly exposed to any event or combination of events that could cause a variance in result inconsistent with the stated risk appetite. The Risk Committee is responsible for oversight of risks, both current and emerging. Mitigation activities are agreed by the Risk Committee and issues, such as reputational risk events, are escalated and acted upon as appropriate. Risks are monitored by the Risk Department via the risk management systems in place.

The Company has established clear communication channels. Internally, risks are discussed and escalated to relevant committees including the Risk Committee. Externally Allianz’s risk profile is outlined in the Annual Report and Financial Statements, and Solvency and Financial Condition Report.

Principle Five – Remuneration

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

The Group Remuneration Strategy and policies ensure that remuneration of all Group employees is aligned to the performance of the business and adheres to its values and behaviours. The Remuneration Policy also ensures that reputational and behavioural risks to the Company and Group from inappropriate incentives or arrangements are carefully considered.

Directors' Report for the Year Ended 31 December 2022 (continued)

During the year, the Compensation & Nomination Committee met the requirements of its clearly defined terms of reference, which included reviewing and publishing the Gender Pay Gap Report for 2021 (published in 2022). The Gender Pay Gap Report emphasises the approach of the Board to being an active and equal opportunities employer who promotes a workplace where everyone receives equal treatment regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. The 2022 Gender Pay Gap report for 2022 has also been published and the Board is taking active measures to address the gap and tracking actions aimed at reducing it. The report can be found on the Allianz website.

The remuneration of employees below Allianz Senior Executive level is overseen by the AZH Executive Committee.

Remuneration Decisions

The Compensation & Nomination Committee consists of independent non-executive Directors only. The Compensation & Nomination Committee is responsible for reviewing compensation strategy and applying it to senior executive positions in order to attract and retain quality people to enable the delivery of the Company’s strategy. There is in place a robust process to assess how material risk takers have managed material risk events and risks therein, including conduct related risks, and influenced the risk profile of the business requiring adjustments to their remuneration. The process of reviewing risk takers performance is considered with input from Compliance, Audit, Risk and HR as part of the Risk Adjustment Review and their findings are presented to the Compensation & Nomination Committee for consideration. External benchmarking of remuneration is undertaken and is used when setting the remuneration of the Group’s Senior Executive population. The Committee also oversees the design and operation of the performance management framework in meeting Allianz’s objectives and local regulatory requirements and suggests changes to it.

Setting Remuneration

Compensation is set with reference to the Group’s Remuneration Policy (which contains malus arrangements) and to the compensation framework set up by Allianz SE Group’s Compensation Committee. The Compensation & Nomination Committee determines total remuneration in relation to Directors (executive and non-executive) with approval by the Board and senior executives. The Compensation & Nomination Committee seeks external input from specialist advisors on, for example, market trends and benchmarking. Different stakeholder groups such as customers and the shareholder were considered, including the Committee being satisfied that customers had been protected, when determining appropriate levels of bonus payments. The Compensation & Nomination Committee also takes into account relevant UK regulatory guidance on remuneration. Directors and AZH Executive Committee members who sit on subsidiary Boards are remunerated at Group level and are not remunerated separately for their subsidiary Board positions. The Directors’ remuneration is disclosed in note 12.

Salaries of all Group employees are aligned to the performance of the business and market conditions, with bonus (and long term incentives for senior executives) driven by a combination of personal and business performance. The approach is aligned for employees of all levels and remuneration, particularly bonuses, are closely aligned with the Group’s purpose and values and achievement of strategy.

Principle Six – Stakeholder Relationships and Engagement

External Impacts

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

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

Stakeholders

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

Details of how the Company and its Directors engage with stakeholders can be found in the Section 172(1) statement on page 6.

Directors' Report for the Year Ended 31 December 2022 (continued)

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

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

By order of the Board

C M Twemlow
Company secretary

5 April 2023

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board

F K Dyson
Director

5 April 2023

Independent auditors' report to the members of Allianz Insurance plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2022 (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2022; the Statement of Profit and Loss and Other Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in Note 10 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuation of Insurance Contract Liabilities

Materiality

- Overall materiality: £18.3m (2021: £17.1m) based on 1% of Combined Operating Ratio.
- Performance materiality: £13.7m (2021: £12.8m).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of Insurance Contract Liabilities As set out in Notes 25 and 26, Insurance Contract Liabilities consists of a provision for claims reported, a provision for claims incurred but not reported ("IBNR"), and a provision for unearned premiums. This key audit matter is focussed on the subjectivity of assumptions in the calculation of the provision for claims incurred but not reported (£222.8m) and the total settled Periodic Payment Orders ("PPOs") reserves (£152.3m) which is included within the provision for claims reported. This is a significant accounting estimate in the financial statements and involves a significant degree of judgement. The reinsurers' share of IBNR was also considered as part of this risk as it has similar features of estimation uncertainty. Key areas of focus this year were: • The underlying volatility attached to estimates for the larger classes of business, such as commercial motor and commercial liability business. For these lines of business, small changes in assumptions can lead to large changes in the level of the estimate held and the combined operating ratio. • The reserving of claims related to the impact of Covid-19, especially those in relation to business interruption claims and other impacts such as changing patterns of claims. • The risk that estimates in respect of large losses or events, and PPOs are inappropriate. There is significant judgement involved in the estimation of such losses, particularly as they are based on	In performing our audit over Insurance Contract Liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Independently estimating the reserves for classes of business considered to be higher risk, particularly focussing on the largest and most uncertain estimates, with data as at 31 August 2022 and performing roll-forward procedures to 30 November 2022. As part of our roll forward analysis we considered the movements to 31 December 2022. For these classes, we compared our independent estimate of reserves to those booked by the directors to form part of our determination as to whether the overall estimated provision for claims as at 31 December 2022 represented a reasonable estimate. This included taking account of the emerging claims experience especially with regards to the current high inflationary environment. • For selected high and medium risk classes of business, we examined the methodologies and assumptions used by the directors to derive their estimates, and whether these produced reasonable estimates against select metrics based on the company's facts and circumstances. For lower risk classes of business, analytical procedures were performed. • For the business interruption losses, we reviewed the methodology and assumptions of the directors' estimate. We evaluated the estimate in the context of the information available as at the date of our opinion and performed audit

cashflow techniques rather than standard triangulation projections. • The impact of the heightened inflationary economic environment in recent claims experience and the assumptions underlying management's inflation impact analysis. Additionally, the directors include a margin on top of the actuarial best estimate to reflect the inherent uncertainty in estimating the ultimate losses on claims. This is a significant area of judgement and, therefore, a focus of our audit. Whilst this risk is predominantly focused on under-reserving, we also considered whether excessive levels of prudence exist within management's booked provision for claims. Refer to Note 1 for the accounting policies of the Insurance Contract Liabilities and Notes 2, 25 and 26 for disclosure of the related judgements and estimates.	procedures over the assumptions and judgements applied by the directors. We had regard to the exposures of the company under various policy wordings and any relevant legal judgements. • We reviewed the directors' estimate for reserve uncertainty by considering how the directors derived their margin for uncertainty. We reviewed management's paper on the margin for uncertainty outlining the qualitative and quantitative reasons for the selection of the margin held. We considered the consistency of this within the booked reserves against previous reporting periods in the context of the underlying uncertainty in incurred claims development and challenged management's support for the booked position. We did not independently estimate nor assess the reasonableness of the margin individually instead we considered the reasonableness of the directors' booked reserves which includes the margin. • Obtained and reviewed relevant reinsurance contracts (including Excess of Loss agreements and the internal quota share agreement with Allianz Re Dublin dac). • Obtained and reviewed reporting presented by management's actuarial team to wider management, which includes detailed reviews of key areas of uncertainty. In performing the above, we have also: • Tested the underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence. • Tested the assessment of estimation uncertainty (disclosed in Note 26) including the disclosures in relation to the effect of the change in approach to the booked margin. • Considered whether any of our audit procedures gave rise to an indication of management bias. • Assessed the disclosures in the financial statements. Based on the work performed and evidence obtained, we consider the valuation of Insurance Contract Liabilities to be appropriate.

How we tailored the audit scope

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

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

Where the work was performed by the Allianz SE group auditor, we determined the level of involvement we needed as the company audit team with those auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We maintained regular and timely communication with the group auditor including video and phone calls and discussions, where appropriate.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£18.3m (2021: £17.1m).
How we determined it	1% of Combined Operating Ratio
Rationale for benchmark applied	We consider the COR as a key performance related benchmark used by the directors and is central to the directors' communication to the public on the performance of the business. In determining our materiality, we excluded the effect of the company's internal quota share reinsurance arrangement with another Allianz SE group company to ensure materiality is calculated on a basis consistent with how management view the performance of the business.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £13.7m (2021: £12.8m) for the company financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £914,000 (2021: £855,051) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining the directors' going concern assessment and challenging the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence;
- Evaluating management's solvency scenario analysis and challenging management's key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we considered the governance over the production of this information and its consistency with other available information and our understanding of the business;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of Covid-19); and
- Assessing the disclosures made by management in the financial statements and checking the consistency of the disclosures with our knowledge of the company based on our audit and the other procedures listed here.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to valuation of Insurance Contract Liabilities and the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Discussing with the Board of Directors, management, internal audit, senior management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Assessing matters included on the company's fraud report and the results of management's investigation of such matters;
- Engaging our PwC actuaries to examine the methodologies and assumptions used by management in valuing the insurance contract liabilities;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Attending relevant meetings of the Audit Committee and reviewing meeting minutes, including those of the Board of Directors;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 9 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2018 to 31 December 2022.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 April 2023

Statement of Profit and Loss and Other Comprehensive Income
For the Year Ended 31 December 2022

	Note	2022 £ m	2021 £ m
Gross earned premiums	3	1,956.5	1,840.0
Reinsurers' share of gross earned premiums	3	(859.2)	(813.9)
Net insurance revenue		**1,097.3**	**1,026.1**
Reinsurance commission		196.3	230.9
Investment income	4	65.2	50.1
Net realised gains	6	-	5.2
Other income		-	0.2
Other revenue		**261.5**	**286.4**
Total revenue		**1,358.8**	**1,312.5**
Gross insurance claims paid	25	(1,224.0)	(1,195.6)
Reinsurers' share of gross insurance claims paid	25	522.6	501.9
Gross change in insurance liabilities	25	(58.3)	37.7
Reinsurers' share of gross change in insurance liabilities	25	4.3	(29.6)
Net insurance claims		**(755.4)**	**(685.6)**
Commission		(221.5)	(219.6)
Finance costs	5	(16.7)	(37.3)
Unrealised losses	7	(29.5)	(3.4)
Administrative expenses	8	(271.3)	(337.5)
Net realised losses	6	(14.4)	-
Other expenses		**(553.4)**	**(597.8)**
Total claims and expenses		**(1,308.8)**	**(1,283.4)**
Profit before tax		**50.0**	**29.1**
Income tax expense	11.1	(9.0)	(6.9)
Profit for the year wholly attributable to the equity holders		**41.0**	**22.2**
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss			
Net change in fair value of available for sale financial assets		(241.3)	(62.8)
Net change in fair value of available for sale financial assets transferred to profit or loss		(4.7)	(10.0)
		(246.0)	**(72.8)**
Items that will not be reclassified subsequently to profit or loss			
Tax on fair value movements	11.2	60.6	12.4
Other comprehensive expense for the year, net of tax		**(185.4)**	**(60.4)**
Total comprehensive expense attributable to the equity holders		**(144.4)**	**(38.2)**

The accounting policies and notes on pages 34 to 74 are an integral part of these financial statements.

Statement of Changes in Equity
For the Year Ended 31 December 2022

	Share capital £ m	Share premium £ m	Fair value reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2021	172.8	5.2	80.3	695.6	953.9
Net change in fair value of available for sale financial assets	-	-	(62.8)	-	(62.8)
Net change in fair value of available for sale financial assets transferred to profit or loss	-	-	(10.0)	-	(10.0)
Tax on fair value movements	-	-	12.4	-	12.4
Profit for the year	-	-	-	22.2	22.2
Total recognised income/(expense) for the year	**-**	**-**	**(60.4)**	**22.2**	**(38.2)**
At 31 December 2021	**172.8**	**5.2**	**19.9**	**717.8**	**915.7**

	Share capital £ m	Share premium £ m	Fair value reserve £ m	Retained earnings £ m	Total £ m
At 1 January 2022	172.8	5.2	19.9	717.8	915.7
Net change in fair value of available for sale financial assets	-	-	(241.3)	-	(241.3)
Net change in fair value of available for sale financial assets transferred to profit or loss	-	-	(4.7)	-	(4.7)
Tax on fair value movements	-	-	60.6	-	60.6
Profit for the year	-	-	-	41.0	41.0
Dividends	-	-	-	(50.0)	(50.0)
Total recognised expense for the year	**-**	**-**	**(185.4)**	**(9.0)**	**(194.4)**
At 31 December 2022	**172.8**	**5.2**	**(165.5)**	**708.8**	**721.3**

The accounting policies and notes on pages 34 to 74 are an integral part of these financial statements.

Statement of Financial Position
As at 31 December 2022

	Note	2022 £ m	2021 £ m
Assets			
Intangible assets	15	32.0	31.9
Investment in group undertakings	14	231.6	231.6
Property, plant and equipment	16	7.3	8.5
Deferred acquisition costs	17	179.7	177.8
Deferred tax assets	11.5	58.8	8.8
Reinsurance assets	18, 25	1,427.4	1,410.7
Financial assets			
Available for sale financial assets	20	2,186.3	2,371.2
Derivative financial instruments	20	0.5	4.2
Loans to related parties	20	113.9	133.2
Loans and receivables	20	36.8	36.0
Insurance receivables	21	793.2	767.3
Other receivables	22	117.8	152.5
Current tax receivables	11.4	4.7	2.2
Accrued income	19	27.1	22.7
Cash and cash equivalents	23	57.1	6.5
Total assets		**5,274.2**	**5,365.1**
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	24	(172.8)	(172.8)
Share premium	24	(5.2)	(5.2)
Fair value reserve		165.5	(19.9)
Retained earnings		(708.8)	(717.8)
Total equity		**(721.3)**	**(915.7)**
Liabilities			
Insurance contract liabilities	25	(3,045.2)	(2,944.5)
Reinsurers' share of deferred acquisition costs	17	(106.8)	(108.1)
Insurance related payables	27	(1,090.8)	(1,046.3)
Deferred tax liabilities	11.5	-	(6.4)
Provisions for other liabilities and charges	29	(10.2)	(38.8)
Accruals and other payables	28	(298.7)	(305.3)
Financial liabilities			
Derivative financial liabilities		(1.2)	-
Total liabilities		**(4,552.9)**	**(4,449.4)**
Total equity and liabilities		**(5,274.2)**	**(5,365.1)**

These financial statements on pages 29 to 74 were approved by the Board of Directors on 4 April 2023 and signed on its behalf by:

F K Dyson
Director

Allianz Insurance plc
Registered Number: 00084638

The accounting policies and notes on pages 34 to 74 are an integral part of these financial statements.

Statement of Cash Flows
For the Year Ended 31 December 2022

	Note	2022 £ m	2021 £ m
Cash flows from operating activities			
Profit before tax		**50.0**	**29.1**
Investment income		(73.8)	(26.1)
Adjusted for non-cash items			
Amortisation of AFS financial assets		9.9	12.1
Amortisation of intangible assets	15	7.1	6.6
Amortisation of net deferred acquisition costs	17	54.9	43.4
Net acquisition costs deferred during the year	17	(58.1)	(7.9)
Net realised losses/(gains)	6	14.4	(5.2)
Unrealised loss on revaluation of own use property	7	1.2	3.2
Unrealised loss on revaluation of derivative		4.9	1.2
Currency gains		(15.0)	(1.0)
Impairment of intangible assets	15	2.9	-
		(1.6)	**55.4**
Changes in working capital			
(Increase)/decrease in reinsurance assets	18	(16.7)	24.5
(Increase)/decrease in accrued income	19	(4.4)	0.2
Increase in insurance receivables	21	(25.9)	(14.6)
Decrease/(increase) in other receivables	22	34.7	(10.5)
Increase/(decrease) in insurance contract liabilities	25	100.7	(13.1)
Increase/(decrease) in insurance related payables	27	44.5	(24.0)
(Decrease)/increase in accruals and other payables	28	(6.6)	24.3
(Decrease)/increase in provisions	29	(28.6)	27.4
Decrease in loan balance	20.2	3.1	-
Cash generated from operations		**99.2**	**69.6**
Income tax paid	11.3	(7.4)	(4.1)
Net cash flow generated from operating activities		**91.8**	**65.5**
Cash flows from investing activities			
Decrease in deposits with credit institutions	20.2	(0.8)	0.1
Purchase of available for sale financial assets		(1,080.1)	(900.0)
Proceeds from sale of available for sale financial assets		1,009.8	780.7
Disposal of property		-	1.4
Purchase of intangible assets	15	(10.1)	(3.0)
Proceeds from loan from group undertakings		16.2	-
Net investment income received		73.8	26.1
Net cash flows generated from/(used in) investing activities		**8.8**	**(94.7)**
Cash flows from financing activities			
Proceeds from loan from group undertakings	20.2	-	12.6
Settlement of other loans	20.2	-	(0.1)
Dividends paid	13	(50.0)	-
Net cash flows (used in)/generated from financing activities		**(50.0)**	**12.5**
Net increase/(decrease) in cash and cash equivalents		**50.6**	**(16.7)**
Cash and cash equivalents at the beginning of the year	**23**	**6.5**	**23.2**

The accounting policies and notes on pages 34 to 74 are an integral part of these financial statements.

Statement of Cash Flows
For the Year Ended 31 December 2022 (continued)

	Note	2022 £ m	2021 £ m
Cash and cash equivalents at the end of the year	23	57.1	6.5

The accounting policies and notes on pages 34 to 74 are an integral part of these financial statements.

Notes to the Financial Statements for the Year Ended 31 December 2022

1 ACCOUNTING POLICIES

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

1.2 Statement of compliance
The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

1.3 Basis of preparation
The Company is exempt from the obligation to prepare and deliver group financial statements by virtue of the Companies Act 2006 (Section 401 1a) as it is a subsidiary undertaking of an EU parent (see note 31). The financial statements present information about the Company as an individual undertaking and not about the Allianz Insurance plc Group.

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

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

The functional and presentational currency is British Pounds.

Going concern
These financial statements are prepared on a going concern basis. For more information on the going concern assessment please refer to the Directors’ Report on page 12.

New standards and interpretations adopted by the Company
There are no new standards and interpretations affecting the Company that are mandatorily effective from 1 January 2022. The accounting policies have been consistently applied unless a new policy has been implemented.

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

IFRS 17 - Insurance Contracts
In May 2017 the International Accounting Standards Board (“IASB”) issued IFRS 17 and it was amended in June 2020 and December 2021. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4. The effective date of the new standard was postponed until 1 January 2023. The latest amendment issued by the IASB on 9 December 2021 adds a transition option that permits an entity to apply a classification overlay in the comparative periods presented on initial application of IFRS 17. The overlay allows all financial assets, including those held in respect of activities not connected to contracts within the scope of IFRS 17, to be classified, on an instrument-by-instrument basis, in the comparative periods in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9. The Company intends to apply the classification overlay, including the impairment requirements of IFRS 9, consistently to all eligible financial instruments.

IFRS 17 provides comprehensive guidance on accounting for insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features. It introduces three new measurement models, namely the General measurement model (“GMM”), Variable fee approach (“VFA”) and Premium allocation approach (“PAA”), reflecting a different extent of policyholder participation in investment performance or overall insurance entity performance. The work completed to date in assessing the insurance contracts issued would suggest that these will be PAA eligible. The exception to this approach is the reinsurance net quota share arrangement with a fellow Allianz SE Group Company for the 2015 and 2016 contract years, which has been measured under the GMM approach, further information is included within the key judgements section.

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

The PAA is a simplified approach for the measurement of the liability of remaining coverage. An entity may choose to use this when the coverage period of each contract in the group of insurance contracts is one year or less or the PAA provides a measurement which is not materially different from that under GMM. Under PAA, the Company measures the carrying amount of the liability for remaining coverage ("LRC") at the end of each reporting period as the:

- Liability for remaining coverage at the beginning of the period;
- Plus premiums received in the period;
- Minus insurance acquisition cash flows;
- Plus any amounts relating to the amortisation of the acquisition cash flows recognised as an expense in the reporting period;
- Minus the amount recognised as insurance revenue for the coverage period and
- Plus any increase or minus and decrease in the loss component over the period.

The GMM, also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin (“CSM”). The fulfillment cash flows represent the risk-adjusted present value of an entity’s rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting and an explicit risk adjustment for non-financial risk. The CSM represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period.

The measurement of the liability for incurred claims ("LIC") is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting.

Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts.

In the Statement of Financial Position, deferred acquisition costs and insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities.

The amounts presented in the Statement of Profit and Loss and Other Comprehensive Income need to be disaggregated into an insurance service result, consisting of the insurance revenue, insurance service expense and directly attributable expenses. Income and expenses from reinsurance contracts held are presented separately from income and expenses from insurance contracts issued.

Expected accounting policy application of IFRS 17

- Portfolios have been established comprising of contracts subject to similar risks that are managed together. Groups of contracts will be established according to profitability.
- All gross and reinsurance contracts will use the PAA with the exception of the 2015 and 2016 contract years quota share arrangement which will use the GMM approach. These contract years are not eligible for the PAA as the coverage period, which is equal to the settlement period of the liabilities, is greater than 1 year.
- All costs have been reviewed to identify the key changes from IFRS 4 to IFRS17. No material changes have been identified in the classification of expenses between claims handling, administration and acquisition expenses. Further assessment has been performed to determine costs which are not fully attributable to the fulfilment of insurance contracts. This provides no material impact to the net income as these non-attributable costs are included elsewhere in the Statement of Profit and Loss and Other Comprehensive Income however, it does reduce the costs included within the insurance service result and subsequent reduction in the deferral of acquisition costs.
- Insurance acquisition costs have been reviewed for costs which are incurred at the acquisition of a contract and relevant to subsequent renewals which as per IFRS 17 should be deferred over the expected lifetime of the underlying policy. The Company acquires it’s commercial lines business through broker channels and its Animal Health policies through a combination of brokers, vets and direct sales. As broker and vet acquisition costs are incurred during subsequent policy renewals it is only the direct sales channels which have been identified as requiring additional capitalisation over the lifetime of the policy resulting in an increase in the deferral of acquisition costs.
- These changes have offsetting effects leading to an overall decrease in the deferral of acquisition costs of the Company at the point of transition.

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

- Reinsurance/Insurance contract assets and Reinsurance/Insurance contract liabilities have both been presented under IFRS 17 to align with the requirement to recognise insurance liabilities (or assets) and reinsurance assets (or liabilities) respectively within liabilities or assets on the Statement of Financial Position.

A number of key judgments have been made for the application of IFRS17:

- Whilst IFRS 17 does not prescribe a single estimation technique to derive discount rates, it sets out two possible approaches: a ‘top-down’ and a ‘bottom-up’ approach. The ‘top-down’ approach determines the discount rate based on the yield on a reference portfolio of assets which is adjusted downwards to eliminate any factors that aren’t relevant to insurance contracts. The ‘bottom-up’ approach determines the discount rate based on a liquid risk-free yield curve which is adjusted to eliminate differences between the liquidity characteristics of the financial instruments that underlie the chosen curve and those of the insurance contract. The ‘bottom-up’ approach can be used for cashflows that don’t vary based on the return on the underlying items. This is the case for the Company and the ‘bottom-up’ approach will be adopted.
- The risk adjustment will be calculated using a cost of capital based approach.

At the point of transition the Company has applied the fully retrospective approach for the LRC and for LIC balances back to accident year 2014 with prior accident year balances applying the modified retrospective approach due to the impracticability of acquiring all required data.

IFRS 17 has to be applied retrospectively unless this is impracticable. Under the full retrospective approach fulfillment cash flows are determined prospectively at every reporting date, including the date of initial application. The objective of the modified retrospective approach is to use reasonable and supportable information available without undue cost or effort to achieve the closest possible outcome to full retrospective application. To the extent a retrospective determination is not possible, certain modifications are allowed. Under the fair value approach, the CSM of a group of contracts at transition is determined as the difference between the fair value of this group at transition determined in accordance with IFRS 13 and the corresponding IFRS 17 fulfillment cash flows measures at transition. As detailed above the transition approach for the Company has been confirmed.

The Company has completed parallel runs of the financial results under IFRS 17 in line with the “One.Finance” project to understand the impact of these changes. Although the IFRS 17 implementation project has made significant progress, the financial results that are available are in line Allianz SE Group accounting requirements.

From a local perspective, work is still on-going to calculate the impact of adoption and as such it is not practicable to quantify the effects on the Company’s IFRS 17 opening balance sheet for the fiscal year 2022 or on any financial statements for subsequent periods.

IFRS 9 - Financial Instruments

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

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

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

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

1 ACCOUNTING POLICIES (CONTINUED)

1.3 Basis of preparation (continued)

Financial assets under IFRS 9 classification rules:

As at 31 December 2022	Financial assets that meet the SPPI criterion		Financial assets that do not meet the SPPI criterion	
	Fair value £ m	Fair Value change during the year £ m	Fair Value £ m	Fair Value change during the year £ m
Cash and cash-equivalents	6.8	-	-	-
Government and government agency bonds	310.3	(39.2)	-	-
Corporate bonds	1,770.6	(193.8)	32.7	(1.6)
Managed Funds	-	-	72.7	(3.2)
Total	**2,087.7**	**(233.0)**	**105.4**	**(4.8)**

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

As at 31 December 2022

Investment grade	Cash and cash equivalents £ m	Government and government agency bonds £ m	Corporate bonds £ m
AAA	-	66.3	480.9
AA	-	126.7	181.9
A	6.8	6.8	406.6
BBB	-	36.2	656.1
BB	-	42.3	12.7
B	-	26.5	2.7
CCC	-	1.3	0.4
CC	-	2.6	-
C	-	1.3	0.2
Non-investment grade	-	0.3	29.1
Total	**6.8**	**310.3**	**1,770.6**

1.4 Summary of significant accounting policies

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

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

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(a) Investments in group undertakings
Investments in group undertakings are shown in the Statement of Financial Position at cost. The carrying value is reviewed for impairment annually, or whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment assessment compares the carrying amount of the investment in the subsidiary with the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount is higher than the recoverable amount, an impairment is recognised in administrative expenses in the period in which it occurred.

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

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

Gains arising from changes in fair values are recognised in the fair value reserve in equity, unless this reverses a revaluation decrease previously recognised in unrealised gains. Losses arising from changes in fair value are recognised in unrealised losses, unless this reverses a revaluation increase previously recognised in the fair value reserve.

(c) Intangible assets
The Company applies the cost model to account for intangible assets, assets under construction are not amortised.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. 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 Company 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 of acquiring renewal rights to portfolios of insurance business is amortised on a straight line basis over the expected life of the intangible asset. This useful life has been assessed as either five or eight years.

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

DAC are capitalised and amortised based on the incidence of risk of the underlying insurance contract.

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

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

(e) Income taxes
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income tax expense. Current tax and deferred tax shall be recognised in other comprehensive income if the tax relates to items that are recognised, in the same or a different period, in other 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 Statement of Financial Position date, together with adjustments to tax payable in respect of prior years.

Deferred 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 Statement of Financial Position 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 Statement of Financial Position date.

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(e) Income taxes (continued)

Deferred 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 Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

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

(f) Reinsurance assets

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

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

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

(g) Derivative financial instruments

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

(h) Financial assets

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

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

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

Available for sale financial assets

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

Loans and receivables

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

Securities lending

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

Impairments

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(h) Financial assets (continued)

Impairments (continued)

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 Statement of Financial Position date, an assessment is made of whether there is any objective evidence of impairment. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

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

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

Impairment losses are recognised in the administrative expenses immediately.

(i) Fair value reserve

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

(j) Insurance receivables

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

(k) Cash and cash equivalents

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

(l) Product classification

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

(m) Provisions for other liabilities and charges

A provision is recognised by the Company when a past event gives rise to a present legal or constructive obligation, in which the outflow of economic resources is probable and a reliable estimate of the amount of the obligation can be made. If the effect is significant, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment for the time value of money and, where appropriate, the risk is specific to the liability.

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

(n) Insurance contract liabilities

Insurance contract liabilities are based on the estimated ultimate cost of all claims incurred but not settled at the Statement of Financial Position 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 Statement of Financial Position date.

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(n) Insurance contract liabilities (continued)

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

At each Statement of Financial Position 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 recognised in gross change in insurance liabilities by establishing an unexpired risk provision.

(o) Insurance payables

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

(p) Levies

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

(q) 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.

Reinsurance commission

A proportionate amount of reinsurance ceded to reinsurers is paid back to the Company as commission for undertaking the business. This commission is accounted for according to the reinsurance contract entered on individual classes of business. Commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy (d).

The fixed rate contribution received towards expenses and commission under the quota share contract mentioned on page 2 is all recognised as reinsurance commission.

Investment income

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

Net realised gains

Realised gains and losses on the sale of property, plant 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 realised gains and losses when the sale transaction occurred.

(r) Claims incurred

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

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

(s) Interest payable

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

1 ACCOUNTING POLICIES (CONTINUED)

1.4 Summary of significant accounting policies (continued)

(t) Foreign currency translation

The Company's presentational currency is British Pounds. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are retranslated at the functional currency rate of exchange ruling at the Statement of Financial Position 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 recognised in administrative expenses, unless required to be taken to equity.

(u) Dividends

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

2 USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

Valuation of general insurance contract liabilities

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

Standard actuarial claims projection techniques, such as the Chain Ladder method are used to estimate the majority of outstanding claims. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are analysed separately from damage provisions. In addition, for motor classes, we analyse third party liability damage separately from own damage claims. Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. Allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Profit and Loss and Other Comprehensive Income in future years.

In the case of periodic payment orders (“PPOs”), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly.

COVID-19 business interruption ultimate cost of claims have been estimated separately using claims-based analysis, taking into account the unique considerations for different policy wordings.

The long-tailed nature of environmental and asbestos-related claims means that these claims are also projected separately.

A margin is held on top of the best estimate reserves, informed by a scenario based approach.

Significant accounting estimate – Insurance contract liabilities

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

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

There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately be paid for such claims.

A key area of uncertainty is the high inflation environment in 2022, and allowance has been made in the provisions for the impact of inflation on the ultimate cost of claims.

PPO claims also continue to be a significant uncertainty owing to the annuity-type structure of claim payments i.e. they are typically paid annually over the claimant's life. PPOs have to be projected over a longer-term period and reserved for on a discounted basis accordingly, and are therefore sensitive to the assumed inflation and discount rate. These are deemed as significant assumptions and sensitivity analysis is disclosed in note 26.

Significant judgement applied to estimate

At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Current year estimates are established and reassessed throughout the year. Claims provisions are not discounted for the time value of money except for claims being settled by PPOs.

The high inflation environment in 2022 has been allowed for when setting the provisions.

For COVID-19 business interruption claims, claims-based analysis has been used taking into account the unique considerations for different policy wordings.

The claims margin held in addition to the actuarial best estimate has been reassessed following developments over 2022.

Further details of the claims estimation process are described in note 26.

The carrying value at Statement of Financial Position date for these general insurance contracts is £3,045.2m (2021: £2,944.5m).

Fair value of financial assets

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

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

- Corporate bonds
- Managed Funds
- Own use property

Corporate bonds

A discounted cash flow model is used to determine the fair value of the fixed income financial instrument. Judgement is applied in determining the inputs to the model such as the reference spread for the discount rate and the deal specific spread. Further details concerning the valuation techniques can be found in note 30.

Managed Funds

Independent third party valuation services are used to derive the Net Asset Value of the funds. Further details concerning the valuation techniques can be found in note 30.

Own use property

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

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

3 NET INSURANCE REVENUE

	Note	2022 £ m	2021 £ m
Gross written premiums			
Premiums written		1,993.4	1,859.8
Assumed reinsurance		1.3	0.7
Total gross written premiums	**25**	**1,994.7**	**1,860.5**
Gross change in unearned premium provision	25	(38.2)	(20.5)
Total gross earned premiums		**1,956.5**	**1,840.0**
Reinsurers' share of gross written premiums			
Premiums payable		(867.9)	(815.6)
Assumed reinsurance		(0.5)	(0.3)
Total reinsurers' share of gross written premiums	**25**	**(868.4)**	**(815.9)**
Reinsurers' share of change in unearned premium provision	25	9.2	2.0
Total reinsurers' share of gross earned premiums		**(859.2)**	**(813.9)**
Total net insurance revenue		**1,097.3**	**1,026.1**

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

4 INVESTMENT INCOME

	2022 £ m	2021 £ m
Interest income	65.2	50.1
Total investment income	**65.2**	**50.1**

5 FINANCE COSTS

	2022 £ m	2021 £ m
Impairment of debt instruments	(15.4)	(1.2)
Ceded investment income[1]	(4.7)	(6.4)
Loan guarantee fee	(0.9)	(1.0)
PPI redress[2]	4.3	(28.7)
Total finance costs	**(16.7)**	**(37.3)**

[1]This amount relates to interest payable on the ceded retained reserves under the quota share reinsurance contract.

[2]The cost of providing PPI redress reflects actual redress paid and the best estimate of the quantum of further claims notified by the deadline based on uphold rates and average values for mis-selling. In addition to this, total gross written premiums include £1.2m resulting from the reversal of a previously established provision for premium refunds (2021: £5.1m of premium refunded to policyholders). Legal proceedings have been issued to seek recovery of costs from the agent.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

6 NET REALISED (LOSSES)/GAINS

	2022 £ m	2021 £ m
Realised gains - debt securities	5.1	8.3
Realised losses - debt securities	(19.5)	(3.1)
Total net realised (losses)/gains	**(14.4)**	**5.2**

7 UNREALISED LOSSES

	2022 £ m	2021 £ m
Unrealised loss – Own use property	(1.2)	(3.2)
Net fair value losses on financial instruments	(28.3)	(0.2)
Total unrealised losses	**(29.5)**	**(3.4)**

8 ADMINISTRATIVE EXPENSES

	2022 £ m	2021 £ m
Acquisition costs	154.5	150.0
Movement in deferred acquisition costs – Gross	(1.9)	(2.9)
Movement in deferred acquisition costs – Reinsurance	(1.3)	38.4
Unwind of discount on PPO claims reserve	1.0	1.1
Restructuring and integration charges	8.9	14.4
Administrative expenses	100.1	129.9
Amortisation of renewal rights	7.1	6.6
Impairment of goodwill	2.9	-
Total administrative expenses	**271.3**	**337.5**

9 EMPLOYEE RELATED COSTS

The Company has no employees (2021: none) and as such incurs no employee related costs (2021: £nil). AMS and LVGIG, companies within the Group, provide services and staff resources to the Company as well as to other Group companies.

10 AUDITORS' REMUNERATION

The total remuneration payable by the Company excluding VAT, to its auditors in respect of the audit of these financial statements, is shown below. The Company's audit fees are borne by AMS. Other services supplied pursuant to legislation were £nil (2021: £nil).

	2022 £ m	2021 £ m
Fees payable to the Company’s auditors and its associates	1.8	0.9
Audit-related assurance services	0.2	0.2

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 INCOME TAX

11.1 Income tax recognised in profit and loss

Tax charged in the profit and loss

	2022 £ m	2021 £ m
Current taxation		
In respect of the current year	4.9	5.3
In respect of prior years	-	(0.8)
	4.9	**4.5**
Deferred taxation		
In respect of the current year	5.1	1.6
In respect of prior years	(0.1)	0.8
Arising from changes in tax rates and laws	(0.9)	-
Total deferred taxation	**4.1**	**2.4**
Total income tax expense recognised in the current year	**9.0**	**6.9**

The tax on profit before tax for the year is the same as the standard rate of corporation tax in the UK (2021 - the same as the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022 £ m	2021 £ m
Profit before tax	**50.0**	**29.1**
Corporation tax at standard rate	**9.5**	**5.5**
Decrease in current tax from adjustment for prior periods	(0.1)	-
Increase from effect of revenues exempt from taxation	(1.1)	-
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	1.9	1.2
(Decrease)/increase from transfer pricing adjustments	(0.5)	0.1
Deferred tax credit relating to changes in tax rates or laws	(0.9)	-
Decrease from effect dividends from UK companies	-	(0.5)
Other tax effects for reconciliation between accounting profit and tax expense	0.2	0.6
Total tax charge	**9.0**	**6.9**

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 INCOME TAX (CONTINUED)

11.2 Income tax recognised in other comprehensive income

	2022 £ m	2021 £ m
Deferred tax	60.6	12.4
Total income tax recognised in other comprehensive income	**60.6**	**12.4**

11.3 Tax paid for cash flow purposes

	2022 £ m	2021 £ m
Current tax receivable at 1 January	(2.2)	(2.6)
Amounts charged to profit and loss	9.0	6.9
Movements in deferred tax asset in the Statement of Profit and Loss and Other Comprehensive Income	(4.1)	(2.4)
Tax paid during the year	(7.4)	(4.1)
Current tax receivable at 31 December	**(4.7)**	**(2.2)**

11.4 Current tax receivables

	2022 £ m	2021 £ m
Current tax receivables	**(4.7)**	**(2.2)**

11.5 Deferred tax balances

	2022 £ m	2021 £ m
Deferred tax assets		
Tax losses	4.6	8.7
Unrealised losses on bonds	55.5	4.2
	60.1	**12.9**
Other		
Capital allowances	0.1	0.1
Total deferred tax assets	**60.2**	**13.0**
Set-off of deferred tax liabilities pursuant to set-off provisions	(1.4)	(4.2)
Net deferred tax assets	**58.8**	**8.8**
Deferred tax liabilities		
Unrealised gains on bonds	1.4	10.7
Set-off of deferred tax liabilities pursuant to set-off provisions	(1.4)	(4.3)
Net deferred tax liabilities	**-**	**6.4**

The Company has capital losses of £6.9m available to carry forward indefinitely against capital gains (2021: £6.9m) and unrealised losses on property of £14.8m (2021: £13.6m). None of these losses are recognised within deferred tax as their recovery is improbable.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

11 INCOME TAX (CONTINUED)

11.5 Deferred tax balances (continued)

Deferred tax assets in relation to	Tax losses £ m	Unrealised losses on bonds £ m	Other £ m	Total £ m
At 1 January 2021	14.2	1.4	0.7	16.3
(Charged)/credited				
- to profit and loss	(5.5)	-	(0.6)	(6.1)
- to other comprehensive income	-	2.8	-	2.8
At 31 December 2021	**8.7**	**4.2**	**0.1**	**13.0**
At 1 January 2022	8.7	4.2	0.1	13.0
(Charged)/credited				
- to profit or loss	(4.1)	-	-	(4.1)
- to other comprehensive income	-	51.3	-	51.3
At 31 December 2022	**4.6**	**55.5**	**0.1**	**60.2**

Deferred tax liabilities in relation to	Claims equalisation reserve £ m	Unrealised gains on bonds £ m	Total £ m
At 1 January 2021	3.7	20.2	23.9
(Charged)/credited			
- to profit and loss	(3.7)	-	(3.7)
- to other comprehensive income	-	(9.5)	(9.5)
At 31 December 2021	**-**	**10.7**	**10.7**
At 1 January 2022	-	10.7	10.7
(Charged)/credited			
- to other comprehensive income	-	(9.3)	(9.3)
At 31 December 2022	**-**	**1.4**	**1.4**

	2022 £ m	2021 £ m
Deferred tax asset	58.8	8.8
Deferred tax liability	-	(6.4)
Current deferred tax asset	4.6	8.7
Non-current deferred tax asset	55.6	0.1
Non-current deferred tax liability	(1.4)	(6.4)

The UK Government announced its intention in the budget of 3 March 2021 to legislate to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023. This legislation was substantively enacted on 24 May 2021.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

12 DIRECTORS' EMOLUMENTS

The directors' remuneration for the year was as follows:

	2022 £	2021 £
Emoluments[(1)]	5,867,982	3,834,472

In respect of the highest paid director:

	2022 £	2021 £
Emoluments	2,422,866	1,283,589

[(1)]Emoluments include £84,600 (2021: £373,959) of payments received following the exercise of Restricted Stock Units under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE and payments of £217,396 received as Mid-Term Bonus which is a 3 year deferred incentive plan and the cash awarded is subject to a multi-year sustainability assessment.

The emoluments also include £624,500 (2021: £361,167) of payments received during 2022 by the highest paid Director relating to the vesting of LVGIG Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £130,000 (2021: £364,550) receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

An individual who was previously a Director of the Company received a compensation for loss of office of £2,237,290. The individual also received a payment of £177,409 following the exercise of Restricted Stock Units relating to a grant in a previous year when they were in office as a Director. The individual also received a payment of £206,612 under the Mid-Term Bonus scheme.

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

13 DIVIDENDS

An interim dividend of £50.0m was paid during the year ended 31 December 2022 (2021: £nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: £nil).

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

14 INVESTMENTS IN GROUP UNDERTAKINGS

The subsidiary undertakings of the Company at 31 December 2022 are shown below. The registered office for all undertakings is 57 Ladymead, Guildford, Surrey, GU1 1DB.

Name of subsidiary	Principal activity	Country of incorporation	Proportion of ownership interest and voting rights held 2022	2021
Pet Plan Limited	Insurance Intermediary	England	100%	100%
Trafalgar Insurance Limited	General Insurance	England	100%	100%
Allianz Properties Limited	Investing in Real Estate	England	100%	100%
Allianz Equity Investments Limited	Investing In Equity Shares	England	100%	100%
Allianz Pension Fund Trustees Limited	Pension Fund Trustee	England	100%	100%

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

15 INTANGIBLE ASSETS

	Goodwill £ m	Renewal rights £ m	Internally generated software development costs £ m	Total £ m
Cost				
At 1 January 2021	2.9	75.2	-	78.1
Additions	-	3.0	-	3.0
At 31 December 2021	**2.9**	**78.2**	**-**	**81.1**
At 1 January 2022	2.9	78.2	-	81.1
Additions	-	-	10.1	10.1
At 31 December 2022	**2.9**	**78.2**	**10.1**	**91.2**
Amortisation				
At 1 January 2021	-	42.6	-	42.6
Amortisation charge	-	6.6	-	6.6
At 31 December 2021	**-**	**49.2**	**-**	**49.2**
At 1 January 2022	-	49.2	-	49.2
Amortisation charge	-	7.1	-	7.1
Impairment	2.9	-	-	2.9
At 31 December 2022	**2.9**	**56.3**	**-**	**59.2**
Carrying amount				
At 31 December 2022	**-**	**21.9**	**10.1**	**32.0**
At 31 December 2021	**2.9**	**29.0**	**-**	**31.9**

The amortisation charge and impairment charge have been included within administrative expenses.

The Company has considered whether there are any indications of impairment of the intangible assets at the Statement of Financial Position date.

The goodwill was acquired in a business combination several years ago. Given the time elapsed since the acquisition, management has determined that the recoverable amount of the goodwill was becoming increasingly difficult to determine and decided to impair the carrying value during the year by £2.9m.

£19.5m (2021: £26.0m) of the renewal rights carrying amount relates to renewal rights for the LVGIG Group commercial business, the remaining amortisation period is 3 years.

The new addition of £10.1m in the year relates to an internally developed software that has been developed for a Transformation programme/Allianz Customer model ("ACM"). The Transformation Programme has developed four Intangible software assets. These have been recognised “at cost” and will be amortised over the expected useful life of the assets. These four intangible assets are currently under construction and as such are not yet amortised. They are not expected to complete until at least 2025.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

16 PROPERTY, PLANT AND EQUIPMENT

	Property £ m
At 1 January 2021	13.0
Disposals	(1.4)
Unrealised loss	(3.2)
Realised gain	0.1
At 31 December 2021	**8.5**
At 1 January 2022	8.5
Unrealised loss	(1.2)
At 31 December 2022	**7.3**

Own use property is stated at fair value. On 31 December, the property was independently valued in accordance with the Royal Institute of Chartered Surveyors' guidelines on the basis of open market value of such properties (amounts for which the properties could be exchanged between knowledgeable willing parties in an arm's length transaction at the valuation date). The significant assumptions used in the valuation of own use property are disclosed in note 30. Had the own use property been carried under the cost model the carrying amount would have been £21.9m (2021: £22.1m).

17 DEFERRED ACQUISITION COSTS

	2022 £ m	*Restated* (1) 2021 £ m
Gross		
At 1 January	177.8	174.9
Costs deferred during the year (1)	352.8	341.9
Amortisation charge for the year (1)	(350.9)	(339.0)
At 31 December	**179.7**	**177.8**
Reinsurance		
At 1 January	108.1	69.7
Costs deferred during the year	294.7	336.9
Amortisation charge for the year	(296.0)	(298.5)
At 31 December	**106.8**	**108.1**
Net		
At 1 January	69.7	105.2
Costs deferred during the year (1)	58.1	5.0
Amortisation charge for the year (1)	(54.9)	(40.5)
At 31 December	**72.9**	**69.7**

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 Statement of Financial Position date.

The movement in the reinsurers' share of deferred acquisition costs, which is associated with reinsurance commission income, is included within Administrative Expenses. Refer to Note 8.

17 DEFERRED ACQUISITION COSTS (CONTINUED)

(1) In the prior year, the amounts for costs deferred during the year and amortisation charge for the year were incorrectly stated. As a result, the previously disclosed gross balances of £344.8m and £341.9m have been adjusted to £341.9m and £339.0m respectively and the net balances of £7.9m and £43.4m have been adjusted to £5.0m and £40.5m respectively.

18 REINSURANCE ASSETS

	2022 £ m	2021 £ m
Reinsurers' share of insurance contract liabilities	1,427.4	1,410.7
Total reinsurance assets	**1,427.4**	**1,410.7**

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

19 ACCRUED INCOME

	2022 £ m	2021 £ m
Interest	27.1	22.7
Total accrued income	**27.1**	**22.7**

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 Statement of Financial Position date.

20 FINANCIAL ASSETS

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

	2022 £ m	2021 £ m
Available for sale financial assets	2,186.3	2,371.2
Loans to related parties	113.9	133.2
Loans and receivables	36.8	36.0
Derivative financial assets	0.5	4.2
Total financial assets	**2,337.5**	**2,544.6**

20.1 Available for sale financial assets

	2022 £ m	2021 £ m
At fair value		
Managed funds	72.7	134.7
Debt securities	2,113.6	2,236.5
Total available for sale financial assets at fair value	**2,186.3**	**2,371.2**
At cost		
Managed funds	75.3	118.3
Debt securities	2,330.7	2,211.7
Total available for sale financial assets at cost	**2,406.0**	**2,330.0**

20 FINANCIAL ASSETS (CONTINUED)

20.1 Available for sale financial assets (continued)

The Company has entered into securities lending whereby blocks of securities are loaned to third parties. The amount of collateral required to be held above the fair value of the loaned securities is dictated by the agreements and depends on the quality of the collateral provided and calculated on a daily basis. The loaned securities are not removed from the Company's Statement of Financial Position; they continue to be recognised within the appropriate investment classification. At 31 December 2022, the Company had lent £238.0m (2021: £220.5m) and held collateral under such agreements of £257.1m (2021: £224.9m). Due to the collateral held being higher than the value of securities lent there is very little credit risk.

The collateral held in favour of the Company is marked-to-market daily. The Company holds term lending and agency lending collateral. In relation to term lending, the collateral includes high quality sovereign debt, supranational debt, Residential Mortgage-Backed Securities and covered bonds. An appropriate haircut is applied. In relation to agency lending, the collateral is mostly comprised of highly rated sovereign debt. The agent ensures that the borrowers provide adequate collateral and haircuts are met.

No collateral has been sold or repledged during the year (2021: nil).

20.2 Loans

	2022 £ m	2021 £ m
Loans to related parties[(1)]	113.9	133.2
Other loans	30.0	30.0
Deposits with credit institutions[(2)]	6.8	6.0
Total loans	**150.7**	**169.2**

	2022 £ m	2021 £ m
Current loans	16.2	16.2
Non-current loans	134.5	153.0

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

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

[(2)] Included within the deposits with credit institutions is £6.8m (2021: £6.0m) which the Company has pledged as collateral relating to the future settlement of insurance contract liabilities.

The fair value of the loans made by the Company is £143.9m (2021: £163.2m). Other carrying amounts disclosed above reasonably approximate fair values at year end.

20.3 Derivatives

	2022 £ m	2021 £ m
Total derivatives financial assets	**0.5**	**4.2**

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

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

21 INSURANCE RECEIVABLES

	2022 £ m	2021 £ m
Due from policyholders	519.1	481.5
Due from reinsurers[1]	9.4	11.6
Due from agents, brokers and intermediaries	264.7	274.2
Total insurance receivables	**793.2**	**767.3**

[1] Included in amounts due from reinsurers are balances due from related parties of £6.0m (2021: £10.4m).

	2022 £ m	2021 £ m
Current insurance receivables	754.0	751.9
Non-current insurance receivables	39.2	15.4
	793.2	**767.3**

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

22 OTHER RECEIVABLES

	2022 £ m	2021 £ m
Amounts due from related parties	66.3	101.4
Other receivables	51.5	51.1
Total other receivables	**117.8**	**152.5**

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

23 CASH AND CASH EQUIVALENTS

	2022 £ m	2021 £ m
Cash and cash equivalents	57.1	6.5

Deposits were subject to an average interest rate of 1.53% (2021: 0.23%) and have an average maturity of 1 day (2021: 1 day). The carrying amounts disclosed above are reasonably approximate to fair value at year-end.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

24 EQUITY

Share capital - allotted, called up and fully paid

	2022 No.	2022 £	2021 No.	2021 £
Ordinary shares of £1 each	172,758,609	172,758,609	172,758,609	172,758,609

	2022 £	2021 £
Share premium		
Share premium classified as fully paid	5,244,412	5,244,412

25 INSURANCE CONTRACT LIABILITIES

	2022 Insurance contract liabilities £ m	2022 Reinsurers' share of liabilities £ m	2022 Net £ m	2021 Insurance contract liabilities £ m	2021 Reinsurers' share of liabilities £ m	2021 Net £ m
Provisions for claims reported by policyholders	1,766.2	(836.2)	930.0	1,759.7	(848.6)	911.1
Provisions for claims incurred but not reported	222.8	(148.5)	74.3	166.8	(128.6)	38.2
Total claims reported and IBNR	**1,989.0**	**(984.7)**	**1,004.3**	**1,926.5**	**(977.2)**	**949.3**
Provision for unearned premiums	1,056.2	(442.7)	613.5	1,018.0	(433.5)	584.5
Total general insurance contract liabilities	**3,045.2**	**(1,427.4)**	**1,617.8**	**2,944.5**	**(1,410.7)**	**1,533.8**
Current general insurance contract liabilities	1,515.9	(696.0)	819.9	1,523.5	(701.1)	822.4
Non-current general insurance contract liabilities	1,529.3	(731.4)	797.9	1,421.0	(709.6)	711.4

25 INSURANCE CONTRACT LIABILITIES (CONTINUED)

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

	2022 Insurance contract liabilities £ m	2022 Reinsurers' share of liabilities £ m	2022 Net £ m	2021 Insurance contract liabilities £ m	2021 Reinsurers' share of liabilities £ m	2021 Net £ m
At 1 January	1,926.5	(977.2)	949.3	1,960.1	(1,003.7)	956.4
Unwind of discount of PPO claim reserves	4.2	(3.2)	1.0	4.1	(3.1)	1.0
	1,930.7	**(980.4)**	**950.3**	**1,964.2**	**(1,006.8)**	**957.4**
Claims incurred in the current accident year	1,300.2	(543.5)	756.7	1,167.4	(487.9)	679.5
Movement on claims incurred in prior accident years	(17.9)	16.6	(1.3)	(9.5)	15.6	6.1
Claims paid during the year	(1,224.0)	522.6	(701.4)	(1,195.6)	501.9	(693.7)
At 31 December	**1,989.0**	**(984.7)**	**1,004.3**	**1,926.5**	**(977.2)**	**949.3**

The provision for unearned premiums can be analysed as follows:

	2022 Insurance contract liabilities £ m	2022 Reinsurers' share of liabilities £ m	2022 Net £ m	2021 Insurance contract liabilities £ m	2021 Reinsurers' share of liabilities £ m	2021 Net £ m
At 1 January	1,018.0	(433.5)	584.5	997.5	(431.5)	566.0
Premiums written in the year	1,994.7	(868.4)	1,126.3	1,860.5	(815.9)	1,044.6
Premiums earned during the year	(1,956.5)	859.2	(1,097.3)	(1,840.0)	813.9	(1,026.1)
At 31 December	**1,056.2**	**(442.7)**	**613.5**	**1,018.0**	**(433.5)**	**584.5**

26 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES

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

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

The claims provision at the reporting date comprises the estimated ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This is estimated based on known facts at the Statement of Financial Position 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.

26 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

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 PPOs established under the Courts Act 2003. During 2022, no new settlements were agreed on this basis, making the total number of outstanding PPOs unchanged at 44. Total settled PPO reserves are £152.3m (2021: £147.1m) gross and £39.6m (2021: £38.0m) net of reinsurance. The corresponding undiscounted amounts are £320.0m (2021: £313.3m) gross and £75.0m (2021: £73.2m) net. The interest rate used to discount PPOs is assumed to be in line with inflation. The following sensitivities show the impact of changing the interest rate and inflation assumptions on settled PPO reserves:

- An increase of interest rate by 1% would decrease the discounted PPO reserves by £26.0m gross and £5.6m net
- A decrease of interest rate by 1% would increase the discounted PPO reserves by £36.5m gross and £7.8m net
- An increase of inflation rate by 1% would increase the discounted PPO reserves by £36.1m gross and £9.8m net
- A decrease of inflation rate by 1% would decrease the discounted PPO reserves by £26.3m gross and £7.3m net
- An increase in life expectancy of 4 years would increase the discounted PPO reserves by £13.7m gross and £2.7m net
- A decrease in life expectancy of 4 years would decrease the discounted PPO reserves by £17.9m gross and £4.1m net

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. The Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. The current rate is set at -0.25% in England and Wales, and 0.75% in Scotland. The rates will be reviewed by the end of 2024. The Company has very limited exposure to Northern Ireland which is expected to move to a statutory process for setting the Ogden discount rate similar to England and Wales. In March 2022, the personal injury discount rate in Northern Ireland was set to -1.5%. This is subject to further review in July 2024. Ultimate claims costs continue to be calculated using the current Ogden discount rates.

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 analysed separately from damage provisions. In addition, for motor classes, we analyse third party liability damage separately from own damage claims. A margin is held on top of the best estimate reserves, informed by a scenario based approach.

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

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

The long-tailed nature of environmental and asbestos-related claims results in these claims being particularly difficult to reserve for. Due to the long latency period, ultimate costs are projected giving consideration to the expected future notification of claims, by assuming future frequency and average cost of claims.

In 2022, the most material weather events were Storm-related claims in February and Freeze-related claims in December. These mainly impacted the Property class. Development to the assumed ultimate costs of these claims has been allowed for in the provisions.

COVID-19 business interruption claims have been analysed separately using a claim-based approach, and involving an assessment of emerging claims experience, policy wordings, legal advice and expert judgement. Reinsurance recoveries on COVID-19 business interruption claims have been estimated reflecting the agreed operation of the Catastrophe excess of loss reinsurance treaty. There remains uncertainty surrounding the ultimate cost of these claims, in particular the outcome of legal proceedings and agreements.

26 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

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

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

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

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

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

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

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

There has been a significant increase in inflation in 2022 due to factors including the war in Ukraine, COVID-19 and Brexit-related supply chain disruption. The impact of the high inflation environment on the ultimate cost of claims has been considered and an explicit allowance has been held in the provisions for excess inflation, i.e. in excess of that implicitly allowed for within the standard actuarial claims projection techniques. The excess inflation allowance is driven by the long-tailed lines, such as Commercial Motor Third Party Bodily Injury, due to the higher provisions and the longer average time to claim settlement.

Overall, changes in assumptions and claims experience have caused a £13.7m gross decrease in insurance provisions in respect of the prior period, driven by a reduction in the claims margin associated with reduced uncertainty surrounding COVID-19 business interruption claims and an improved outlook for the Ogden Discount Rate change in 2024. There have also been reductions in Property, Animal Health and Personal Motor. This has been partially offset by increases in Commercial Motor, Liability and Engineering, Construction and Power ("ECP"). The net effect after reinsurance is a £0.4m decrease. The net impact is lower than the gross impact due to much of the Property decrease being fully reinsured. The net impact includes a £19.6m net reduction in the claims margin.

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

26 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

Loss development triangles

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at each Statement of Financial Position date, together with cumulative claims as at the current Statement of Financial Position 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 Statement of Financial Position date.

Gross of reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year	1,139.5	1,285.5	1,540.5	1,495.8	1,428.8	1,418.0	1,341.7	1,511.9	1,167.4	1,300.1	13,629.2
One year later	1,168.1	1,316.6	1,507.2	1,463.0	1,383.2	1,373.4	1,324.7	1,454.4	1,178.4	-	12,169.0
Two years later	1,130.6	1,318.0	1,461.9	1,425.9	1,353.7	1,369.7	1,334.6	1,410.7	-	-	10,805.1
Three years later	1,124.1	1,326.8	1,442.1	1,437.6	1,360.8	1,384.3	1,357.2	-	-	-	9,432.9
Four years later	1,124.6	1,310.0	1,435.9	1,438.3	1,379.0	1,382.7	-	-	-	-	8,070.5
Five years later	1,118.4	1,304.0	1,435.8	1,440.2	1,371.3	-	-	-	-	-	6,669.7
Six years later	1,119.9	1,311.0	1,439.6	1,439.9	-	-	-	-	-	-	5,310.4
Seven years later	1,123.1	1,301.7	1,438.6	-	-	-	-	-	-	-	3,863.4
Eight years later	1,118.8	1,303.8	-	-	-	-	-	-	-	-	2,422.6
Nine years later	1,116.8	-	-	-	-	-	-	-	-	-	1,116.8
Current estimate of cumulative claims	1,116.8	1,303.8	1,438.6	1,439.9	1,371.3	1,382.7	1,357.2	1,410.7	1,178.4	1,300.1	13,299.5
Cumulative payments to date	1,100.1	1,264.1	1,414.1	1,403.3	1,316.7	1,276.3	1,182.7	1,074.5	864.3	698.1	11,594.2
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	283.7
Total gross liability as per the Statement of Financial Position	16.7	39.7	24.5	36.6	54.6	106.4	174.5	336.2	314.1	602.0	1,989.0

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

26 INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS - TERMS, ASSUMPTIONS AND SENSITIVITIES (CONTINUED)

Net of reinsurance	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year	1,111.8	1,256.6	1,201.5	858.0	826.8	821.0	780.2	774.1	679.5	756.5	9,066.0
One year later	1,138.1	1,171.9	1,177.0	838.8	801.4	803.2	770.7	743.8	690.3	-	8,135.2
Two years later	1,055.4	1,164.3	1,160.6	824.0	784.9	802.7	779.4	720.5	-	-	7,291.8
Three years later	1,053.2	1,171.6	1,149.6	823.4	787.9	811.4	791.4	-	-	-	6,588.5
Four years later	1,055.7	1,166.1	1,144.3	830.0	799.2	809.8	-	-	-	-	5,805.1
Five years later	1,051.1	1,161.9	1,145.5	831.3	794.9	-	-	-	-	-	4,984.7
Six years later	1,050.9	1,161.7	1,147.8	830.5	-	-	-	-	-	-	4,190.9
Seven years later	1,051.1	1,161.0	1,147.2	-	-	-	-	-	-	-	3,359.3
Eight years later	1,050.1	1,163.2	-	-	-	-	-	-	-	-	2,213.3
Nine years later	1,049.0	-	-	-	-	-	-	-	-	-	1,049.0
Current estimate of cumulative claims	1,049.0	1,163.2	1,147.2	830.5	794.9	809.8	791.4	720.5	690.3	756.5	8,753.3
Cumulative payments to date	1,044.0	1,143.5	1,132.0	814.2	761.8	747.5	690.6	601.4	511.1	412.8	7,858.9
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	109.9
Total net liability as per the Statement of Financial Position	5.0	19.7	15.2	16.3	33.1	62.3	100.8	119.1	179.2	343.7	1,004.3

27 INSURANCE RELATED PAYABLES

	2022 £ m	2021 £ m
Arising out of direct insurance operations		
Third parties	67.9	70.0
	67.9	**70.0**
Deposits received from reinsurers		
Amounts due to related parties	979.0	917.3
Third parties	0.1	0.1
	979.1	**917.4**
Arising out of reinsurance operations		
Arising out of reinsurance operations	23.6	33.1
Third parties	20.2	25.8
	43.8	**58.9**
Total insurance related payables	**1,090.8**	**1,046.3**
Current insurance related payables	1,090.7	1,046.2
Non-current insurance related payables	0.1	0.1

The carrying amounts disclosed above reasonably approximate fair values at year end. The current liabilities are payable within 12 months of the Statement of Financial Position date. The non-current liabilities are payable within 24 months of the Statement of Financial Position date.

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

28 ACCRUALS AND OTHER PAYABLES

	2022 £ m	2021 £ m
Amounts due to related parties	210.4	212.3
Accrued expenses	1.0	0.1
Tax payables	62.9	70.8
Other	24.4	22.1
Total accruals and other payables	**298.7**	**305.3**

The carrying amounts disclosed above reasonably approximate fair values at year end. All of the liabilities are payable within 12 months of the Statement of Financial Position date.

29 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Restructuring[1] £ m	Provision for PPI claims[2] £ m	Other provision £ m	Total £ m
At 1 January 2021	1.1	10.2	0.1	11.4
Amount charged to the statement of comprehensive income	4.6	33.9	-	38.5
Utilised in the year	(1.1)	(10.0)	-	(11.1)
At 31 December 2021	**4.6**	**34.1**	**0.1**	**38.8**
Amount charged to the statement of comprehensive income	4.1	-	0.5	4.6
Utilised in the year	(6.5)	(26.7)	-	(33.2)
At 31 December 2022	**2.2**	**7.4**	**0.6**	**10.2**

[1] During the year, the Company invested in restructuring and integration activities. A restructuring charge was incurred relating to organisational design and changes to property footprint. An integration charge relating to costs involved in migration of the LVGIG Pet portfolio was also incurred.

[2] In the period since 2019, the Company incurred some costs for PPI redress. The provision relates to unpaid PPI claims. The cost of providing PPI redress reflects actual redress paid and the best estimate of the quantum of further claims notified by the deadline based on uphold rates and average values for mis-selling. In addition to this, total gross written premiums include £-1.2m (2021: £5.1m) of premium refunded to policyholders.

All of the liabilities are payable within 12 months of the Statement of Financial Position date.

30 RISK MANAGEMENT POLICIES

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

30.1 Insurance risk

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

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.1 Insurance risk (continued)

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

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

The Company limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition the Company uses both proportional and non-proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather related claims. Maximum exposure for each line of business (motor, liability, property and business interruption) is limited according to risk appetite, capital requirements and the return on capital.

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

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

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

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

As detailed below under financial risk policies 30.4 Credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full.

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

	Gross 2022 £ m	2022 Reinsurers' Share 2022 £ m	Net £ m	Gross 2021 £ m	2021 Reinsurers' Share 2021 £ m	Net £ m
Claims liabilities						
Motor	907.3	(449.5)	457.8	781.9	(392.5)	389.4
Household	30.3	(19.7)	10.6	30.8	(19.9)	10.9
Property and business interruption	492.8	(275.6)	217.2	522.8	(305.0)	217.8
Liability	477.3	(210.9)	266.4	494.6	(223.4)	271.2
Speciality pecuniary	64.4	(25.8)	38.6	71.8	(28.7)	43.1
Other	16.9	(3.2)	13.7	24.6	(7.7)	16.9
Total	**1,989.0**	**(984.7)**	**1,004.3**	**1,926.5**	**(977.2)**	**949.3**

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

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.2 Financial risk

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

30.3 Market risk

Market risk is the risk that changes in market prices will affect the value of the Company's assets and income. The Company's liabilities have very limited exposure to these movements. The Company is exposed to market risk on all of its investment in group undertakings, available for sale financial assets and receivables.

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

i) Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contract liabilities. At 31 December 2022 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.4 years (2021: 3.8 years) compared with the average duration of the insurance contract liabilities which is estimated to be 4.6 years (2021: 4.5 years).

ii) Inflation risk

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

Impacts from factors such as the war in Ukraine, COVID-19 and Brexit-related supply chain disruption have driven a significant increase in inflation in 2022 and a heightened level of inflation risk. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims.

As covered in Note 26, an explicit allowance has been held in the net insurance provisions to allow for excess inflation.

iii) Equity risk

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

iv) Credit spread risk

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

v) Currency risk

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

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

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.3 Market risk (continued)

	2022 £ m	2021 £ m
US Dollar		
Assets	202.2	230.4
Liabilities	12.6	14.2
Euro		
Assets	46.4	52.6
Liabilities	4.5	13.4

The Company holds foreign currency forward contracts covering £183.2m of US Dollars (2021: £220.2m) and £30.5m of Euros (2021: £31.1m).

vi) Sensitivity to market risk

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

	2022		2021	
	Profit/(loss) £ m	Equity £ m	Profit/(loss) £ m	Equity £ m
Interest rate risk				
+100 basis points shift in yield curves	-	(59.5)	-	(57.9)
-100 basis points shift in yield curves	-	59.5	-	63.2
Equity risk				
10% increase in equity prices	-	7.3	-	13.1
10% decrease in equity prices	-	(7.3)	-	(13.1)
Currency rate risk				
10% weakening of Euro exchange rate	-	4.2	-	3.9
10% strengthening of Euro exchange rate	-	(4.2)	-	(3.9)
10% weakening of US dollar exchange rate	-	19.0	-	21.6
10% strengthening of US dollar exchange rate	-	(19.0)	-	(21.6)

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

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

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.3 Market risk (continued)

	Profit/(loss)		Equity	
	Gross £ m	Net £ m	Gross £ m	Net £ m
2022				
Expense ratio				
1% increase in current year	(5.0)	(2.9)	(4.1)	(2.3)
1% decrease in current year	5.0	2.9	4.1	2.3
Loss ratio				
1% increase in current year	(12.5)	(7.3)	(10.1)	(5.9)
1% increase in all of the last 3 years	(37.3)	(20.7)	(30.2)	(16.8)
1% decrease in current year	12.5	7.3	10.1	5.9
1% decrease in all of the last 3 years	37.3	20.7	30.2	16.8

	Profit/(loss)		Equity	
	Gross £ m	Net £ m	Gross £ m	Net £ m
2021				
Expense ratio				
1% increase in current year	(4.9)	(2.8)	(3.9)	(2.3)
1% decrease in current year	4.9	2.8	3.9	2.3
Loss ratio				
1% increase in current year	(11.1)	(6.4)	(9.0)	(5.2)
1% increase in all of the last 3 years	(37.8)	(21.0)	(30.6)	(17.0)
1% decrease in current year	11.1	6.4	9.0	5.2
1% decrease in all of the last 3 years	37.8	21.0	30.6	17.0

30.4 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. The Company is exposed to credit risk through its available for sale financial assets, cash and cash equivalents, reinsurance assets, loans and receivables, insurance receivables and other receivables.

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

The Company deems the risk associated with its cash and cash equivalents to be low as the cash balances are held with financial institutions with A credit ratings and are immediately available. The Company deems the risk associated with its other receivables to be low. The amount due from group undertakings is due from Allianz SE and as such is AA rated. Despite the remaining other receivables being unrated, the Company deems the associated risk to be low because these amounts are due from many separate counterparties and are due within one year. The Company is also exposed to credit risk through its loan to a fellow member of the Group with an A rating. This loan is guaranteed by Allianz SE which is AA rated. The Company has also invested in an infrastructure loan with another AA rated counterparty. Details relating to the repayment of these loans are contained in note 20. The Company deems the credit risk associated with the loans to be low.

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.4 Credit risk (continued)

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. Furthermore, some reinsurance is placed on a Funds Withheld basis to mitigate the associated credit risk. Some reinsurance is placed with the captive reinsurance companies of the Company's major clients. Where there is a significant or potentially significant exposure to an individual captive, additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at 31 December 2022 was £756.3m (2021: £720.3m), however a significant proportion of this is on a Funds Withheld basis and therefore the credit risk is mitigated.

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

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

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

2022	AAA	AA	A	BBB	BB	B	CCC	CC	C	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Reinsurance assets	-	1,015.4	393.8	-	-	-	-		-	18.3	1,427.5
Available for sale financial assets	556.6	314.5	416.2	708.1	53.3	29.5	1.8	2.6	1.5	102.2	2,186.3
Loans and receivables	-	-	36.8	-	-	-	-	-	-	-	36.8
Loans to related parties	-	-	-	-	-	-	-	-	-	113.9	113.9
Insurance receivables(1)	-	168.0	18.0	2.1	5.2	-	-	-	-	599.9	793.2
Cash and cash equivalents	-	-	57.1	-	-	-	-	-	-	-	57.1
Total £m	556.6	1,497.9	921.9	710.2	58.5	29.5	1.8	2.6	1.5	834.3	4,614.8
Percent	12.1	32.5	20.0	15.4	1.3	0.6	0.0	0.1	0.0	18.1	100.0
2021	AAA	AA	A	BBB	BB	B	CCC	CC	C	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Reinsurance assets	-	1,379.8	4.7	-	-	-	-	-	-	26.2	1,410.7
Available for sale financial assets	609.1	345.1	410.7	708.7	101.5	43.2	1.1	-	0.3	151.5	2,371.2
Loans and receivables	-	6.0	30.0	-	-	-	-	-	-	-	36.0
Loans to related parties	-	-	-	-	-	-	-	-	-	133.2	133.2
Insurance receivables (1)	-	160.5	17.1	0.4	4.8	-	-	-	-	584.5	767.3
Cash and cash equivalents	-	-	6.5	-	-	-	-	-	-	-	6.5
Total £m	609.1	1,891.4	469.0	709.1	106.3	43.2	1.1	-	0.3	895.4	4,724.9
Percent	12.9	40.0	9.9	15.0	2.2	0.9	0.0	0.0	0.0	19.0	100.0

(1) Included in the not rated balance is £519.1m (2021: £481.5m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who whilst not independently rated are regulated by the FCA.

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

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.4 Credit risk (continued)

	2022		2021	
	Reinsurance assets £ m	Insurance receivables £ m	Reinsurance assets £ m	Insurance receivables £ m
Neither past due or impaired	1,426.0	770.5	1,410.7	747.4
Past due but not impaired	-	19.5	-	19.3
Individually impaired	1.4	3.2	-	0.6
Total	**1,427.4**	**793.2**	**1,410.7**	**767.3**

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

2022	Less than 90 days £ m	90 - 120 days £ m	120 - 180 days £ m	More than 180 days £ m	Total £ m
Policyholders	0.5	-	-	-	0.5
Brokers	7.6	2.4	2.8	6.0	18.8
Reinsurers	0.1	-	0.1	-	0.2
Total	**8.2**	**2.4**	**2.9**	**6.0**	**19.5**

2021	Less than 90 days £ m	90 - 120 days £ m	120 - 180 days £ m	More than 180 days £ m	Total £ m
Policyholders	0.7	-	-	-	0.7
Brokers	8.6	1.4	2.1	6.4	18.5
Reinsurers	-	-	-	0.1	0.1
Total	**9.3**	**1.4**	**2.1**	**6.5**	**19.3**

Fair value hierarchy

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

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

Level 2: valuation technique which uses the current prices in an active market of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

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

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.4 Credit risk (continued)

Fair value hierarchy (continued)

Fair value as of 31 December 2022

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Own use property	-	-	7.3	7.3
Government and government agency bonds[1]	181.4	211.5	-	392.9
Corporate bonds[1]	-	1,696.7	24.0	1,720.7
Managed funds	-	-	72.7	72.7
	181.4	**1,908.2**	**104.0**	**2,193.6**

Fair value as of 31 December 2021

	Level 1 £ m	Level 2 £ m	Level 3 £ m	Total £ m
Own use property	-	-	8.5	8.5
Government and government agency bonds[1]	32.7	407.9	-	440.6
Corporate bonds[1]	12.0	1,767.5	16.4	1,795.9
Managed funds	-	80.0	54.7	134.7
	44.7	**2,255.4**	**79.6**	**2,379.7**

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

Level 3 fair value measurements 2022

	Opening balance £ m	Additions £ m	Unrealised losses £ m	Closing balance £ m
Own use property	8.5	-	(1.2)	7.3
Corporate bonds	16.4	15.0	(7.4)	24.0
Managed Funds	54.7	21.2	(3.2)	72.7
	79.6	**36.2**	**(11.8)**	**104.0**

Level 3 fair value measurements 2021

	Opening balance £ m	(Disposals)/ Additions £ m	Unrealised (losses)/gains £ m	Closing balance £ m
Own use property	13.0	(1.4)	(3.1)	8.5
Corporate bonds	18.3	-	(1.9)	16.4
Managed Funds	36.6	17.3	0.8	54.7
	67.9	**15.9**	**(4.2)**	**79.6**

Own property

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 costs and timeframe, future rent and yield allowances, to assess the value of the properties on a per acre / capital value per square foot basis using the comparable method.

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.4 Credit risk (continued)
Significant unobservable inputs:

Rental growth	Factored into the yield applied (location/sector specific)
Voids	24-33 months
Market Rent (MR)	£12.00 - £32.50 per square foot (refurbished / redeveloped)
Rent free	12-18 months upon re-letting
Letting fees	15% of MR

The estimated Fair Value would increase / (decrease) if:

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

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

A discounted cash flow model is used to determine the fair value of the fixed income financial instruments. Cash flows are generated based on terms and conditions from the Note Purchase Agreement. Determination of the reference spread for the discount rate is based upon yield curves from market data providers for the same currency and similar risk (i.e. country, business area and seniority).

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

Managed funds
Valuation technique:

(1) The valuation conducted by the General Partner (Allianz Debt Fund S.à r.l.) is used to derive the Net Asset Value “NAV” of the fund.
To ensure the appropriateness of the valuation, several steps are conducted during 1) the initial Due Diligence phase of onboarding as well as 2) an ongoing validation of target fund valuation statements. Both may require involvement of additional functions (e.g. Risk and Compliance), if deemed necessary. In some cases, the Group Valuation Committee may also be involved as a discussion or governance body.

The due diligence included but was not limited to the following activities during the initial onboarding phase as well as ongoing monitoring:
Initial assessment of the applicable valuation procedures during fund due diligence
a. Assess whether the investment fund qualifies as an Alternative Investment Fund.
b. Assess whether a NAV of the fund exists and is updated on an appropriate frequency.
c. Assess the equivalence of the valuation policies and procedures applied by the General Partner.
d. Assess whether a proper benchmark for ongoing target fund valuation validation exists.

Ongoing review of the General Partner’s valuation policies and procedures
a. Monitor the valuation policies and procedures applied by the General Partner.
b. Monitor the audit reports and valuation practice of the General Partner and the fund.

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.4 Credit risk (continued)

(2) The fund manager has engaged Lincoln International ("Lincoln") to perform an independent quarterly valuation of the fund. Lincoln applies two methods (synthetic rating analysis and re-underwriting analysis) to establish the rate of return a market participant would require (the "discount rate") as of the valuation date, given market conditions, prevailing lending standards and the perceived credit quality of the issuer. Future expected cash flows for each investment are discounted back to present value using these discount rates in the discounted cash flow analysis. The valuations are typically provided as a range, with the fund managers Pricing and AIFMD Committee overseeing the selection of which point is used within the range.

(3) The valuation is provided quarterly (in arrears) by the Allianz Global Investors Model valuation team using an internal C++ based pricing engine, based on a discounted cash flow model.

The Company has no intention of disposing any of these assets.

30.5 Liquidity risk

Liquidity risk is the risk that funds might not be available to settle obligations when they fall due. The Company is exposed to liquidity risk through its property, plant and equipment, accrued income, insurance contract liabilities, provisions for other liabilities and charges and accruals and other payables. The Company considers the liquidity risk associated with property, plant and equipment to be immaterial. This is an owner occupied property and the Company would have sufficient liquid assets to meet its obligations as they fall due without depending on the sale of this property. The liquidity risk associated with accrued income is deemed to be immaterial as the Company has sufficient other liquid assets available to meet liabilities as they fall due. In regards to liquidity risk associated with the accruals and other payables and provisions for other liabilities and charges, the Company has sufficient liquid assets to settle these amounts as they fall due.

The Company is exposed to calls on its available resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's available for sale financial assets and loans at 31 December 2022 amounted to £2,318.1m (2021: £2,540.4m). In 2022, the cash pool was £54.4m (2021: £93.1m) plus cash and cash equivalents of £57.1m (2021: £6.5m) totalled £111.5m (2021: £99.6m). With the exception of lent securities (see note Financial assets), nearly all of these are readily realisable. As a result the Company's exposure to potential liquidity risk is extremely low and in the risk capital model used by the Company no capital is allocated to this risk.

The following tables show information about the estimated timing of the contractual undiscounted cash flows from the Company's financial assets and liabilities. The analysis provided is by estimating timings of the amounts recognised in the Statement of Financial Position.

2022 **Non-derivative assets**	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
Available for sale financial assets	2,186.3	198.8	290.5	616.1	552.1	528.8

2022 **Non-derivative liabilities**	Carrying amount £ m	Less than 1 year £ m	1-2 years £ m	2-5 years £ m	5-10 years £ m	More than 10 years £ m
Insurance contract liabilities	2,156.7	873.2	385.9	470.6	130.7	296.3

2021 **Non-derivative assets**	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
Available for sale financial assets	2,371.2	341.0	174.0	745.3	561.1	549.8

30 RISK MANAGEMENT POLICIES (CONTINUED)

30.5 Liquidity risk (continued)

2021 Non-derivative liabilities	Carrying amount £ m	Less than 1 year £ m	1-2 years £ m	2-5 years £ m	5-10 years £ m	More than 10 years £ m
Insurance contract liabilities	1,926.5	890.7	413.2	429.9	73.7	119.0

Reinsurers' share of deferred acquisition costs and Insurance related payables are all payable within 12 months of the Statement of Financial Position date

30.6 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk.

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

Capital management

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

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

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

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

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

The Company's capital comprises total shareholders' equity and amounts to £721.3m (2021: £915.7m).

The Company has complied with all externally and internally imposed capital requirements throughout the year. At 31 December 2022 the own funds amount to £832.4m with a surplus of 74% on SCR (2021: own funds equal to £877.0m with a surplus of 56% on SCR).

Notes to the Financial Statements for the Year Ended 31 December 2022 (continued)

31 PARENT AND ULTIMATE PARENT UNDERTAKING

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

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

Copies of the Allianz SE Group financial statements are available on request from the ultimate parent's registered address, Allianz SE, Königinstrasse 28, 80802 München, Germany.

32 CONTINGENCIES AND COMMITMENTS

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

33 RELATED PARTY TRANSACTIONS

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

	2022 £ m	2021 £ m
Administrative and claims handling service fees	316.6	310.2
Interest received from group loans	2.2	0.5
Reinsurance premiums paid to related parties	844.4	789.6
Reinsurance recoveries	523.8	500.9
Loan instalment from fellow group undertaking	16.2	16.2
Loan (repaid by)/issued to subsidiary	(3.1)	3.6

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

	2022 £ m	2021 £ m
Due from related parties at 31 December		
Parent	0.9	0.2
Subsidiaries	11.6	7.8
Other related parties	60.5	102.2
Total	**73.0**	**110.2**

	2022 £ m	2021 £ m
Due to related parties at 31 December		
Subsidiaries	132.1	132.2
Other related parties	1,082.4	1,028.6
Total	**1,214.5**	**1,160.8**

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

33 RELATED PARTY TRANSACTIONS (CONTINUED)

Management services were bought from a Group company on a cost-plus basis, allowing a margin of 5% (2021: 5%). The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given by the Company. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The Company considers its key management personnel to be the Directors only. The Company incurred £4.6m (2021: £2.5m) in respect of the services of key management personnel provided by a separate management entity within the Group. Further information is disclosed in note 12.

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

34 SUBSEQUENT EVENTS

On 9 March 2023 the Board declared an interim dividend of £60.0m. This was paid to AZH on 21 March 2023.

Further to the information provided in note 5, legal proceedings to recover costs from the agent concluded in January 2023 and resulted in a settlement of £49.5m.