

Annual Report

2015



Allianz Holdings plc

Allianz 



The front cover image shows the five important themes of our Renewal Agenda. Introduced in May 2015 by Oliver Bäte, CEO of Allianz Group, the Renewal Agenda is about building on our strengths and tackling the challenges of the present and the future in a proactive way. The five themes are: true customer-centricity, technical excellence, digital by default, growth engines, and inclusive meritocracy. We're already strong in these aspects of our business, but we will continue to invest appropriately to ensure we can develop further.

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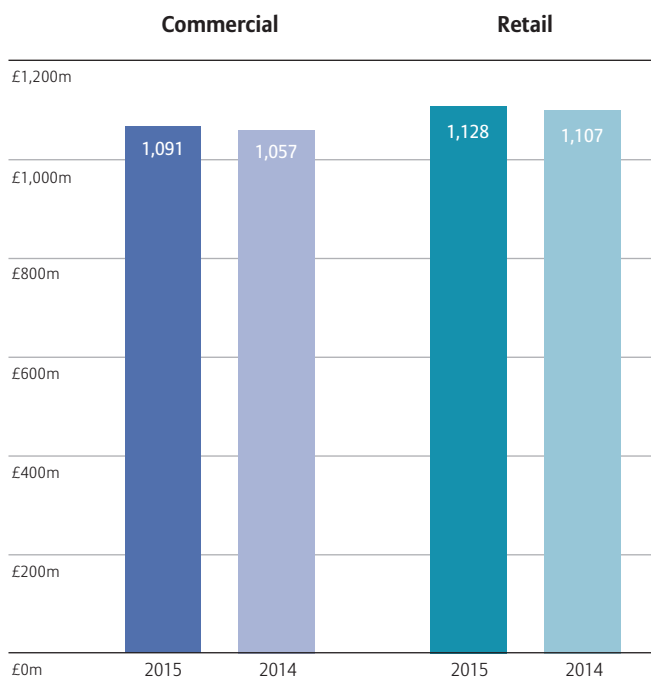
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Financial Highlights

	2015 £m	2014 £m
General insurance contracts premium revenue (Note 3)		
Gross written premiums	2,218.7	2,163.5
Net written premiums	1,480.3	2,042.2
Results		
Total revenue	1,907.4	2,096.0
Total claims and expenses	(1,845.5)	(1,942.2)
Profit before tax	61.9	153.8
Income tax charge	(10.5)	(33.0)
Profit after tax	51.4	120.8
Operating profit ¹ before quota share	36.3	143.4
Operating profit ¹ after quota share	41.3	143.4
Total equity	1,184.0	1,168.5

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

Gross Written Premiums



Chief Executive's Report

2015 saw significant flooding in December and losses in the private motor accounts that meant that operating profit fell to £36m before a quota share with Allianz Group. Premiums grew by a respectable 2.6% in what remained a very competitive insurance market.



At the beginning of 2015 Allianz Insurance entered into a 20% quota share with a Group reinsurance company in order to reduce the amount of capital required to run the business. This had the benefit of improving the solvency outlook, with the Solvency II regime pending, at the same time as keeping the profits generated by the UK business entirely within the wider Allianz Group.

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

Operating Profit in 2015 was £36.3m before the quota share and £41.3m after the quota share, a substantial decrease from the £143.4m achieved in 2014. In comparing the two years, the two major 2015 features were the December flooding and the worsening in the private motor account. The flooding came in two waves: storm Desmond in early December is estimated to have cost £43m, and storms Eva/Frank just after Christmas are expected to have cost £50m. Our catastrophe reinsurance cover has a retention of £50m for each event, and the storms will almost certainly

be treated as separate events as far as this cover is concerned, and so the overall cost (before quota share) will be £93m.

2014 did see some flood costs in the first quarter from the late reporting of December 2013 floods, but the overall cost for such events in 2014 was in fact below the average expected annual amount.

The private motor account produced an underwriting loss across the three main distribution channels (broker, direct and corporate partner) that was around £35m worse than in 2014. In retrospect it is clear that some of the rates charged from 2014 were inadequate and that this was not recognised early enough. We have been taking significant rating and pricing actions to repair the position, and much of the effects will earn through into 2016.

Allianz Commercial's profits continued at the same level as 2014 before the flood costs, and this is a good achievement in the face of a sustained difficult rating environment. Allianz Retail sustained a second successive year of losses, due to the flood and motor effects noted above. There were some useful profits from the legacy accounts, as we continue to run them

off successfully. Profit after tax was £51.4m (after quota share), against £120.8m in 2014. Gross written premium grew by 2.6%, well behind our Plan of 7% as we took action in response to the private motor market and the continued lower than claims-inflation rating increases seen in the commercial market.

The written premium of Allianz Commercial grew by 3.2% in 2015. All the main accounts unaffected by the floods made profits, as they did in 2014, but the Property, Packages and Motor Trade accounts were driven into loss by the weather. All these three accounts had made useful profits in 2014. The Motor business retained its excellent record of profitability, and the Engineering business also continued to produce very satisfactory returns. The Liability Accounts saw a second successive year of small profits after a number of prior years of losses, as a result of some positive prior year claims reserve releases.

Commission rates to intermediaries rose a little in 2015, and consolidation continues to be a feature of the broker market with larger brokers trying to increase their remuneration rates. Rate increases remained difficult in 2015, and were generally not keeping up with claims inflation, and the business has now faced two years of a weak rating environment. It remains to be seen whether the poor weather at the year end will lead to the hardening needed in many lines for the market as a whole to return to strong profitability in a continued low interest rate environment.

The results from Allianz Retail varied significantly by account again in 2015. The broker motor account experienced a second successive year of losses. Continued fiercely competitive conditions pertained in the market, although this environment led in the second half of the year to reports of significant market rate increases. The direct motor account made a much higher loss in 2015 than 2014, primarily due to inadequate premium rates that were put into force in 2014 and which earned into 2015. We should have identified this problem at an earlier stage, and robust changes have been effected to avoid this situation recurring in future. The Corporate Partner motor account also made a loss but this was improved from 2014. The household accounts also made losses as they were hit by the storms. Our animal health business had another very good year, continuing to grow strongly

and deliver attractive returns, and the legal protection account also delivered strong profits. The Corporate Partner animal health business continued to grow in 2015 and we now need to turn it into a profitable line following the initial investment. The Corporate Partner all risks account, which is primarily mobile phone coverage, continued to grow and make reasonable profits. The volumes from the creditor account continue to decrease as most of these partnerships are in run off.

Investment returns continue to be impacted by low interest rates, and these levels are expected to continue for the foreseeable future, underlining the importance of achieving strong underwriting profits. Investment policy has remained largely unchanged in 2015, with only minimal changes in exposure between investment classes. We continue to hold over 90% of assets in fixed interest or cash investments, with small allocations to equity and commercial property. Although interest rates increased a little over the year, the operating investment income continued to decline as reinvestments on maturities of older bonds continue to be at levels below those that pertained on the original bonds. The property portfolio performed well in a strong market with the exception of one property that suffered an unexpected tenant failure. The capital base of the Group at the end of 2015 was £1,184.0m compared to £1,168.5m last year.

The Group continues to pursue its strategy of only underwriting business where there is a realistic prospect of achieving a return in excess of the cost of capital, and this includes the longer term investments we have made into growth in direct and corporate partner businesses. In 2015 we suffered a setback in the private motor business and we have both taken action to rectify this and are also considering how we wish to take this business forward. Central to our objective of profitable growth is the continuing investment in the development of the technical, sales and leadership skills of our employees. The well-established Underwriting Academy and Claims Academy programmes are key to the continued development of technical insurance skills. We have also been running for several years an extensive programme of development in our sales skills and this continues.

The Group continues to engage actively in numerous projects being undertaken with other companies in the Allianz family to leverage skills, expertise and scale in specific areas. In particular, we are heavily committed to the Renewal Agenda of the wider Allianz Group, which focuses on five important themes: true customer-centricity, technical excellence, digital by default, growth engines, and inclusive meritocracy. We are already strong in these aspects of our business, but we will continue to invest appropriately to ensure that we can develop further.

The Group has continued to put significant effort into minimising its impact on the environment, including reducing its carbon emissions, and into promoting social responsibility and raising funds for charitable purposes. After a long and successful partnership with Hospices UK as our corporate charity, we announced a new corporate charity partnership with the Association of Air Ambulances. This begins in early 2016 and the partnership will run for at least the next three years

During 2015 we continued to develop the programme that started in 2013 to promote our brand more strongly in the UK. This is supporting our aspiration for growth in both commercial and retail markets. The branding activities are designed to appeal to our target market and have included advertising in many formats, including on television. We announced a multi-year sponsorship of Paralympics GB as an official partner and we continue to sponsor Saracens rugby club. Their refurbished stadium is named Allianz Park and is used extensively by the local community as well as the club itself. We have achieved a further increase in our name awareness over the year, and this is helping us to sell more policies.

During 2015 we put further significant efforts into implementing the requirements of Solvency II, and we were very pleased to achieve approval of our internal capital model by both the Prudential Regulation Authority and the German Federal Financial Supervisory Authority (BaFIN). Solvency II is a far-reaching piece of legislation that has required significant changes in the way all insurers across Europe run and control their businesses, focusing very much on the monitoring, measurement and control of the risks that each company faces. The formal start of Solvency II was on 1 January 2016, and the use of our

capital model helped keep our capital requirements at a suitable level in respect of our business. We made many changes over 2015 to optimise our position under this new regime, but perhaps the two most important were the quota share reinsurance that is described above and the de-risking of the defined benefits pension scheme. This de-risking took the form of changes to the investment portfolio of the funds backing the pension scheme. It is expected that this will lead to higher company contributions in the future in return for a much less volatile capital position.

The regulatory environment in the UK continues to be driven by the two main regulators, dealing respectively with conduct risk (the Financial Conduct Authority) and prudential risk (the Prudential Regulation Authority). We responded to the output of various thematic reviews from the Financial Conduct Authority, and implemented the changes required under the new complaints handling rules. Most of the demands of the Prudential Regulation Authority were in respect of the build-up to Solvency II, and we responded to all the requirements in this area. We continue to work closely with our regulators and maintain an open and regular communication.

There continues to be legal and political pressure regarding the way personal injury claims are handled, and the way the market operates in respect of credit hire. Following the legislation enacted in 2013 to lower legal fees on straightforward cases, to ban referral fees and to prevent lawyers' success fees being recoverable from the losing party, the government is working on proposals to try to remove more fraudulent or exaggerated claims, particularly in respect of whiplash. We have consistently welcomed the various legislative changes and market investigations, as we believe that the consumer was paying too much for the costs of claims settlement. Even with the changes that have been implemented, there is too little opportunity for the at fault insurer to control the costs of compensating non-fault claimants, which drives up overall costs and premiums.

In respect of customer focus, in 2015 we remained the top customer-service insurer amongst our peers according to our leading net promoter score' (a customer service metric) in both Retail and Commercial broker markets. Retail results have

been top in their market for three successive years. Commercial have ranked number one in their market for much longer again. These standings fit well with the overall Allianz Group's aspiration to excel in customer-centricity, and we will be developing more metrics and action in 2016 to try to consolidate our position. Although the floods of 2015 were a drag on the profits of the company, they were an opportunity for us to show our affected customers how we are focused on delivering support when they need us the most. Early feedback on our service has been very positive, and it is gratifying to make a difference to people who have been severely affected by having their homes or businesses devastated by the waters.

The Group has been widely recognised both within and beyond the insurance industry and a number of awards have been won over the last few years. Following our award in 2014 as Insurer of the Decade at the British Insurance Awards, 2015 saw another set of awards being won, covering a range of areas such as brand marketing, customer service initiatives, underwriting excellence and rising stars. These awards and our resilient performance in 2015 would not have been possible without the highly skilled and committed contributions of our employees, both in the UK and India. My thanks to everyone in the Group for what was delivered to our customers and shareholders during the year, and also for their generosity in supporting, both with their time and financially, the various charities and voluntary organisations with which the Group is involved.

The Group remains in a strong business position relative to our competitors and we are backed by the biggest and most profitable insurance company in the world. The recent economic recovery has been positive for the UK but weakened demand globally continues to hold back growth and prosperity, and is a heavy dampener on interest rates. There remains a surplus of capacity in the insurance market, and our customers are as price-conscious as ever, so these features are likely to keep competition very strong, even in the wake of the December floods. We will continue to see insurance business being written at rates that on too many occasions are inadequate, particularly with the backdrop of very low investment yields. Nevertheless, the Group is well equipped through its customer relationships, strong service delivery, wide range of products, robust financial position and a knowledgeable and dedicated workforce to meet these challenges and again be successful in 2016.



J M Dye
Chief Executive

Group Strategic Report

In accordance with the Companies Act 2006, the Directors present their Group Strategic report for the year ended 31 December 2015.

Background

Allianz Holdings plc controls the principal insurance operations of Allianz SE in Great Britain. Through its subsidiary companies, Allianz Holdings is one of the country's leading general insurance groups. The Company is not required to prepare an Operating and Financial Review as recommended as best practice by the Accounting Standards Board. The Board of the Company is conscious of its position as a major financial services provider and includes in the following Strategic Report details of its performance, some of the key influences on its business in 2015 and the prospects for 2016.

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

Nature of Business

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

The Group operates through three regulated insurance companies and is organised into retail and commercial divisions. Each division trades in its own market segment distributing a range of products under a number of brands. An analysis of the 2015 results and the prospects for 2016 are set out in the individual trading division Business and Financial Reviews.

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

Business Strategy and Overview of 2015 Results

The Group's mission is "to be the outstanding competitor in its chosen markets by delivering products and services that clients recommend, being a great company to work for, and delivering the best combination of profit and growth".

Consistent with its mission the Group in recent years has pursued a strategy of proactively managing the insurance cycle to maximise the return for shareholders whilst carefully managing its capital base. This strategy has been highly successful and the underlying profitability of the companies that comprise the Group has been very satisfactory in recent years. 2015 was an exception in that it was affected by significant storm and flood claims, and because the private motor business performed poorly following two years of a weak market and some inappropriate pricing. Robust actions are being taken to remedy this situation.

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

Key Performance Indicators – before quota share	2015 £m	2014 £m	2013 £m
Gross written premium	2,218.7	2,163.5	1,931.3
Net written premium	2,085.8	2,042.2	1,820.5
Underwriting results	(54.3)	30.9	73.0
Operating profit	36.3	143.4	170.5
Profit before tax	52.2	153.8	187.3
Claims ratio	72.9%	66.8%	64.5%
Expense ratio	29.7%	31.6%	31.4%
Combined ratio	102.6%	98.4%	95.9%
UK employee turnover	16.7%	16.2%	14.0%

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

The insurance market is subject to pricing cycles as capacity expands and contracts driven by fluctuating returns. Following more than two years of falling insurance rates in the personal lines motor market, primarily in response to changes in the civil law surrounding the costs of handling bodily injury claims, rates began to rise again in 2015, particularly towards the end of the year. It is likely that the market had over-reacted to the civil law changes. The broker account made losses in 2015 but adequate returns should be achievable in 2016 provided the market rate strength continues. The motor accounts written direct and through Corporate Partners made losses, and action is being taken to rectify this situation. More detail can be found in the Chief Executive's Report.

In commercial lines, rate strength reduced further from 2014 and varied by account, with motor holding up best and property the weakest line with rate reductions. In general rate changes are behind claims inflation and so we have not been able to return current accident year loss ratios to acceptable levels for many classes. Despite the difficulties of obtaining adequate rate strength, strict underwriting discipline has been maintained to minimise the impact of the insurance cycle. Gross written premiums for the Group were £2,219m, a 2.6% increase over last year, with Commercial growing at 3.2% and Retail at 1.9% as we took action on the private motor business to improve the loss ratio position. Operating profit at £41.3m was at a low level, particularly affected by the December floods and the poor private motor result. Operating profit is profit before tax adjusted for realised gains, impairments and other income on an Allianz SE Group basis. Profit before tax was £61.9m compared with £153.8m in 2014.

Future Outlook

Premium income at a gross level is expected to increase modestly in 2016, driven by rate increases and the impact of growing animal health and commercial business in particular. This is part of our medium-term plan to increase the Allianz market share in the UK. We are reviewing how we wish to take the Direct business forward in light of the poor 2015 results. The insurance company entered into a quota share reinsurance agreement in 2015 that reduced net premium income in return for a reduction in the capital required as the Group continues to grow. This quota share will increase from 20% to 40% for 2016 to further increase its effect. There remains a risk that both growth and profitability may be tempered by the continuation of the current difficult market, both in Retail and Commercial, and by the impact of the economy on our customers. Profitability is expected to recover significantly, assuming no repetition of the 2015 flooding, since improvements should arise as previously achieved rate increases on motor and the effects of more sophisticated underwriting earn through into 2016. The company remains very vigilant with respect to claims fraud. By definition, insurance is an uncertain business and profitability in 2016 could also be influenced by a higher than expected level of major claims and major weather events.

Risk and Capital Management

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

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

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

All the material key controls operated by the business that guard against financial mis-statement have been reviewed, documentation updated and subjected to management or internal audit testing. No material weaknesses or significant deficiencies have arisen in either 2015 or 2014. New controls and standards have been gradually introduced so that the Group can meet the standards of governance and risk management required to satisfy Solvency II.

The Group uses a risk based capital model developed by the ultimate parent and parameterised appropriately for the Group to ensure that its capital base is consistent with its risk appetite and sufficient to meet its current and future business plans. These models are used internally for determining capital

adequacy and allocation as well as for discussions with the ultimate parent company. Capital is allocated to each trading division and line of business based upon the underlying risks the business presents. Each division is required to make a minimum return on its allocated capital. The minimum returns on allocated capital are incorporated into divisional objectives and the personal performance targets of senior management to ensure that the underlying business operations are run and managed in a manner consistent with the Board's appetite for risk and with the capital available.

During the last few years, the internal risk model has been further developed to meet the standards required in a Solvency II environment. The Group has been actively working within the Internal Model Approval Process of the Allianz group's supervisors, including the PRA, which allows the Group to have a close dialogue with the Regulator. This has resulted in model approval being obtained. The PRA Individual Capital Assessment (ICA) regime remained in force throughout 2015, before its replacement by Solvency II from January 2016. The ICA requirement has been met by the internal Solvency II model, suitably adjusted to meet ICA requirements and to reflect developments in the risks being run by the Group.

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

Share Capital

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

Group Organisation

The Group's insurance, non insurance and policy servicing activities are undertaken in a number of specialist companies. Allianz Holdings plc is the holding company. Allianz Insurance plc is the main insurance company with the non regulated activities being carried out in a number of specialist companies. The largest are Allianz Engineering Inspection Services Limited, Allianz Management Services Limited and Allianz Cornhill Information Services Private Limited, a company registered in India.

The Group employs around 6,200 people dedicated to the UK business. Approximately 5,100 are employed in Great Britain and approximately 1,100 in India in an offshore service centre. The offshore service centre principally provides IT and administration services to the Group's businesses. The number of people employed in India is expected to continue to increase in 2015 as the Group increases the range of services provided, particularly in respect of commercial insurance and claims handling.

Employees

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

The Group has a comprehensive management and development training programme. The Group is an Investor in People.

Research and Development

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



Corporate Social Responsibility

The Group is not engaged in business activities that have major adverse social and environmental consequences. However, the Group is committed to minimising the impact its business has on the environment and promoting social responsibility.

Our corporate social responsibility (CSR) policy places an expectation on everyone who works for Allianz to do so in a way that maintains respect for each other, the people we do business with, our communities and the wider environment.

Allianz Insurance is a founding member of ClimateWise, the insurance industry initiative to tackle climate change. Through ClimateWise we work individually and with others in our industry to reduce the long-term economic and social risk of climate change. Managing and understanding climate risks is an important part of our strategy as climate change can influence our exposure to weather-related losses and may affect pricing and capital requirements.



We are also focused on reducing the greenhouse gas emissions associated with our operations, principally from energy use in offices and business travel, and thereby mitigating our impact on climate change. Against a target to reduce our CO2 emissions by 55% per employee by the end of 2015, compared with 2006, we have achieved more than a 60% reduction. In recognition of our efforts to reduce CO2 across our operations, year-on-year, Allianz Insurance is certified by the Carbon Trust Standard.

Supporting the communities in which we operate is an integral part of our CSR strategy. Despite the challenging economic conditions of the past years, we have maintained our commitment to support our chosen charity partners.

In six years, we have donated over £1m to Hospice UK and have therefore decided to select a new corporate charity partner from 2016 onwards; the Association of Air Ambulances Charity. The AAAC is the national charity working with all 20 local air ambulance charities providing a life-saving service across the UK.

In addition to financial donations we have increased our support through employee volunteering in local communities. In 2015, employees gave over 11,000 hours of voluntary work in local communities. Much of the volunteering time has been dedicated to supporting young people and education, an area of particular need and one which is in-line with our ambition to be an employer of choice.

One example of this involves our work with SATRO, a Surrey-based education charity. Volunteers from our Finance division supported a number of business games and problem-solving challenges for young people aged 9–16, as well as acting as mentors for some of these students. We wanted to have a positive impact on the local community by working with local schools, and we have found that this is also benefiting our employees who are improving soft-skills beyond those developed in their day-to-day roles.

In 2015, total community investment exceeded £500,000.

Allianz Retail

Allianz Retail provides a wide range of personal lines products distributed through brokers, retailers, affinity partners, veterinary practices and direct marketing.

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

Net written premiums rose by 1.5% in 2015. In total net written premium was £1,071.1m. Broker and direct business reduced, while corporate partner grew.

Animal Health business continued to grow strongly. As anticipated, legal protection business continued to reduce as a result of changes to the business model following the reform of the civil justice system.

The underwriting result was a loss of £66.5m compared to a loss of £12.7m reported last year. This reflects a poorly performing motor business within a weak market, the impact of the storms and floods at the end of the year, and continued investment into growing an internet only direct offering.

The division has continued to improve customer focus through better marketing, product design and operations and this has resulted in a further improvement in brokers' views of Allianz Retail. The division continues to invest in cycle management and sales and distribution capabilities. Robust actions have been taken to rectify the problems with the private motor result, primarily focused on pricing sophistication. In addition, a multi-year programme of improving systems capability continues and has helped the division to win new clients as well as to optimise efficiency.

Volumes in the broker and direct motor accounts were both deliberately reduced in the light of market conditions, and the unacceptable loss ratios. Corporate partner motor premium was down on last year reflecting difficult market conditions and a change in a partnership arrangement, partly offset by the securing of a new partner. Overall, retail motor net written premium fell 7.6%.



All motor accounts made underwriting losses reflecting difficult market conditions. The motor market in general continues to be adversely impacted by claims farming and aggressive marketing, with prices at a low level after reaching a peak in 2011. Rates began to gather upward momentum in the second half of 2015.

Net written premiums in household business fell by 6% in 2015, and the account was loss making due to the poor weather at the end of the year.

Home & Legacy is a specialist insurance intermediary that distributes tailored products to mid and high net worth customers via both the intermediary and direct channels. The major product is household business and volumes and profit were up in 2015.

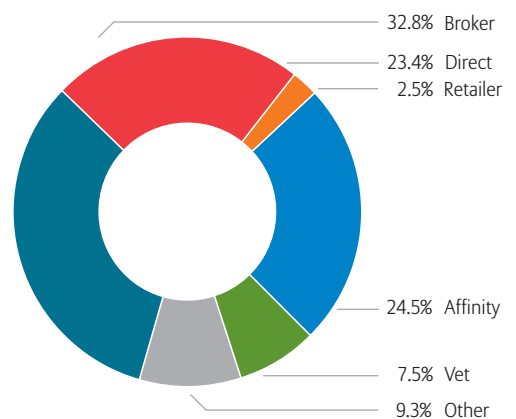
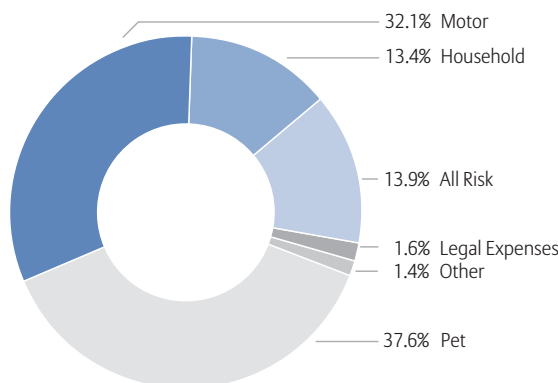
The warranty and creditor accounts remained profitable as they continued to run-off. The all risks account (mostly mobile phone) was profitable.

Through the widely recognised and well established Petplan brand the Group is the clear market leader in the provision of small animal and equine insurance for the leisure market. Although the small animal account remains extremely competitive, gross written premiums rose by 12% and attractive returns continue to be made. There was another good year of profits from the specialist musical instruments account with slightly increased volumes.

The legal protection business has a leading position in the After the Event market. Before the Event policies are also written on a strictly controlled basis. Following the 2013 reforms of the civil justice system the business has successfully adapted its business model and enjoyed another year of strong profits. Net written premiums were down 4% as a consequence of the change in the business model. We believe we are well positioned to continue to react to future changes in the justice system.

Over the last few years, the direct insurance business has been re-positioned to move to an internet-based offering. New bespoke products are available direct and on the various aggregator sites and these have been refreshed during the year. It will take some time for this to grow to be significant, and we are reviewing how to take this forward in the light of the poor 2015 results and the difficult motor market. In the meantime, we are renewing the existing business where possible.

Products and Distribution by Net Written Premiums



Allianz Commercial

Allianz Commercial provides a comprehensive range of commercial and engineering inspection and insurance products distributed principally through the intermediated market.

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

In aggregate, Allianz Commercial net written premiums increased by 2.7% to £1,014.0m, driven by both rate increases and growth in underlying volumes. The underwriting result was a loss of £23.3m (2014: £52.8m profit) due to flood claims from the December storms.

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

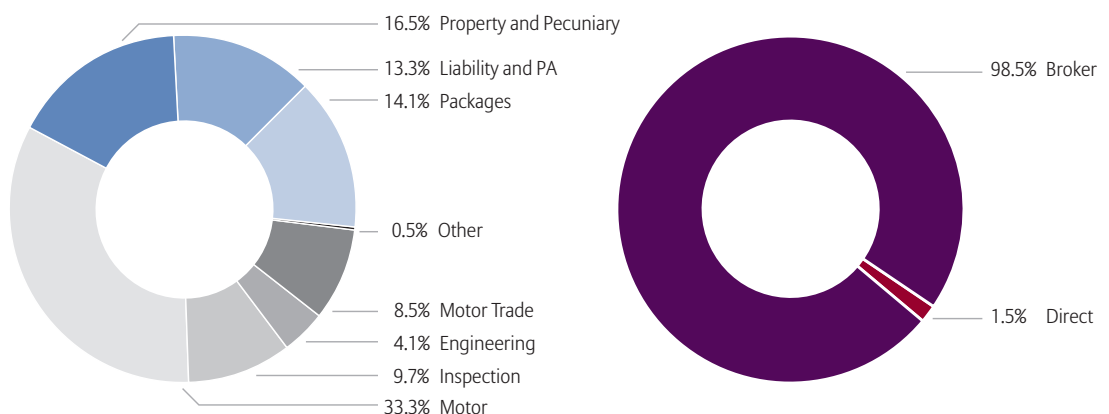
Allianz is one of the top five commercial insurers in the UK market. Despite a negative market rating environment, rate increases and growth in underlying volumes saw net written premiums grow by 2.7%. Rate increases across the motor, packages and engineering inspection accounts more than offset reductions in other lines but, in aggregate, were behind claims inflation and so were not at the levels needed to sustain market profitability. Further rate strength is needed across all insurance lines of business with a return to increases for liability, property and motor trade.

The motor account continued to perform very well, with good profitability despite rate increases being below claims inflation. Claims from the December storms have impacted all of the property dominated accounts resulting in underwriting losses in property, packages and motor trade. Despite a continuing competitive market for liability business, continued focus on smaller risks and the effect of underwriting actions taken in earlier years kept the account in profit.

Premierline Direct and Premier Business Care are the brand names of our company which focuses on the distribution of products direct to the important micro SME market. This business provides an advised broking service to direct clients placing risks with both Allianz and other insurers.

The engineering insurance and inspection business is distributed through intermediaries and is among the largest specialist engineering insurers in the UK. In the core insurance account premiums grew by 7.0% despite continuing competitive pressure. The underlying volumes within the inspection business reduced whilst rate increases drove premium growth of 3.3%. In aggregate, premiums in the engineering business were 5.6% above the prior year. The business delivered another year of very satisfactory underwriting profit in a highly competitive market. As market leader with unrivalled standards and levels of service to clients, the business is well positioned to maintain its market leading performance despite continuing competitive trading conditions.

Products and Distribution by Net Written Premiums



Investments

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

Investment strategy has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. The allocation to equities and property remain as only a small proportion of total assets in order to control risk. Cash and short-term investments are also being maintained at low levels as returns in these classes remain low. In order to improve returns without taking any undue extra risk, there has been some further reduction in UK Gilts and corresponding increases in high quality corporate and securitised bonds issued in sterling. Allianz Holdings uses the expert investment management facilities available within the wider Allianz Group, particularly in managing the fixed interest portfolio.

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

Small amounts of cash and short-term investments continue to be maintained for liquidity management. The holdings are well diversified with a limited number of strong counterparties. The portfolio of gilts and cash also gives a high degree of liquidity. The return on the fixed interest portfolio for the year was slightly below the benchmark due to widening of credit spreads.

The Group owns a small commercial property portfolio consisting of well diversified investments in office, retail and industrial properties. The quality of the portfolio, the length of leases and a very low void ratio continued to support a strong income stream. Since it has less exposure to Central London properties, the portfolio underperformed IPD benchmark over the year.

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

Investment income in 2015 was £90.2m compared to £99.9m in 2014. Investments into equities and securitised assets supported investment income in a declining yield environment. Realised gains amounted to £12.6m, compared to £12.4m in 2014. Looking ahead, pure investment income will continue to be impacted by lower returns as new cash flows and maturing funds are reinvested at lower yields.



J M Dye
Director

Governance

Non-Executive Directors

A. G. Theis
(Chairman)

B. Bovermann

R. O. Hudson

C. W. T. Dinesen

R. M. Murison

D. A. Torrance

Executive Directors

J. M. Dye
(Chief Executive)

M. J. Churchlow

Management Board

J. M. Dye

N. D. Brettell

M. J. Churchlow

P. J. Gennoy

G. A. Gibson

S. C. McGinn

K. P. Wenzel

J. B. I. Abboud
(appointed 01.01.16 subject
to regulatory approval)

S. Smith
(appointed 01.01.16)

D. J. Knowles
(resigned 31.1.16)

Secretary

S. J. Hutchings

Auditors

KPMG LLP
15 Canada Square
London E14 5GL

Registered Office

57 Ladymead
Guildford
Surrey GU1 1DB
Registered No. 5134436

Management Board



Jon Dye,
Chief Executive

Age 48. Joined Allianz in 2003 as Director, Claims then appointed General Manager, Retail in 2007. Previously held senior Claims Management positions in insurance.



Mark Churchlow,
Chief Financial Officer

Age 55. Joined Allianz in 1989 and held a number of positions, including Appointed Actuary, in Life division before becoming Chief Actuary in 1998 and Chief Financial Officer in 2010.



Philip Gennoy,
Director, HR

Age 56. Joined Allianz in 1999. Previously held senior HR and Sales and Marketing positions in the oil and dairy industries.



Kevin Wenzel,
Director, Actuarial & Planning

Aged 43. Joined Cornhill's Life Division in 1999 and worked in many areas of the business, including Allianz Global Risks, Allianz Commercial and Allianz Retail. Appointed Director Actuarial & Planning in May 2014 and is a Fellow of the Institute and Faculty of Actuaries.



Graham Gibson,
Director, Claims

Age 48. Joined Allianz in 2008 having previously held senior positions in Claims in the insurance industry.



Neil Brettell,
General Manager, Retail

Age 46. Joined Allianz in 2007 as Commercial Director, Allianz Personal. Appointed Director, Speciality and Direct in 2010. Previously held marketing and commercial roles in consumer packaged goods.



Simon McGinn,
General Manager, Commercial

Age 44. Joined Allianz in 2004 as North and Midlands Trading Director. Appointed Director of Commercial Broker Markets in 2008. Previously held senior positions in the insurance industry.



Stephanie Smith,
Chief Operating Officer
(Appointed 01.01.16)

Age 46, Joined Allianz as IT Senior Manager in 2009. Appointed Retail Operations Director in 2010 and COO in 2015. Previously held senior management positions at British Airways and Deloitte Consulting.



Jacob Abboud,
Chief Information Officer
(Appointed 01.01.16 subject to regulatory approval)

Age 55, Joined Allianz in 2015 as CIO. Previously held various C-level IT leadership roles in insurance and banking.

The Group is committed to high standards of corporate governance

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

The Board and its Committees

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

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

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

The Board has established a number of Committees and a system of internal control to ensure the efficient and effective operation of the business. The Board, its main Committees and membership of those Committees for the year ended December 31, 2015 is shown in the table below:

Number of Meetings	Board	Management Board	Remuneration Committee	Audit Committee	Finance Committee	Board Risk Committee	Management Risk Committee	Investment Committee	Reinsurance Panel	Financial Reporting Committee	Financial Reporting and Disclosure Committee	Loss Reserve Committees		
												Run-off	Commercial	Retail
7	7	13	2	3	3	7	8	4	2	4	4	4	4	4
AG Theis	7		2	3	2	6								
J M Dye	7	13			3			4	2	4		4	4	4
B Bovermann	7		2	3	2	7								
D A Torrance (appointed: 1.4.15)	5			2		4								
C W T Dinesen	7			3		7								
C A von Bechtolsheim (resigned 2.4.15)	1		1	1		2								
R O Hudson	7			3		7								
R M Murison	7		1	3		7								
M J Churchlow	7	11			3	6	7	4	2	4	4	4	4	4
N D Brettell		13							1					4
P J Gennoy		13	2											
G A Gibson		12										3	3	3
S C McGinn		12							2				3	
D J Knowles		12												
K P Wenzel		13					7		2	4	4	4	4	4

The shaded area indicates Board and Committee membership during the year ended December 31, 2015. Shown against each member is the number of meetings they attended during the year. S Smith was subsequently appointed as a Management Board member with effect from January 1, 2016 and DJ Knowles resigned as a Management Board member on January 31, 2016. J B I Abboud was appointed a Management Board member with effect from January 1, 2016 subject to regulatory approval.

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

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

The Board Risk Committee is a Committee of the Board. Membership of the Committee comprises a non executive director who acts as Chairman, all the other non executive directors, the Chief Financial Officer and the Chief Risk Officer. The Chief Executive Officer, the Head of Internal Audit and the Group Compliance and Money Laundering Officer are standing attendees. The Committee is responsible for oversight of risks, the links between different risks, the Enterprise Risk Management Framework within which the Group manages those risks, and the activities of the Management Risk Committee (a sub-Committee of the Board Risk Committee) and the Risk Department.

The Finance Committee is a Committee of the Board and is responsible for investment strategy, approval of Mergers and Acquisitions and other non routine transactions, investments in derivatives and options together with the approval and monitoring of the implementation of investment strategy. Membership of the Finance Committee comprises the Chief Executive Officer who acts as Chairman, the Chief Financial Officer, the Chief Investment Officer, the Regional CIO of Allianz Investment Management Societas Europaea (SE) or a designee, and a Board member of Allianz SE or a designee. The Chief Risk Officer is a standing guest.

The Investment Committee is a sub-Committee of the Finance Committee. Membership comprises the two executive directors, one of whom acts as Chairman, the Chief Investment Officer, a representative from Allianz Investment Management SE and the Chief Risk Officer together with independent economic and property advisors. The role of the Investment Committee is to monitor portfolio performance and after taking into account anticipated economic trends recommend investment strategy to the Finance Committee.

The Reinsurance Panel is a sub-Committee of the Management Board. Membership comprises the two executive directors one of whom acts as Chairman, the Director, Actuarial and Reinsurance, the Chief Accountant, the Director Commercial – Actuarial, the General Manager Commercial, the General Manager Retail, the Reinsurance Manager, the Chief Risk Officer and the Directors of Technical and Underwriting for the Retail and Commercial Divisions. The Reinsurance Panel monitors the performance of the Group's reinsurance programme and reinsurance security and determines future reinsurance purchasing policy after taking into account business requirements, risk appetite, cost, capital implications and developments in the insurance market.

The Financial Reporting Committee is a sub-Committee of the Management Board. Membership of the Committee comprises the Chief Executive Officer who acts as Chairman, the Chief Financial Officer who acts as Deputy Chairman, the Chief Accountant

and the Director, Actuarial and Reinsurance. The Group Accountant will attend and will deputise for the Chief Accountant if necessary. The Committee is responsible for reviewing the draft annual and interim financial statements before they are submitted to the Financial Reporting and Disclosure Committee and for considering the overall level of reserves held.

The Financial Reporting and Disclosure Committee is a sub-Committee of the Management Board. Membership of the Committee comprises an executive director, the Chief Accountant, the Director, Actuarial and Reinsurance, the Chief Risk Officer, the Company Secretary and Chief Legal Officer. The Group Tax Manager, the Head of Internal Audit and the Group Compliance and Money Laundering Officer also attend meetings by invitation. The purpose of the Committee is to assist the Chief Executive and the Chief Financial Officer to fulfil their obligations to ensure that financial reports and related information, particularly that required by the parent company, are fully and accurately reported on a timely basis.

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

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

The Company is a wholly owned subsidiary of Allianz SE so the Board has not established a Nominations Committee. A number of controls are in place to ensure that appropriate appointments are made. All senior appointments have to be approved by the ultimate parent company. No senior management appointment is made without the applicant undertaking a comprehensive assessment to determine the level of his or her management skills.



Allianz Park

WORK RATE

HUMILITY



Report and Accounts

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The Directors present their report and the audited financial statements for the year ended December 31, 2015.

Principal Activity and Review of the Business

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

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

Results and Dividends

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

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

The Directors are not recommending the payment of a final ordinary dividend. No dividend was paid in respect of the year ended December 31, 2015 (2014 £nil).

Basis of Preparation

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

Directors

The names of the current Directors are shown on page 15. All served throughout this period save for: D A Torrance who served from his appointment on April 1, 2015. C A von Bechtolsheim resigned as a Director of the Company on April 2, 2015.

D A Torrance having been appointed since the last Annual General Meeting retires and offers himself for re-appointment.

Charitable Donations

During the year donations to charities have been made amounting to £275,835 (2014 £280,445). No political donations were made.

Employees

Throughout the Company, consultative procedures are in operation to enable management and staff to discuss matters of mutual interest. Efforts are made through consultative bodies, departmental channels, including team briefings, and the house magazine to keep staff well informed about the affairs of their Company. Under the procedural agreement with the recognised trade union, the Company holds regular meetings on topics raised by both parties; this is in addition to the normal negotiating processes. Participation in share schemes is available and encourages involvement in Allianz Group's performance. It has always been the policy of the Company to encourage the employment, training and advancement of disabled persons. The Group has been accredited as an Investor in People.

Financial Instruments

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

Directors Responsibility to the Auditors

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

Auditors

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

By order of the Board
S J Hutchings
Secretary
Allianz Holdings plc
Registered Number: 5134436
March 22, 2016

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

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

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

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

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

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

We have audited the Group and parent company financial statements of Allianz Holdings plc for the year ended December 31, 2015 set out on pages 25 to 72. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of Directors and Auditor

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

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

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at December 31, 2015 and of the group's profit for the year then ended;

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

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

**Murray Raisbeck (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor**

Chartered Accountants
15 Canada Square
London
E14 5GL
March 22, 2016

	Notes	2015 £m	2014 £m
Continuing operations			
Gross earned premiums	3	2,210.8	2,075.4
Reinsurers' share of gross earned premiums	3	(525.0)	(111.1)
Net insurance revenue		1,685.8	1,964.3
Reinsurance commission		112.5	5.7
Net investment income	4	90.2	99.9
Net realised gains	5	12.6	12.4
Net fair value gains	6	6.3	13.7
Other revenue		221.6	131.7
Total revenue		1,907.4	2,096.0
Gross insurance claims paid		(1,368.3)	(1,310.7)
Reinsurers' share of gross insurance claims paid		(9.9)	31.6
Gross change in insurance liabilities		(135.9)	(10.7)
Reinsurers' share of gross change in insurance liabilities		297.7	(9.2)
Net insurance claims		(1,216.4)	(1,299.0)
Commission		(381.7)	(377.5)
Other operating and administrative expenses	7	(247.4)	(265.7)
Other expenses		(629.1)	(643.2)
Total claims and expenses		(1,845.5)	(1,942.2)
Profit before tax		61.9	153.8
Income tax charge	10	(10.5)	(33.0)
Profit for the year		51.4	120.8
Profit for the year attributable to:			
Equity holders		51.4	120.8
Other comprehensive income			
Net change in fair value of available for sale financial assets		(46.4)	54.2
Net change in fair value of available for sale financial assets transferred to profit or loss		(7.9)	(2.1)
Gain on pension fund		16.0	0.4
Foreign currency translation adjustments		0.1	(0.3)
		(38.2)	52.2
Tax on fair value movements		11.4	(9.1)
Tax on gain on pension fund		(9.1)	-
Other comprehensive income for the period, net of tax		(35.9)	43.1
Total comprehensive income for the period		15.5	163.9
Total comprehensive income attributable to:			
Equity holders		15.5	163.9

The notes on pages 31 to 72 are an integral part of these financial statements.

	Notes	2015 £m	2014 £m
ASSETS			
Intangible assets	15	84.0	80.2
Property and equipment	17	31.3	27.1
Investment properties	18	154.3	161.4
Deferred acquisition costs	19	218.5	234.8
Deferred tax	21(b)	44.7	52.5
Reinsurance assets	22 & 30	798.6	283.8
Prepayments and accrued income	23	32.8	32.3
Financial assets:			
Available for sale financial assets ⁽¹⁾	24(a)	2,298.5	2,258.2
Loans	24(b)	340.6	340.4
Foreign exchange forward contracts		0.9	0.1
Insurance receivables	25	786.0	702.7
Other receivables	26	95.8	107.6
Cash and cash equivalents	27	103.3	84.1
Total assets		4,989.3	4,365.2
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	28	828.0	828.0
Fair value reserve		36.2	79.1
Retained earnings		970.3	911.9
Capital reserve		(650.5)	(650.5)
Total equity		1,184.0	1,168.5
LIABILITIES			
Defined benefit pension plan deficit	16	98.3	149.7
Provisions for other liabilities and charges	29	0.5	0.5
Insurance contracts liabilities	30	2,861.2	2,711.4
Reinsurers' share of deferred acquisition costs	19	44.6	2.8
Insurance related payables	32	627.0	138.6
Tax payable	21(a)	12.1	8.2
Accruals and other payables	33	161.6	185.5
Total liabilities		3,805.3	3,196.7
Total equity and liabilities		4,989.3	4,365.2

⁽¹⁾ Included within available for sale financial assets are £290.9m (2014 £293.6m) of lent securities. See note 24.

The notes on pages 31 to 72 are an integral part of these financial statements.

	Notes	2015 £m	2014 £m
ASSETS			
Investment in group undertakings	14	931.6	925.8
Loans to group undertakings		-	5.8
Financial assets:			
Available for sale financial assets	24(a)	-	8.8
Amounts due from group undertakings	26	84.8	67.0
Total assets		1,016.4	1,007.4
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	28	828.0	828.0
Fair value reserve		-	6.7
Retained earnings		106.1	105.0
Total equity		934.1	939.7
LIABILITIES			
Loans from group undertakings		20.0	20.0
Tax payable	21(a)	-	0.3
Accruals and other payables	33	62.3	47.4
Total liabilities		82.3	67.7
Total equity and liabilities		1,016.4	1,007.4

The notes on pages 31 to 72 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on March 22, 2016 and signed on its behalf by:



J M Dye
 Director

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit before tax		61.9	153.8
Non cash items	37	79.7	(5.2)
Changes in working capital	37	(23.9)	29.7
Income tax paid	21(b)	4.2	(8.6)
Net cash inflow from operating activities		121.9	169.7
Cash flows from investing activities			
Purchase of property and equipment	17	(8.6)	(5.6)
Proceeds from sale of property and equipment		2.4	1.7
Intangible assets cost capitalised	15	(6.6)	(2.2)
Proceeds from sale of Investment Property		6.8	-
Purchase of available for sale financial assets		(843.6)	(804.8)
Proceeds from sale of available for sale financial assets		742.2	711.9
Decrease in loans		4.9	2.3
Additions to Investment Property	18	-	(27.5)
Net cash outflow from investing activities		(102.5)	(124.2)
Cash flows from financing activities			
Dividends paid during the year	13	-	-
Net cash outflow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		19.4	45.5
Cash and cash equivalents at the beginning of the year	27	84.1	41.9
Effects of exchange rate changes on cash and cash equivalents		(0.2)	(3.3)
Cash and cash equivalents at the end of the year	27	103.3	84.1

The notes on pages 31 to 72 are an integral part of these financial statements.

	Notes	2015 £m	2014 £m
Cash flows from operating activities			
Profit before tax		21.6	22.3
Non cash items	37	(9.7)	(10.4)
Changes in working capital	37	(23.4)	(38.0)
Income tax paid	21(b)	(0.3)	(0.3)
Net cash outflow from operating activities		(11.8)	(26.4)
Cash flows from investing activities			
Investment in group undertaking		(5.8)	(25.6)
Purchase of available for sale financial assets		-	(5.0)
Proceeds from sale of available for sale financial assets		11.8	19.4
Decrease in loans		5.8	25.1
Net cash inflow from investing activities		11.8	13.9
Cash flows from financing activities			
Dividends paid during the year	13	-	-
Net cash outflow from financing activities		-	-
Net decrease in cash and cash equivalents		-	(12.5)
Cash and cash equivalents at the beginning of the year	27	-	12.5
Cash and cash equivalents at the end of the year	27	-	-

The notes on pages 31 to 72 are an integral part of these financial statements.

Group	Note	Attributable to equity holders of the parent				Total equity £m
		Share capital £m	Fair value reserve £m	Retained earnings £m	Capital reserve £m	
Balance as at January 1, 2014		828.0	36.1	791.0	(650.5)	1,004.6
Net change in fair value of available for sale financial assets		-	54.2	-	-	54.2
Net change in fair value of available for sale financial assets transferred to profit or loss		-	(2.1)	-	-	(2.1)
Gain on pension fund		-	-	0.4	-	0.4
Foreign currency translation adjustments		-	-	(0.3)	-	(0.3)
Tax on fair value movements		-	(9.1)	-	-	(9.1)
Net profit for the year		-	-	120.8	-	120.8
Total recognised income and expense for the year		-	43.0	120.9	-	163.9
Dividends paid during the year	13	-	-	-	-	-
Balance as at December 31, 2014		828.0	79.1	911.9	(650.5)	1,168.5
Net change in fair value of available for sale financial assets		-	(46.4)	-	-	(46.4)
Net change in fair value of available for sale financial assets transferred to profit or loss		-	(7.9)	-	-	(7.9)
Gain on pension fund		-	-	16.0	-	16.0
Foreign currency translation adjustments		-	-	0.1	-	0.1
Tax on fair value movements		-	11.4	-	-	11.4
Tax on gain on pension fund		-	-	(9.1)	-	(9.1)
Net profit for the year		-	-	51.4	-	51.4
Total recognised income and expense for the year		-	(42.9)	58.4	-	15.5
Dividends paid during the year	13	-	-	-	-	-
Balance as at December 31, 2015		828.0	36.2	970.3	(650.5)	1,184.0

Company	Note	Share capital £m	Fair value reserve £m	Retained earnings £m	Total £m
Balance as at January 1, 2014		828.0	3.5	87.3	918.8
Net change in fair value of available for sale financial assets		-	0.7	-	0.7
Net change in fair value of available for sale financial assets transferred to profit or loss		-	1.7	-	1.7
Tax on fair value movements		-	0.8	-	0.8
Net profit for the year		-	-	17.7	17.7
Total recognised income and expense for the year		-	3.2	17.7	20.9
Dividends paid during the year	13	-	-	-	-
Balance as at December 31, 2014		828.0	6.7	105.0	939.7
Net change in fair value of available for sale financial assets		-	-	-	-
Net change in fair value of available for sale financial assets transferred to profit or loss		-	(6.7)	-	(6.7)
Write off cost of investment in subsidiary		-	-	(20.5)	(20.5)
Net profit for the year		-	-	21.6	21.6
Total recognised income and expense for the year		-	(6.7)	1.1	(5.6)
Dividends paid during the year	13	-	-	-	-
Balance as at December 31, 2015		828.0	-	106.1	934.1

The notes on pages 31 to 72 are an integral part of these financial statements.

1. ACCOUNTING POLICIES

1.1. Company and its operations

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

The registered office of the Company is 57 Ladymead, Guildford, Surrey, GU1 1DB, United Kingdom. The consolidated financial statements of Allianz Holdings plc for the year ended December 31, 2015 were authorised for issue in accordance with a resolution of the Directors on March 22, 2016.

The consolidated financial statements of the Company for the year ended December 31, 2015 comprise the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its group.

1.2. Statement of Compliance

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

1.3. Basis of preparation

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

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

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

A number of new accounting standards and amendments to standards are effective for the annual periods beginning January 1, 2015 but are not mandatory and have not been early adopted by the Group. The significant ones are:

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

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

1. ACCOUNTING POLICIES (CONTINUED)

1.4. Summary of significant accounting policies

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

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

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

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of Allianz Holdings plc and its subsidiaries that are controlled by the Group. All the financial statements included are uniformly prepared in conformity with IFRS and adopting consistent accounting policies as at December 31, 2015.

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

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

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

(b) Property and equipment

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

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

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

(c) Investment properties

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

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

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

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

(d) Intangible assets

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

Goodwill

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

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

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

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

Customer relationships acquired in business combinations

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

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

1. ACCOUNTING POLICIES (CONTINUED)

Software

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

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

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

Renewal Rights

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

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

(e) Deferred acquisition costs

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

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

(f) Income taxes

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

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

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

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

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

(g) Reinsurance assets

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

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

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

(h) Fair values of financial assets and liabilities

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

(i) Derivative financial instruments

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

(j) Financial assets

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

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

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

Available for sale financial assets

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

Securities lending

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

Loans

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

Impairments

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

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

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

1. ACCOUNTING POLICIES (CONTINUED)

(k) Reserves

Fair value reserve

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

Capital reserve

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

(l) Insurance receivables

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

(m) Cash and cash equivalents

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

(n) Product classification

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

(o) Provision for other liabilities

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

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

(p) Insurance contracts liabilities

Insurance contracts liabilities

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

Provision for unearned premiums

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

Liability adequacy test

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

(q) Levies

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

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

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

(r) Pension benefit obligation

The Group sponsors two pension schemes:

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

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

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

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

(s) Revenue recognition

Premium income

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

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

Reinsurance commission

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

Investment income

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

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

Realised gains and losses recorded in the statement of comprehensive income

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

1. ACCOUNTING POLICIES (CONTINUED)

Unrealised gains and losses recorded in the statement of comprehensive income

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

(t) *Claims*

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

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

(u) *Finance cost*

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

(v) *Foreign currency translation*

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

(w) *Off setting of financial instruments*

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

(x) *Current, non current disclosure*

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

(y) *Dividends*

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

2. USE OF ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

(a) Claims liability arising from insurance contracts

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

The carrying value at balance sheet date for these general insurance contracts is £2,861.2m, (2014 £2,711.4m).

(b) Fair value measurement of financial assets

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

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

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

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

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

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

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

(c) Surplus or deficit on defined benefit pension scheme

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

(d) Deferred tax asset

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

3. NET INSURANCE REVENUE

	Note	2015 £m	2014 £m
(a) Gross written premiums			
Direct insurance		2,218.2	2,163.3
Assumed reinsurance		0.5	0.2
Total gross written premiums	30	2,218.7	2,163.5
Gross change in unearned premium provision	30	(7.9)	(88.1)
<hr/>			
Total gross earned premiums		2,210.8	2,075.4
<hr/>			
(b) Reinsurers' share of gross written premiums			
Direct insurance		(738.6)	(121.3)
Assumed reinsurance		0.2	-
Total reinsurers' share of gross written premiums	30	(738.4)	(121.3)
Reinsurers' share of change in unearned premium provision	30	213.4	10.2
<hr/>			
Total reinsurers' share of gross earned premiums		(525.0)	(111.1)
<hr/>			
Total net insurance revenue		1,685.8	1,964.3

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

4. INVESTMENT INCOME

	2015 £m	2014 £m
Available for sale financial assets		
Interest income	57.8	62.3
Dividend income	2.7	2.0
Impairment of loans	0.5	-
Interest income from loans	19.3	19.6
Cash and cash equivalents interest income	6.7	5.8
Rental income from investment properties	9.8	10.2
Ceded investment income	(6.6)	-
Total investment income	90.2	99.9

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

	Note	2015 £m	2014 £m
Available for sale financial assets			
Realised gains			
Equity securities		10.6	10.3
Debt securities		8.1	5.7
Investment properties		0.6	-
Realised losses			
Debt securities		(1.9)	(2.0)
Investment properties		(4.1)	(0.9)
Financial liabilities			
Realised losses		(0.7)	(0.7)
Total net realised gains recorded in the statement of comprehensive income		12.6	12.4

6. NET FAIR VALUE GAINS RECORDED IN THE STATEMENT OF COMPREHENSIVE INCOME

	Note	2015 £m	2014 £m
Net gain on investment properties	18	3.2	12.5
Net gain on own use properties		2.3	1.0
Net gain on financial liabilities		0.8	0.2
Total net fair value gain recorded in the statement of comprehensive income		6.3	13.7

7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	Note	2015 £m	2014 £m
Acquisition costs		101.8	143.4
Movement in deferred acquisition costs	19	58.1	0.4
Administration expenses		86.4	120.7
Unwind of discount on PPO claims reserves		1.1	1.2
Total other operating and administrative expenses		247.4	265.7

8. EMPLOYEE RELATED COSTS

	2015 £m	2014 £m
Wages and salaries	172.3	182.6
Social security costs	20.2	19.9
Pension costs - defined benefit scheme	12.8	19.6
Pension costs - defined contribution scheme	21.9	15.9
Total employee related costs	227.2	238.0

	2015	2014
The average monthly number of employees including executive directors during the year was:		
Management	538	495
Underwriting and claims	4,248	4,074
Finance and administration	2,239	1,784
Total	7,025	6,353

The Company itself does not have any employee related costs.

9. AUDITOR'S REMUNERATION

	2015 £m	2014 £m
Fees payable to the company's auditor for the audit of the company's annual accounts	0.1	0.1
Fees payable to the company's auditor for other services:		
The audit of the company's subsidiaries pursuant to legislation	0.5	0.5
Audit-related assurance services	0.2	0.1
Total auditors' remuneration	0.8	0.7

10. INCOME TAX

<i>(a) Income tax recognised in profit or loss</i>	2015 £m	2014 £m
Current tax:		
In respect of the current year	13.7	(0.9)
In respect of prior years	(1.9)	(2.6)
Total current tax charge/(credit)	11.8	(3.5)
Deferred tax:		
In respect of the current year	1.4	36.2
In respect of prior years	(0.4)	0.3
Adjustments to deferred tax attributable to changes in tax rates and laws	(2.3)	-
	(1.3)	36.5
Total income tax expense recognised in the current year relating to continuing operations	10.5	33.0

10. INCOME TAX (CONTINUED)

	2015 £m	2014 £m
The income tax expense for the year can be reconciled to the accounting profit as follows:		
Profit before tax from continuing operations	61.9	153.8
Income tax expense calculated at 20.25% (2014: 21.5%)	12.5	33.1
Effect of expenses not deductible for tax purposes	1.3	4.0
Effect of franked investment income	(0.5)	(2.9)
Effect of capital gains	(1.3)	-
Effect of prior year adjustment	(2.3)	(2.6)
Effect of overseas tax	3.0	0.5
Effect of changes in statutory tax rate	(2.3)	0.9
Effect of imputed transfer pricing adjustments	0.1	-
Income tax expense recognised in profit or loss (relating to continuing operations)	10.5	33.0

The tax rates used for the 2015 and 2014 reconciliations above are the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax will be 20% for 2016.

	2015 £m	2014 £m
(b) Income tax recognised in other comprehensive income		
Current tax	(11.4)	9.9
Deferred tax	9.1	(0.8)
Total income tax recognised in other comprehensive income	(2.3)	9.1

	Group 2015 £m	Group 2014 £m
(c) Tax paid for cash flow purposes		
Current tax payable at January 1	8.2	10.6
Amounts charged to the statement of comprehensive income	10.5	36.6
Amounts charged to other comprehensive income	(2.3)	9.1
Movements in deferred tax in the statement of comprehensive income	1.3	(40.1)
Movements in deferred tax to other comprehensive income	(9.1)	0.8
Prior year adjustment	4.0	(0.2)
Other movements	(4.7)	-
Tax received/(paid) during the year	4.2	(8.6)
Current tax payable at December 31	12.1	8.2

11. DIRECTORS' EMOLUMENTS

	2015 £	2014 £
Emoluments	2,087,084	1,704,710
The amounts in respect of the highest paid Director are as follows:		
Emoluments	992,958	920,663

The highest paid Director and one other Director were eligible for discretionary awards under the Mid Term Bonus element of the Allianz SE Group's Allianz Sustained Performance Plan ("ASPP") for the 3 year period ended December 31, 2015.

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

The highest paid Director was the only Director who was a member of the Money Purchase Section of the Allianz Retirement and Death Benefits Fund. He was a member of that Fund up to the point of its closure on June 30, 2015, at which point he became a member of the Allianz Retirement Savings Plan (a Group Personal Pension defined contribution scheme).

During the year, the Group made related scheme contributions to these schemes totalling £19,082 in respect of that Director (£9,532 to the Money Purchase Section of the Allianz Retirement and Death Benefits Fund and £9,550 to the Allianz Retirement Savings Plan).

Two Directors waived their right to receive emoluments.

12. SHARE BASED PAYMENTS

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

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

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

The fair value of the SARs (based on standard valuation models – Black-Scholes or Binomial Method) and RSUs (equal to the market price of one Allianz SE share less expected future dividends) is expensed over the respective vesting periods. The fair value is remeasured at each reporting period. The amount debited through the statement of comprehensive income was £4.6m (2014 £3.4m). The liability recorded in the financial statements in respect of the SARs and RSUs as at December 31, 2015 was £8.4m (2014 £9.4m).

SARs and RSUs are allocated annually. The number of SARs and RSUs allocated to an individual are based upon a combination of Allianz SE performance against Plan, Group performance against Plan and individual performance against predefined targets, the same rules that apply throughout the Allianz group. During 2015, RSUs were allocated to members of the Management Board and other executives.

SAR plan awards granted, forfeited and exercised as of December 31, 2015

Grant Date	Vesting period years	Reference price €	SARs granted	SARs forfeited/lapsed	SARs exercised	SARs transferred ⁽¹⁾
March 2007	2	160.13	28,176	23,494	-	4,682
March 2008	2	117.38	25,980	2,796	18,440	4,744
March 2009	4	51.95	39,139	1,458	36,508	1,173
March 2010	4	87.36	45,010	1,699	29,156	5,960

RSU plan awards granted, forfeited and exercised as of December 31, 2015

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

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

13. DIVIDENDS

	2015 £m	2014 £m
Dividends on ordinary shares:		
Interim dividends paid of nil per share (2014 £nil)	-	-
Total	-	-

14. INVESTMENT IN GROUP UNDERTAKINGS

The subsidiary undertakings of Allianz Holdings plc at December 31, 2015 are shown below.

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

All of the above shareholdings were also held at December 31, 2014. The figures for percentage holdings all relate to the ordinary share capital of the subsidiaries. The Company also held 100% of the 5% non-cumulative preference shares of £1 each and 99.9% of the 5% cumulative preference shares of £1 each in Allianz Insurance plc until such shares were all converted into voting ordinary shares of £1 each on March 19, 2015.

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

15. INTANGIBLE ASSETS

Group	Goodwill £m	Software £m	Other intangible assets £m	Total £m
Cost				
At January 1, 2014	76.3	25.8	32.4	134.5
Additions arising from internal development	-	2.1	-	2.1
Additions acquired separately	-	0.1	-	0.1
Disposals	-	(0.1)	-	(0.1)
At December 31, 2014	76.3	27.9	32.4	136.6
Additions arising from internal development	-	4.2	-	4.2
Additions acquired separately	-	2.4	-	2.4
Disposals	-	(0.5)	-	(0.5)
At December 31, 2015	76.3	34.0	32.4	142.7
Accumulated amortisation and impairment				
At January 1, 2014	2.9	19.1	31.2	53.2
Amortisation charge for the year	-	2.6	0.6	3.2
Disposals	-	-	-	-
At December 31, 2014	2.9	21.7	31.8	56.4
Amortisation charge for the year	-	1.9	0.4	2.3
Disposals	-	-	-	-
At December 31, 2015	2.9	23.6	32.2	58.7
Carrying amount				
At December 31, 2014	73.4	6.2	0.6	80.2
At December 31, 2015	73.4	10.4	0.2	84.0

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

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

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

The Company itself does not have any intangible assets.

Goodwill is tested annually for impairment at the relevant cash generating unit (CGU) level, this is the lowest level that it is monitored at for internal management purposes. Within the Group, the relevant CGUs are the Commercial and Retail Divisions which have goodwill and other intangible assets of £24.2m and £49.4m respectively.

The carrying value (including goodwill) of the CGU is compared to the discounted future pre-tax cashflows of that CGU. The cashflows are discounted at the Group's cost of capital rate, 8.3% and are based on the annual 3 year plan figures, with no assumed growth beyond this period. The plan figures are based on the Group's expectation of future performance taking account of past performance. The recoverable amount is a value in use calculation.

The result of the 2015 test indicated that no impairment was required to the carrying value of goodwill in either CGU as at December 31, 2015.

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

16. PENSION BENEFIT OBLIGATION

The Group sponsors two pension schemes:

- The Allianz Retirement and Death Benefits Fund (“ARDBF”) – this scheme has a defined benefit section and a defined contribution section (although the defined contribution section is in the process of being closed). It is operated jointly by the Company and a trustee board.
- A Group Personal Pension Plan (“GPPP”) – this was put in place on 1 July 2015 following closure of the defined contribution section of the ARDBF. It is defined contribution only. It is operated by Friends Life.

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

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

Group Personal Pension Plan

The assets of the GPPP are held separately in independently administered funds. The cost of providing benefits in the GPPP is determined as the contributions payable during the year and so for 2015, in respect of the period from 1 July to 31 December, was £13.1m (2014: nil).

Allianz Retirement and Death Benefits Fund

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

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

The trustee board of the ARDBF is required by law to act in the best interests of members and is responsible for setting certain policies (eg investment and contribution policies). The ARDBF is funded by the Company based on an actuarial valuation with an effective date of 31 March 2014. The assumptions differ from the assumptions below – full details are set out in the “Statement of Funding Principles” document agreed by the trustee board and Company. The next actuarial valuation is scheduled to have an effective date of 31 March 2017.

The amount of Group contributions paid into the ARDBF during 2015 was £59.1m (2014 £47.1m), including £12.8m payable to the defined contribution section over the period to 1 July 2015. Group contributions to the ARDBF over 2016 are expected to be £40.3m. This in respect of benefits built up before 1 July 2015 in the defined benefit section only. From 1 July 2015 no contributions were payable to the defined contribution section but were instead paid to the GPPP.

The assets of the ARDBF are held in separate trustee administered funds. In consultation with the Group, the trustee board regularly reviews the investment strategy of the ARDBF with the aim of meeting benefit payments as they fall due and maintaining the funding position at an appropriate level subject to an appropriate level of risk. These broad principles have led to the investment strategy below. The assets of the ARDBF were significantly de-risked over 2015, moving a large allocation from equities to debt instruments. There is no exact matching of assets and liabilities in the form of insurance policies or derivatives, apart from a very small annuity held for some pensions in payment (total value of £0.8m) in place.

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

Equity instruments	10%
Debt instruments	80%
Property	10%
	100%

16. PENSION BENEFIT OBLIGATION (CONTINUED)

The liability figures in this disclosure also include figures in respect of a small unfunded post-retirement medical healthcare arrangement and a small unfunded top-up pension benefit arrangement provided to certain senior employees, with a combined IAS19 present value of defined benefit obligation at December 31, 2015 of around £6.6m.

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

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

	2015	2014	2013
Discount rate	3.9%	3.7% pa	4.5% pa
RPI inflation	3.0%	3.0% pa	3.4% pa
Life expectancy of male aged 60 at the balance sheet date	28.3 years	28.2 years	28.4 years
Life expectancy of male aged 60 at the balance sheet date plus 20 years	30.3 years	30.2 years	30.4 years
Other IAS19 assumptions used include:			
	2015	2014	2013
General salary increases	n/a	2.8% pa	3.2% pa
Pension increases in deferment	3.0%	3.0% pa	3.4% pa
Pension increases in payment (RPI up to maximum of 5% pa)	2.9%	2.9% pa	3.3% pa
Pension increases in payment (RPI up to maximum of 2.5% pa)	2.0%	2.0% pa	2.2% pa
Real long-term healthcare inflation	2.5%	2.5% pa	2.5% pa

At 31 December 2015, the weighted average duration of the defined benefit obligation of the ARDBF was 18.0 years (2014 18.7 years).

The actual return on the ARDBF assets over the year was £21.5m (2014 £73.1m). The current allocation of the ARDBF assets is as follows:

	2015	2014	2013
Assets with a quoted market price in an active market			
- Equity instruments	77.6	429.7	394.7
- Debt instruments	570.7	298.5	270.5
- Other	13.8	10.5	11.0
	662.1	738.7	676.2
Assets without a quoted market price in an active market			
- Debt instruments	44.1	46.4	30.1
- Property	92.3	131.2	99.0
- Other	0.8	0.8	22.4
	137.2	178.4	151.5
Total	799.3	917.1	827.7

Approximately £0.4m within the fair value of ARDBF assets are invested directly in the Company's own financial instruments or any property occupied by, or assets used by, the Company.

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

16. PENSION BENEFIT OBLIGATION (CONTINUED)

	Liabilities		Assets		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Balance at 1 January	1,066.8	988.2	(917.1)	(827.7)	149.7	160.5
Included in profit or loss						
Current employer service cost	17.3	28.6	-	-	17.3	28.6
Interest cost/(income)	36.3	44.3	(32.0)	(37.4)	4.3	6.9
Total expense included in profit or loss	53.6	72.9	(32.0)	(37.4)	21.6	35.5
Included in OCI						
Re-measurement loss (gain):						
- Actuarial loss (gain) arising from:						
- demographic assumptions	14.3	(9.5)	-	-	14.3	(9.5)
- financial assumptions	(27.4)	75.5	-	-	(27.4)	75.5
- experience adjustment	(16.0)	(30.7)	-	-	(16.0)	(30.7)
- Return on plan assets excluding interest income on assets	-	-	13.1	(35.7)	13.1	(35.7)
Total loss/(gain) included in OCI	(29.1)	35.3	13.1	(35.7)	(16.0)	(0.4)
Other						
Contributions by the employer (incl employee contribution via salary sacrifice)	-	-	(59.2)	(47.2)	(59.2)	(47.2)
Benefits paid	(30.4)	(29.6)	30.4	29.6	-	-
DC Section transfer to GPPP	(163.3)	-	163.3	-	-	-
Total other	(193.7)	(29.6)	134.5	(17.6)	(59.2)	(47.2)
Administration costs	-	-	2.2	1.3	2.2	1.3
Balance at 31 December	897.6	1,066.8	(799.3)	(917.1)	98.3	149.7
Represented by:						
Net defined benefit liability					98.3	149.7

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

	Defined benefit obligation	
	Increase £m	Decrease £m
Discount rate (0.5% movement)	(73.0)	83.5
Increases prior to payment (0.25% movement) ¹	12.9	(12.6)
Increases in payment (0.25% movement) ²	18.5	(17.8)
Life expectancy (one-year movement)	23.5	(23.5)

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

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

17. PROPERTY AND EQUIPMENT

Group	Property £m	Equipment £m	Motor vehicles £m	Total £m
<i>Cost or valuation</i>				
At January 1, 2014	13.6	9.0	18.1	40.7
Additions	-	0.6	5.0	5.6
Disposals	-	(2.4)	(3.9)	(6.3)
Net fair value (losses)	1.0	-	-	1.0
At December 31, 2014	14.6	7.2	19.2	41.0
Additions	-	1.1	7.5	8.6
Disposals	-	(0.6)	(6.4)	(7.0)
Net fair value gains	2.5	-	-	2.5
At December 31, 2015	17.1	7.7	20.3	45.1
<i>Accumulated depreciation</i>				
At January 1, 2014	-	6.6	7.1	13.7
Depreciation charge for the year	-	1.1	3.7	4.8
Disposals	-	(1.7)	(2.9)	(4.6)
At December 31, 2014	-	6.0	7.9	13.9
Depreciation charge for the year	-	0.7	3.8	4.5
Disposals	-	(0.1)	(4.5)	(4.6)
At December 31, 2015	-	6.6	7.2	13.8
<i>Carrying amount</i>				
At December 31, 2014	14.6	1.2	11.3	27.1
At December 31, 2015	17.1	1.1	13.1	31.3

The Company itself does not hold any property or equipment.

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

18. INVESTMENT PROPERTIES

Group	Note	2015 £m	2014 £m
At January 1		161.4	121.4
Additions		-	27.5
Disposals		(6.8)	-
Realised losses	5	(3.5)	-
Net fair value gain	6	3.2	12.5
At December 31		154.3	161.4

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

The rental income arising from investment properties during the year amounted to £11.2m (2014 £11.2m), which is included in investment income. Direct operating expenses (charged against investment income) arising in respect of such properties during the year amounted to £1.4m (2014 £1.0m).

19. DEFERRED ACQUISITION COSTS

Group	Gross Reinsurance 2015		Gross Reinsurance 2014	
	£m	£m	£m	£m
At January 1	234.8	(2.8)	238.5	(6.1)
Impact of quota share	-	(45.2)	-	-
	234.8	(48.0)	238.5	(6.1)
Costs deferred during the year	497.4	(102.9)	495.9	(5.6)
Amortisation charge for the year	(513.7)	106.3	(499.6)	8.9
At December 31	218.5	(44.6)	234.8	(2.8)

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

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

20. LEASES

Group	2015 £m	2014 £m
The total of future minimum lease payments under non-cancellable operating leases are set out below:		
Not later than one year	7.4	8.9
Later than one year and not later than five years	28.1	27.9
Later than five years	14.8	15.4
Total	50.3	52.2

Operating lease rentals for the year were £8.2m (2014 £8.4m).

Group	2015 £m	2014 £m
The total of future minimum lease receipts expected to be received under non-cancellable leases at the balance sheet date are set out below:		
Not later than one year	14.4	11.0
Later than one year and not later than five years	55.1	40.4
Later than five years	25.8	63.9
Total	95.3	115.3

Lease receipts for the year were £11.4m (2014 £11.6m).

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

21. TAX ASSETS AND LIABILITIES

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
<i>(a) Current tax assets and liabilities</i>				
Current tax assets	-	-	-	-
Current tax liabilities	12.1	8.2	-	0.3

(b) Deferred tax balances

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

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Deferred tax assets	67.4	75.8	-	-
Deferred tax liabilities	(22.7)	(23.3)	-	-
	44.7	52.5	-	-

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

	Group Opening balance £m	Group Recognised in profit or loss £m	Group Recognised in other comprehensive income £m	Group Closing balance £m
2014				
<i>Deferred tax assets/(liabilities) in relation to:</i>				
Pensions	32.1	(2.1)	(0.1)	29.9
Properties	5.7	(1.6)	0.1	4.2
Provisions and other temporary differences	4.6	(1.7)	1.0	3.9
Tax losses	67.6	(36.0)	-	31.6
Technical reserves	0.3	5.9	-	6.2
Claims equalisation reserve	(22.3)	(1.0)	-	(23.3)
	88.0	(36.5)	1.0	52.5

21. TAX ASSETS AND LIABILITIES (CONTINUED)

	Company	Company	Company	Company
	Opening balance £m	Recognised in profit or loss £m	Recognised in other comprehensive income £m	Closing balance £m
2015				
Deferred tax assets/(liabilities) in relation to:				
Pensions	-	-	-	-
Properties	-	-	-	-
Provisions and other temporary differences	-	-	-	-
Tax losses	-	-	-	-
Technical reserves	-	-	-	-
Claims equalisation reserve	-	-	-	-
	-	-	-	-

	Company	Company	Company	Company
	Opening balance £m	Recognised in profit or loss £m	Recognised in other comprehensive income £m	Closing balance £m
2014				
Deferred tax assets/(liabilities) in relation to:				
Pensions	-	-	-	-
Properties	-	-	-	-
Provisions and other temporary differences	3.0	(3.9)	0.9	-
Tax losses	-	-	-	-
Technical reserves	-	-	-	-
Claims equalisation reserve	-	-	-	-
	3.0	(3.9)	0.9	-

22. REINSURANCE ASSETS

Group	Note	2015 £m	2014 £m
Reinsurers share of insurance contracts liabilities	30	798.6	283.8
Total reinsurance assets		798.6	283.8

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

23. PREPAYMENTS AND ACCRUED INCOME

Group	2015 £m	2014 £m
Prepayments		
Prepaid expenses	0.8	1.0
Total prepayments	0.8	1.0
Accrued income		
Interest	32.0	31.3
Total accrued income	32.0	31.3
Total prepayments and accrued income	32.8	32.3

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

24. FINANCIAL ASSETS

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

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Available for sale financial assets	2,298.5	-	2,258.2	8.8
Loans	340.6	-	340.4	-
Total financial assets	2,639.1	-	2,598.6	8.8
	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
(a) Available for sale financial assets				
At fair value				
Equity securities				
Listed	-	-	8.8	8.8
Unlisted	98.5	-	87.6	-
Total equity securities at fair value	98.5	-	96.4	8.8
Debt securities				
Listed	2,180.7	-	2,137.4	-
Total debt securities at fair value	2,180.7	-	2,137.4	-
Deposits with credit institutions	19.3	-	24.4	-
Total available for sale financial assets at fair value	2,298.5	-	2,258.2	8.8
At cost				
Equity securities				
Listed	-	-	2.0	2.0
Unlisted	97.8	-	85.2	-
Total equity securities at cost	97.8	-	87.2	2.0
Debt securities				
Listed	2,138.4	-	2,049.3	-
Total debt securities at amortised cost	2,138.4	-	2,049.3	-
Deposits with credit institutions	19.3	-	24.4	-
Total available for sale financial assets at cost	2,255.5	-	2,160.9	2.0

The fair value of the loans made by the Group is £378.5m (2014 £393.1m) and of those made by the Company is £nil (2014 £nil). Other carrying amounts disclosed above reasonably approximate fair values at year end.

The Group has holdings in collective investment trusts of £98.5m (2014 £87.6m). These are included within the unlisted total above, and whilst there are quoted prices for the holdings, only £81.6m (2014 £71.3m) of the holdings is readily realisable.

Included within the deposits with credit institutions is £6.5m (2014 £8.2m) which the Group has pledged as collateral relating to the future settlement of insurance contracts liabilities. The collateral is all in the form of letters of credit which attract a commercial rate of interest. The claimants have the right to draw on the funds but would ordinarily be expected to gain prior approval from the Group before doing so.

The Group has entered into securities lending whereby blocks of securities are loaned to third parties. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Group's balance sheet, they continue to be recognised within the appropriate investment classification. At December 31, 2015, the Group had lent £290.9m (2014 £293.6m) and held collateral under such agreements of £360.9m (2014 £347.3m).

24. FINANCIAL ASSETS (CONTINUED)

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
(b) Loans and receivables				
Loans to related parties	340.0	-	340.0	-
Other loans	0.6	-	0.4	-
Total loans	340.6	-	340.4	-
	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Current loans	0.6	-	0.2	-
Non current loans	340.0	-	340.2	-

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

25. INSURANCE RECEIVABLES

Group	2015 £m	2014 £m
Due from policyholders	369.4	322.9
Due from reinsurers	22.1	3.5
Due from agents, brokers and intermediaries	394.5	376.3
Total insurance receivables	786.0	702.7

Group	2015 £m	2014 £m
Current insurance receivables	701.2	626.1
Non current insurance receivables	84.8	76.6

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

26. OTHER RECEIVABLES

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Amounts due from related parties	55.9	84.8	49.9	67.0
Other	39.9	-	57.7	-
Total other receivables	95.8	84.8	107.6	67.0

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Current other receivables	95.8	84.8	107.6	67.0
Non current other receivables	-	-	-	-

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

27. CASH AND CASH EQUIVALENTS

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Cash at bank	48.0	-	27.9	-
Short-term deposits (including demand and time deposits)	55.3	-	56.2	-
Total	103.3	-	84.1	-

Deposits are subject to an average interest rate of 0.7% (2014 0.7%) and have an average maturity of 1 day (2014 1 day). The carrying amounts disclosed above reasonably approximate fair values at year end.

28. SHARE CAPITAL

	Issued 2015 £	2014 £
Ordinary shares of £1 each fully paid	827,996,234	827,996,234

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

29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Group	Note	Severance pay £m	IT £m	Indemnities	Total £m
At January 1, 2014		-	-	0.5	0.5
Amount charged to the statement of comprehensive income	7	-	-	-	-
Transferred from fellow group company		-	-	-	-
At December 31, 2014		-	-	0.5	0.5
Amount credited to the statement of comprehensive income	7	-	-	-	-
Transferred from fellow group company		-	-	-	-
At December 31, 2015		-	-	0.5	0.5

The above provision is all current.

Restructuring

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

There is uncertainty regarding the future payments to be made under these indemnities but the Directors believe that the provision at December 31, 2015 is reasonable, based on the information currently available.

30. INSURANCE CONTRACTS LIABILITIES

Group	Insurance contracts liabilities £m	2015 Reinsurers' share of liabilities £m	Net £m	Insurance contracts liabilities £m	2014 Reinsurers' share of liabilities £m	Net £m
Provisions for claims reported by policyholders	1,637.2	(428.5)	1,208.7	1,588.3	(167.5)	1,420.8
Provisions for claims incurred but not reported	97.8	(84.5)	13.3	4.9	(44.2)	(39.3)
Total claims reported and IBNR	1,735.0	(513.0)	1,222.0	1,593.2	(211.7)	1,381.5
Provision for unearned premiums	1,126.2	(285.6)	840.6	1,118.2	(72.1)	1,046.1
Total general insurance contracts liabilities	2,861.2	(798.6)	2,062.6	2,711.4	(283.8)	2,427.6
Current general insurance contracts liabilities	1,263.1	(308.3)	954.8	1,165.7	(67.1)	1,098.6
Non current general insurance contracts liabilities	1,598.1	(490.3)	1,107.8	1,545.7	(216.7)	1,329.0

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

Group	Insurance contracts liabilities £m	2015 Reinsurers' share of liabilities £m	Net £m	Insurance contracts liabilities £m	2014 Reinsurers' share of liabilities £m	Net £m
At January 1	1,593.2	(211.7)	1,381.5	1,576.5	(217.9)	1,358.6
Foreign exchange adjustment	(1.0)	0.6	(0.4)	3.0	(1.2)	1.8
Impact of quota share	-	(275.7)	(275.7)	-	-	-
Unwind of discount on PPO claims reserves	3.8	(2.4)	1.4	3.0	(1.8)	1.2
	1,596.0	(489.2)	1,106.8	1,582.5	(220.9)	1,361.6
Claims incurred in the current accident year	1,602.3	(339.1)	1,263.2	1,343.8	(28.9)	1,314.9
Movement on claims incurred in prior accident years	(95.0)	49.5	(45.5)	(22.4)	6.5	(15.9)
Claims paid during the year	(1,368.3)	265.8	(1,102.5)	(1,310.7)	31.6	(1,279.1)
At December 31	1,735.0	(513.0)	1,222.0	1,593.2	(211.7)	1,381.5

The provision for unearned premiums may be analysed as follows:

Group	Notes	Insurance contracts liabilities £m	2015 Reinsurers' share of liabilities £m	Net £m	Insurance contracts liabilities £m	2014 Reinsurers' share of liabilities £m	Net £m
At January 1		1,118.2	(72.1)	1,046.1	1,030.2	(61.9)	968.3
Foreign exchange adjustment		0.1	(0.1)	-	(0.1)	-	(0.1)
Impact of quota share		-	(202.6)	(202.6)	-	-	-
		1,118.3	(274.8)	843.5	1,030.1	(61.9)	968.2
Premiums written in the year	3	2,218.7	(535.8)	1,682.9	2,163.5	(121.3)	2,042.2
Premiums earned during the year	3	(2,210.8)	525.0	(1,685.8)	(2,075.4)	111.1	(1,964.3)
At December 31		1,126.2	(285.6)	840.6	1,118.2	(72.1)	1,046.1

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

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

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

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

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of periodic payments established under the Courts Act 2003. As at the end of 2014 there were thirty-six of these claims outstanding. During 2015 the reserving basis was reviewed, three further settlements on this basis were agreed and no claimants died. Total reserves that are discounted are £118.8m (2014 £134.0m) gross and £42.7m (2014 £51.7m) net of reinsurance. The corresponding undiscounted amounts are £295.1m (2014 £401.8m) gross and £93.0m (2014 £132.9m) net.

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

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

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

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

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

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

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

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

Case estimates for large injury claims have been set using Ogden Tables discounted at 2.5%. The actuarial modelled reserve to provide for the future development to ultimate settlement of these claims and for incurred but not reported claims implicitly allows for some future gradual inflation, but this is unlikely to be sufficient to meet the cost of a sudden downward movement in the discount rate. Approximate estimates of the cost of such a movement were produced and compared to the excess of the held claim reserves. This showed that the held claim reserves are likely to be sufficient to meet this additional cost if required.

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

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

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

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

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

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

Changes in assumptions from the prior period have caused a £94.3m decrease (2014 £19m decrease) in gross insurance provisions. The net effect after reinsurance is £45.4m decrease (2014 £15m decrease). The major reasons for this change are:

- reduction in amounts needed for uncertainty as claims mature;
- reduction in the real discount rate assumption used for the valuation basis of PPO claims; and
- improvements in the liability and commercial motor accounts, as well as decreases in reserves for run-off business. These were partially offset by increases in the reserves for retail motor.

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

Loss development triangle

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

Group	Note	Accident Year										Total	
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Gross of reinsurance		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year		1,034.9	1,129.8	1,041.2	999.0	1,061.2	1,103.8	1,214.3	1,196.2	1,343.8	1,602.3		
One year later		985.2	1,113.8	1,005.2	1,000.0	1,100.9	1,107.8	1,197.5	1,223.5	1,374.8			
Two years later		923.5	1,058.3	970.9	978.9	1,072.2	1,102.8	1,168.5	1,185.8				
Three years later		888.9	1,047.9	963.4	972.6	1,068.7	1,103.2	1,166.5					
Four years later		882.5	1,033.2	959.2	970.0	1,074.4	1,084.1						
Five years later		881.0	1,023.9	960.1	967.6	1,078.2							
Six years later		879.4	1,035.4	962.3	976.1								
Seven years later		874.9	1,034.6	959.2									
Eight years later		873.0	1,031.2										
Nine years later		867.3											
Current estimate of cumulative claims		867.3	1,031.2	959.2	976.1	1,078.2	1,084.1	1,166.5	1,185.8	1,374.8	1,602.3	11,325.5	
Cumulative payments to date		(848.2)	(1,005.4)	(933.0)	(926.1)	(1,028.9)	(1,026.6)	(1,064.4)	(1,024.1)	(1,061.3)	(858.2)	(9,776.2)	
Reserve in respect of prior years												185.7	
Total gross liability as per the balance sheet	30	19.1	25.8	26.2	50.0	49.3	57.5	102.1	161.7	313.5	744.1	1,735.0	

Group	Note	Accident Year										Total	
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015		
Net of reinsurance		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Accident year		902.5	1,054.9	1,000.1	969.7	1,040.7	1,096.0	1,187.1	1,168.5	1,314.9	1,263.2		
One year later		865.6	1,040.1	965.0	955.1	1,074.3	1,082.6	1,172.8	1,193.6	1,230.2			
Two years later		818.6	1,004.6	939.1	937.6	1,056.6	1,081.9	1,152.9	1,110.7				
Three years later		796.3	996.2	932.9	923.1	1,052.9	1,082.4	1,119.3					
Four years later		787.6	982.0	930.9	922.0	1,054.3	1,047.0						
Five years later		782.4	973.2	932.9	918.2	1,044.1							
Six years later		779.9	973.3	934.1	915.7								
Seven years later		777.7	971.5	924.7									
Eight years later		776.6	965.1										
Nine years later		768.6											
Current estimate of cumulative claims		768.6	965.1	924.7	915.7	1,044.1	1,047.0	1,119.3	1,110.7	1,230.2	1,263.2	10,388.6	
Cumulative payments to date		(758.5)	(950.8)	(905.4)	(895.3)	(1,014.0)	(1,010.2)	(1,041.8)	(993.4)	(987.7)	(684.7)	(9,241.8)	
Reserve in respect of prior years												75.2	
Total net liability as per the balance sheet	30	10.1	14.3	19.3	20.4	30.1	36.8	77.5	117.3	242.5	578.5	1,222.0	

32. INSURANCE RELATED PAYABLES

Group	2015 £m	2014 £m
Arising out of direct insurance operations		
Third parties	86.7	83.1
	86.7	83.1
Deposits received from reinsurers		
Amounts due to related parties	464.3	-
Third parties	0.1	0.1
	464.4	0.1
Arising out of reinsurance operations		
Amounts due to related parties	12.5	6.0
Third parties	63.4	49.4
	75.9	55.4
Total insurance related payables	627.0	138.6
	2015 £m	2014 £m
Current insurance related payables	371.5	138.5
Non current insurance related payables	255.5	0.1

33. ACCRUALS AND OTHER PAYABLES

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Amounts due to related parties	13.5	61.8	31.1	46.8
Accrued expenses	29.4	-	39.3	-
Social security and other taxes	34.4	-	25.1	-
Other	84.3	0.5	90.0	0.6
Total accruals and other payables	161.6	62.3	185.5	47.4

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

34. RISK MANAGEMENT POLICIES

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

Insurance

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

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

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

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

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

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

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

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

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

Claims liabilities 2014	Gross £m	Reinsurers' Share £m	Net £m
Motor	675.3	(114.8)	560.5
Household	49.7	-	49.7
Property and business interruption	186.4	(38.4)	148.0
Liability	513.9	(43.6)	470.3
Speciality pecuniary	98.7	(1.7)	97.0
Other	69.2	(13.2)	56.0
Total	1,593.2	(211.7)	1,381.5

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

Financial risk

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

a) Market risk

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

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

(i) Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contracts liabilities. At December 31, 2014 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.2 years (2014 3.2 years) compared with the average duration of the insurance contract liabilities which is estimated to be 2.2 years (2014 2.7 years).

(ii) Equity risk

As stated in accounting policy 1.4(h), the portfolio is valued at the bid market price. Equity market risk is the risk that the market price of the available for sale financial assets will fall in value as a result of adverse stock market movements. To manage this risk the Group limits its exposure to stock markets to a modest proportion of its total investment portfolio. Stocks held are limited to United Kingdom equities with the maximum investment in any one stock being controlled by the application of strict investment controls. These controls limit the maximum exposure to any one stock or sector of the FTSE 100 index in order to minimise risk. The largest exposure to a single stock holding was £nil (2014 £8.8m).

(iii) Currency risk

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

The Group has a policy of broadly matching currency liabilities with assets denominated in the same currency in order to minimise currency risk. Rebalancing of net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values. At December 31, 2015 the Group held Euro 17.5m (2014 Euro 9.5m) and USD 15.0m (2014 USD 28.0m) of foreign exchange forward contracts to minimise the impact on comprehensive income arising from exposure to these currencies. At December 31, the largest currency exposures were:

	2015 £m	2014 £m
US Dollars		
Assets	29.0	34.7
Liabilities	31.7	49.3
Value of USD forward contract	10.2	18.0
Euro		
Assets	2.0	43.3
Liabilities	16.5	53.9
Value of Euro forward contract	12.9	12.2

(iv) Sensitivity to market risk

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

	2015 Profit or Loss £m	2015 Equity £m	2014 Profit or Loss £m	2014 Equity £m
Interest rate risk				
+100 basis points shift in yield curves	-	(62.9)	-	(50.2)
-100 basis points shift in yield curves	-	67.8	-	54.2
Equity risk				
10% increase in equity prices	-	9.8	-	9.6
10% decrease in equity prices	(9.4)	(9.8)	-	(9.6)
Currency Risk				
10% strengthening of US dollar exchange rate	0.8	0.6	0.3	0.3
10% weakening of US dollar exchange rate	(0.8)	(0.6)	(0.3)	(0.3)
10% strengthening of Euro exchange rate	(0.2)	(0.1)	0.2	0.1
10% weakening of Euro exchange rate	0.2	0.1	(0.2)	(0.1)

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

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

	Profit or Loss		Equity	
	Gross £m	Net £m	Gross £m	Net £m
2015				
Expense ratio				
1% increase in current year	(22.1)	(16.8)	(17.6)	(13.4)
1% decrease in current year	22.1	16.8	17.6	13.4
Loss ratio				
1% increase in current year	(14.7)	(11.5)	(11.7)	(9.2)
1% increase in all of the last 3 years	(38.0)	(29.6)	(30.3)	(23.6)
1% decrease in current year	14.7	11.5	11.7	9.2
1% decrease in all of the last 3 years	38.0	29.6	30.3	23.6
2014				
Expense ratio				
1% increase in current year	(20.8)	(19.6)	(16.4)	(15.4)
1% decrease in current year	20.8	19.6	16.4	15.4
Loss ratio				
1% increase in current year	(12.2)	(11.9)	(9.6)	(9.4)
1% increase in all of the last 3 years	(34.0)	(33.2)	(26.8)	(26.1)
1% decrease in current year	12.2	11.9	9.6	9.4
1% decrease in all of the last 3 years	34.0	33.2	26.8	26.1

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

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

b) Credit risk

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

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

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

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Group's liability as primary reinsurer. If a reinsurer fails to pay a claim for any reason the Group remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Group's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Group's major clients. Where there is a significant or potentially significant exposure to an individual captive additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2015 was £344.5m (2014 £52.2m).

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

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

	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
2015								
Reinsurance assets	9.6	712.9	12.5	0.2	-	0.4	63.0	798.6
Available for sale financial assets	588.3	687.2	361.7	537.8	25.0	-	98.5	2,298.5
Loans	-	340.0	-	-	-	-	0.6	340.6
Insurance receivables (1)	-	70.4	154.3	52.0	-	-	509.3	786.0
Cash and cash equivalents	-	52.4	50.9	-	-	-	-	103.3
Total £m	597.9	1,862.9	579.4	590.0	25.0	0.4	671.4	4,327.0
Per cent	13.8	43.1	13.4	13.6	0.6	0.0	15.5	100.0
	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
2014								
Reinsurance assets	10.5	192.5	23.9	0.1	-	0.2	56.6	283.8
Available for sale financial assets	588.4	1,086.0	27.3	442.9	17.2	-	96.4	2,258.2
Loans	-	340.0	-	-	-	-	0.4	340.4
Insurance receivables (1)	-	67.3	148.4	31.4	-	-	455.6	702.7
Cash and cash equivalents	-	-	84.0	-	-	-	-	84.0
Total £m	598.9	1,685.8	283.6	474.4	17.2	0.2	609.0	3,669.1
Per cent	16.3	45.9	7.7	12.9	0.5	0.0	16.7	100.0

1. Included in the not rated balance is £369.4m (2014 £322.9m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who, whilst not independently rated, are regulated by the Financial Conduct Authority.

The available for sale financial assets shown in the above table are made up of equity securities £98.5m (2014 £96.4m), bonds £2,180.7m (2014 £2,137.4m) and other deposits £19.3m (2014 £24.4m).

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

Equities	AIM £m	Collective investment trusts £m	Unlisted £m	Total £m
2015	-	98.5	-	98.5
2014	8.8	87.6	-	96.4

Bonds	Government £m	Corporate £m	Supranationals £m	Total £m
2015	518.7	1,612.2	49.8	2,180.7
2014	512.6	1,589.6	35.2	2,137.4

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

	2015 £m Reinsurance assets	2015 £m Insurance receivables	2014 £m Reinsurance assets	2014 £m Insurance receivables
Neither past due or impaired	798.0	710.9	283.2	646.6
Past due but not impaired	-	73.8	-	55.2
Individually impaired	0.6	1.3	0.6	0.9
Total	798.6	786.0	283.8	702.7

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

	Less than 90 days £m	90-120 days £m	120-180 days £m	More than 180 days £m	Total £m
2015					
Policyholders	0.7	-	-	-	0.7
Brokers	39.7	12.4	10.0	11.0	73.1
Reinsurers	-	-	-	-	-
Total	40.4	12.4	10.0	11.0	73.8
2014					
Policyholders	0.8	-	-	-	0.8
Brokers	26.6	12.8	7.0	8.0	54.4
Reinsurers	-	-	-	-	-
Total	27.4	12.8	7.0	8.0	55.2

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

Fair value hierarchy

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

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

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

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

	Fair value as of December 31, £m	Level 1 £m	Level 2 £m	Level 3 £m
Group 2015				
Available for sale financial assets				
Equity securities	98.5	81.6	-	16.9
Government and government agency bonds	568.5	568.5	-	-
Corporate bonds	1,612.2	52.3	1,559.9	-
Deposits with credit institutions	19.3	19.3	-	-
Own use properties	17.1	-	-	17.1
Investment properties	154.3	-	-	154.3
Total	2,469.9	721.7	1,559.9	188.3
Company 2015				
Available for sale financial assets				
Equity securities	-	-	-	-
Total	-	-	-	-
Group 2014				
Available for sale financial assets				
Equity securities	96.4	80.1	-	16.3
Government and government agency bonds	547.8	547.8	-	-
Corporate bonds	1,589.6	61.9	1,527.7	-
Deposits with credit institutions	24.4	24.4	-	-
Own use properties	14.6	-	-	14.6
Investment properties	161.4	-	-	161.4
Total	2,434.2	714.2	1,527.7	192.3
Company 2014				
Available for sale financial assets				
Equity securities	8.8	8.8	-	-
Total	8.8	8.8	-	-

34. RISK MANAGEMENT POLICIES (CONTINUED)

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

	Fair value as of January 1, £m	Additions £m	Disposals £m	Unrealised gains/(losses) in profit and loss £m	Unrealised gains/(losses) in equity £m	Fair value as of December 31, £m
2015						
Group						
Equity securities	16.3	-	-	-	0.6	16.9
Own use properties	14.6	-	-	2.3	0.2	17.1
Investment properties	161.4	-	(10.3)	3.2	-	154.3
Company						
Equity securities	-	-	-	-	-	-
	Fair value as of January 1, £m	Additions £m	Disposals £m	Unrealised gains/(losses) in profit and loss £m	Unrealised gains/(losses) in equity £m	Fair value as of December 31, £m
2014						
Group						
Equity securities	20.1	-	(5.1)	-	1.3	16.3
Own use properties	13.6	-	-	1.0	-	14.6
Investment properties	121.4	30.5	(3.0)	12.5	-	161.4
Company						
Equity securities	5.1	-	(5.1)	-	-	-

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

Equity securities

During 2014, the Group disposed of a minority investment in the share capital of an unlisted company which had been classified in Level 3. The fair value was based upon an independent valuation, which used an average of the multiple of earnings of comparable companies, performed for the company's approved share option scheme.

Included in Level 3 is the Group holding in a property fund. The fair value of this holding £16.9m (2014 £16.3m) is based upon the net asset value of the fund.

Investment properties

Valuation technique:

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

Significant unobservable inputs:

Rental growth	Factored into the yield applied (location/sector specific)
Voids	0-12 months
Occupancy rate	Approximately 98.7% (excluding care homes)
Rent free	0-18 months upon re-letting
Equivalent yields applied	5.1%-10.85%

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

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

Own use properties

Valuation technique:

In estimating the fair value, the vacant possession value has been considered (assuming that no rent is currently received), whereby market assumptions were adopted for void costs, future rent and yield allowances to assess the properties on a capital value per square foot basis using the comparable method.

Significant unobservable inputs:

Rental growth	Factored into the yield applied (location/sector specific)
Voids	12-18 months
ERV	£9.50–£22.50 per square foot
Rent free	18 months upon re-letting
Letting fees	10-15% of ERV

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

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

c) Liquidity risk

Liquidity risk is the risk that cash might not be available to pay obligations when they fall due at a reasonable cost. The Group is exposed to daily calls on its available cash resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Group's available for sale financial assets and loans at December 31, 2015 amounted to £2,639.1m (2014 £2,598.6m) plus cash and cash equivalents of £103.3m (2014 £84.0m). With the exception of the lent securities (see note 24), nearly all of these are readily realisable. As a result, the Group's exposure to potential liquidity risk is extremely low and in the various risk capital models used by the Group no capital is allocated to this risk.

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

	Carrying amount £m	Less than 1 year ⁽¹⁾ £m	1-2 years £m	2-5 years £m	5-10 years £m	More than 10 years £m
Available for sale financial assets						
2015	2,298.5	365.5	256.9	502.2	597.8	576.1
2014	2,258.2	290.5	336.0	538.8	553.0	539.9

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

	Carrying amount £m	Less than 1 year £m	1-2 years £m	2-5 years £m	5-10 years £m	More than 10 years £m
Insurance liabilities						
2015	1,735.0	749.7	367.1	397.9	116.7	103.6
2014	1,593.2	661.0	321.2	360.0	122.9	128.1

Operational risk

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

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

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

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

Capital Management

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

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

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

Several of the companies in the Group are regulated in respect of Prudential requirements (including capitalisation) by the Prudential Regulation Authority (PRA). The Group aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of one of a series of pre-specified financial market and insurance shocks. This risk appetite provides for a margin to absorb changes in both capital and capital requirements.

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

The Group capital comprises total shareholders' equity and amounts to £1,184.0m (2014 £1,168.5m) on the basis reported in these accounts.

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

35. ULTIMATE PARENT UNDERTAKING

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

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

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

36. CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

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

37. CASH FLOWS FROM OPERATING ACTIVITIES

Group	Notes	2015 £m	2014 £m
Non cash items			
Amortisation of intangible assets	15	2.3	3.2
Amortisation of net deferred acquisition costs	19	407.4	490.7
Net acquisition costs deferred during the year	19	(349.3)	(490.3)
Depreciation of property and equipment	17	4.5	4.8
Amortisation of available for sale financial assets		18.6	14.0
Net realised gains from sale of available for sale financial assets	5	(16.9)	(14.0)
Net fair value losses on available for sale financial assets		15.3	0.1
Net fair value losses/(gains) on investment properties	6	0.3	(12.5)
Net fair value gains on own use property	6	(2.5)	(1.0)
Net fair value gains on financial liabilities	6	-	(0.2)
Total non cash items		79.7	(5.2)
Changes in working capital			
Decrease in pension benefit surplus	16	(51.4)	(10.8)
Increase in reinsurance assets	30	(514.8)	(4.0)
Increase in prepayments and accrued income	23	(0.5)	(2.5)
Increase in insurance receivables	25	(83.3)	(23.0)
Decrease/(increase) in other receivables	26	11.8	(24.2)
Increase in insurance contracts liabilities	30	149.8	104.7
Increase/(decrease) in insurance related payables	32	488.4	(3.1)
Decrease in accruals and other payables	33	(23.9)	(7.4)
Total changes in working capital		(23.9)	29.7

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

Company	Notes	2015 £m	2014 £m
Non cash items			
Decrease in prepayments and accrued income		-	0.1
Net realised gains from sale of available for sale financial assets	1.9	(9.7)	(9.7)
Impairment of available for sale financial assets		-	(0.8)
Total non cash items		(9.7)	(10.4)
Changes in working capital			
Increase in other receivables	26	(38.3)	(18.6)
Increase/(decrease) in accruals and other payables	33	14.9	(19.4)
Total changes in working capital		(23.4)	(38.0)

38. RELATED PARTY TRANSACTIONS

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

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

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Purchase of shareholding in fellow subsidiary company	-	5.8	-	25.6
Dividends received from subsidiaries	-	12.6	-	10.8
Interest received on loans to ultimate parent	19.3	-	19.3	18.5
Interest received on loans to subsidiaries	-	-	-	0.2
Dividends paid to the parent	-	-	-	-
Interest paid on loans from subsidiaries	-	(0.7)	-	(17.6)
Reinsurance contracts purchased from other related parties	(475.3)	-	(71.4)	-
Reinsurance claim recoveries from other related parties	269.2	-	16.8	-

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

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

	Group 2015 £m	Company 2015 £m	Group 2014 £m	Company 2014 £m
Due from related parties at December 31,				
Parent	51.0	47.1	46.6	47.1
Subsidiaries	-	37.7	-	19.9
Other related parties	4.9	-	3.3	-
Total	55.9	84.8	49.9	67.0
Due to related parties at December 31,				
Subsidiaries	-	61.8	-	46.8
Other related parties	490.3	-	31.1	-
Total	490.3	61.8	31.1	46.8
Loans from related parties at December 31,				
Subsidiaries	-	20.0	-	20.0
Total	-	20.0	-	20.0
Loans to related parties at December 31,				
Subsidiaries	-	-	-	5.8
Ultimate parent	340.0	-	340.0	-
Total	340.0	-	340.0	5.8

(b) Compensation of key management personnel

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

	2015 £m	2014 £m
Salaries and other short term employee benefits	2.9	3.2
Post employment pension benefits	0.2	0.2
Share based payments	2.3	1.3
Total compensation of key management personnel	5.4	4.7

(c) Investment in subsidiaries

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

Other than letters of support provided to subsidiaries with negative net assets, no guarantees or collateral were provided to subsidiaries. The Company is not liable for any contingent liabilities arising on the side of the subsidiaries and will not settle any liabilities on behalf of them.

GREAT BRITAIN

Head Office

57 Ladymead, Guildford, Surrey GU1 1DB

Divisional Offices

Allianz Commercial

Commercial

57 Ladymead, Guildford, Surrey GU1 1DB

Engineering

Haslemere Road, Liphook, GU30 7UN

Allianz Retail

2530 The Quadrant, Aztec West, Almondsbury, Bristol BS32 4AW

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

Redwood House, Brotherswood Court, Great Park Road, Bradley Stoke, Bristol BS32 4QW

OVERSEAS

India

Allianz Cornhill Information Services Private Limited, Trivandrum

