Allianz Insurance plc

Solvency and Financial Condition Report 2022

Summary

This is the solvency and financial condition report ("SFCR") for Allianz Insurance plc ("AZI", "the Company"). Publication of an SFCR is a mandatory requirement of the Solvency II Directive[1] for all insurance companies domiciled in the EU. Although the UK has left the EU, the Prudential Regulatory Authority ("PRA") has adopted an equivalent approach.

The ultimate parent undertaking is Allianz Societas Europaea ("Allianz SE"). Globally, Allianz SE is a financial services provider with more than 100 million retail and corporate customers in more than 70 countries. In 2022 it had revenue of €152.7bn and made an operating profit of €14.2bn. More information about Allianz SE and its operations around the world can be found on the Allianz SE website[2].

The SFCR is made up of 5 key sections that together give a comprehensive view of the Company's business strategy and performance, its system of governance, its risk profile, its current valuation for Solvency II purposes, and its capital management approach and current capital position.

Section A looks at the business and performance of AZI during 2022. It starts with a section describing the legal structure of the Company and its place in the Allianz Holdings plc Group ("the Group") before covering the two main sources of the Company's profit – the underwriting of insurance and the investment of the capital held in order to pay future claims. AZI reported a profit before tax for the year of £50m (2021: £29m). The Company had a quota share reinsurance arrangement of 40% in 2022 impacting the net results.

Section B looks at the System of Governance. This is the set of rules and processes by which the Company is managed. This section describes the ways in which the Company ensures that its business runs effectively and in compliance with the regulations of Solvency II.

The Company's Board of Directors have overall oversight of the business, while day to day running is conducted by management. The actions of management take place within the confines of the System of Governance. Further details regarding the Board and its committees is provided in section B.1.

The Company operates a "three lines of defence" model to risk management. The Risk Management Framework is embedded in the operations of the Company and is managed by the Chief Risk Officer ("CRO").

The Own Risk and Solvency Assessment ("ORSA") process forms a substantial part of the Company's Risk Management Framework. Produced at least annually, the ORSA report is provided to the Board to inform them of all risks facing the Company and outlines how these are assessed and managed. The ORSA process is overseen by the Board Risk Committee.

Finally, the section reviews how the Company relies on other companies to undertake some activities on its behalf. In Section B.7, the Company has outlined the most material outsourced activities.

Section C reviews the risks which the Company faces. These are:

- Underwriting Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk

[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51 – 56.

[2] www.allianz.com

Summary continued

Each type of risk is covered in turn. The risk itself and the methods for understanding, managing and mitigating that risk are described, and any major concentration of that risk type is identified.

This section confirms that each risk type to which the Company is exposed to is appropriately understood, managed and mitigated.

Section D reviews the balance sheet of the Company. The balance sheet is the main mechanism by which the solvency of the Company, the amount of capital it has available to protect it and its policyholders against a shock, is assessed. This section describes the methods used to value the items on that balance sheet in accordance with the Solvency II Directive and explains any significant valuation differences to the valuation applied in the preparation of the Annual Report and Financial Statements.

In section D.2 Technical Provisions are considered. Technical Provisions represent the current amount required to transfer insurance obligations immediately to another insurance entity. They include the funds the Company has put aside specifically to pay future claims. Section D.2 examines in detail the separate elements that make up the technical provisions and explains the actuarial methods and assumptions used.

Section E refers to the capital available within the Company for the purpose of absorbing shocks. The amount of Own Funds required by Solvency II is defined by the Minimum Capital Requirement ("MCR") and the Solvency Capital Requirement ("SCR"). The MCR is the level of Own Funds below which the Company may no longer legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

As at 31 December 2022 the MCR was £195m and is covered by £779m of eligible Own Funds (tier 1 only). As at 31 December 2022 the SCR was £480m and is covered by £832m of eligible Own Funds (£779m tier 1 and £53m tier 3). The Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is 174%. The Company has fully complied with the SCR throughout the period.

Further information about the quality of the Own Funds and the makeup of the SCR is provided in sections E.1 and E.2.

The Company uses an internal model to determine its capital requirements as opposed to the default standard formula prescribed by Solvency II. The key differences between the two methods are outlined in section E.4.

The SFCR contains a Statement of Directors' Responsibilities and the Independent Auditors' opinion in respect of those parts of the SFCR which are audited.

Finally, the following ("Quantitative Reporting Templates") QRTs have been disclosed as an appendix to the SFCR;

- S.0201.02 Balance Sheet
- S.05.01.02-01 Premiums, claims and expenses by line of business
- S.05.01.02-02 Premiums, claims and expenses by line of business
- S.12.01.02-01 Life and Health SLT Technical Provisions
- S.17.01.02 Non-life Technical Provisions
- S.19.01.21-01 Non-life Insurance Claims Information
- S.19.01.21-02 Non-life Insurance Claims Information
- S.23.01.01-01 Own Funds
- S.23.01.01-02 Own Funds
- S.25.03.21 Solvency Capital Requirement (for undertakings on Full Internal Models)
- S.28.01.01-01 Minimum Capital Requirement (Only life or non-life insurance or reinsurance activity)

A. Business and Performance

This section is unaudited.

A.1 Business

Name and legal form of undertaking

The Company is a UK incorporated and domiciled company limited by shares, under company number 00084638.

Registered office: 57 Ladymead, Guildford, Surrey, England, GU1 1DB

Name and contact details of the supervisory authority responsible for financial supervision.

The PRA and Financial Conduct Authority ("FCA") are responsible for the financial supervision of the Company.

PRA: 20 Moorgate, London, EC2R 6DA

FCA: 12 Endeavour Square, London, E20 1JN

Name and contact details of the external auditor

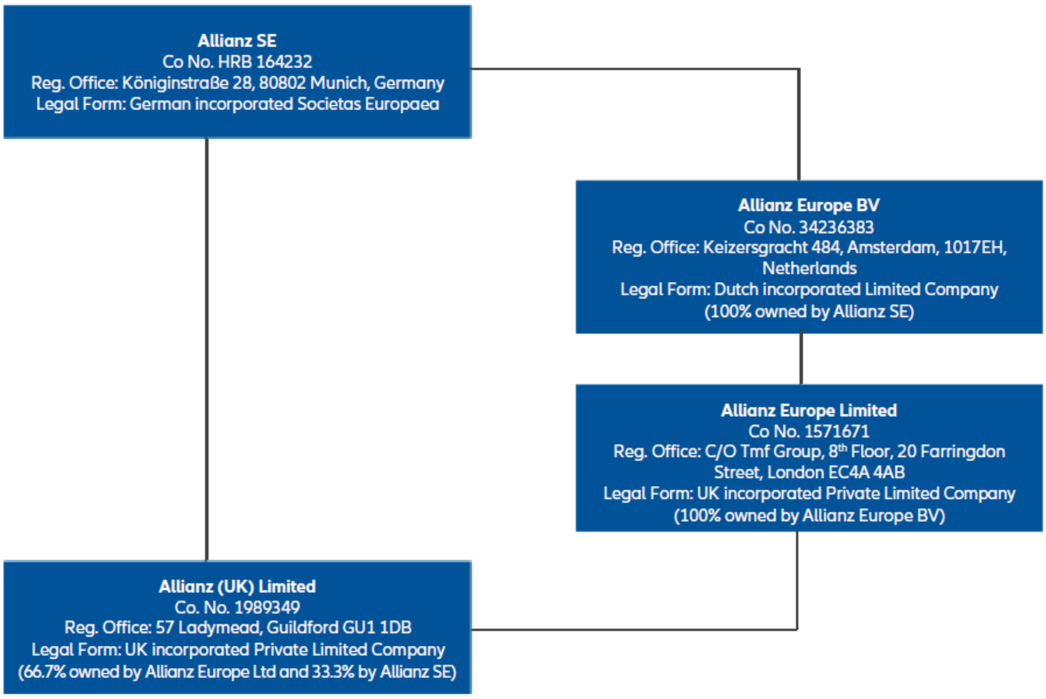
PricewaterhouseCoopers LLP: 7 More London Riverside, London, SE1 2RT

Description of the holders of qualifying holdings in the undertaking

The Company is a wholly owned subsidiary (via intermediate holding companies) of Allianz SE, incorporated in Germany (Registered address; Königinstraße 28, 80802 München, Germany).

A. Business and Performance continued

The structure charts below describe the position of Allianz (UK) Limited ("Allianz UK") within the Allianz SE group, including details of the holders of qualifying holdings in the Company, and also its material related undertakings.

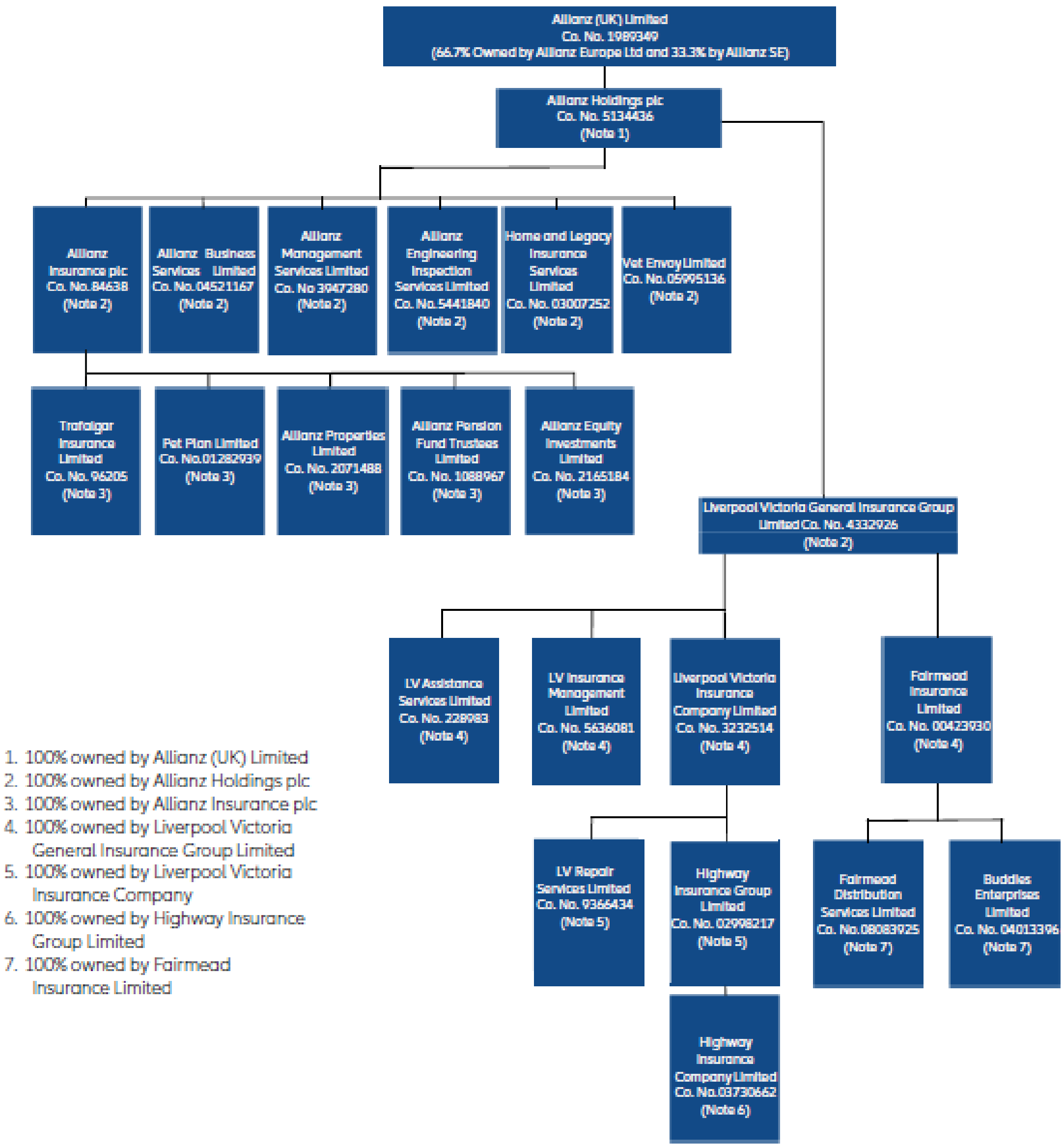


A. Business and Performance continued

Details of the undertakings within the group

All Allianz UK Group companies are UK incorporated. As at 31 December 2022, all Allianz UK companies had their registered offices at 57 Ladymead, Guildford, GU1 1DB.

All Allianz UK companies shown on this page are private limited companies except for Allianz Holdings plc ("AZH") and AZI which are public limited companies.



A. Business and Performance continued

Material lines of business and material geographic areas

AZI underwrites non-life insurance contracts within the UK.

AZI conducts general insurance business through both the broker and direct distribution channels. The primary sources of premium income are from the sale of commercial, pet and legal expenses insurance products. Commercial products include motor, property and liability contracts.

The following Solvency II non-life lines of business are the material lines written on either a standalone or packaged product basis:

- Motor vehicle liability insurance
- Other motor insurance
- Fire and other damage to property insurance
- General liability insurance
- Legal expenses insurance
- Miscellaneous financial loss

As a result of historical activity, there are also provisions in respect of non-proportional marine, aviation and transport reinsurance. As a result of underwriting motor vehicle liability and general liability there are provisions in respect of annuities stemming from non-life insurance obligations other than health insurance obligations. The only material geographical area in which the Company carries out business is the UK.

Significant business or other events occurring during the reporting period that have a material impact on the undertaking.

The UK continues to experience tough economic conditions and there are a number of external factors that impacted the 2022 result. In particular, the heightened inflationary environment is continuing to pose a significant challenge to the market with latest expectations that inflation will remain high until the end of 2023. In addition, there were several large weather events that impacted the underwriting result throughout 2022. Investment income benefitted from increased yields however this was partially offset by impairments and realised losses, some of which relate to the conflict in Ukraine.

There have been no significant changes to the structure or operations of the company throughout 2022.

The SFCR and all tables within it are presented in pounds sterling rounded to the nearest million which is consistent with the presentation in the International Financial Reporting Standards ("IFRS") financial statements. The QRTs are presented in pounds sterling rounded to the nearest thousand. Rounding differences of +/- one unit can occur.

A. Business and Performance continued

A.2 Underwriting performance

The table below summarises the premium volume and underwriting performance in 2022 and 2021, split by Solvency II line of business. The table shows the performance net of reinsurance including the whole account quota share.

	2022			2021		
	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio
Motor vehicle liability	399	230	108%	400	226	93%
Other motor	151	87	118%	143	82	93%
Fire and other damage to property	515	256	95%	469	246	92%
General liability	239	128	105%	219	119	134%
Miscellaneous financial loss	657	376	79%	599	338	84%
Legal Expenses	33	20	89%	30	15	97%
Total	1,994	1,097	95%	1,860	1,026	95%

The combined operating ratio ("COR") has been calculated as (Net claims incurred + Expenses incurred) ÷ Net earned premiums.

The Company has a whole account quota share reinsurance arrangement with an Allianz SE Group reinsurance company with 40% of premiums and claims ceded and the Company receiving a commission contribution of 25.5% of ceded earned premiums. This has the benefit of improving the solvency position by reducing the capital the Company is required to hold. Further, it keeps the profits generated by the Company entirely within the wider Allianz SE Group. Management remains responsible for optimising the results of the business prior to this quota share.

Since the Company's performance is managed prior to the application of the reinsurance quota share arrangement, and to facilitate comparisons with the prior year, the commentary on underwriting performance quotes numbers excluding quota share. The commentary has also been written based on the Company's local lines of business as this is how its performance is managed. As part of Solvency II regulation separate Solvency II lines of business have been defined and where appropriate these are also referenced in brackets.

Market conditions have remained very competitive and economic conditions have continued to pose challenge, in particular the heightened inflationary environment with latest expectations that inflation will remain high until the end of 2023. As a result, significant rate increases have been implemented which has supported premium growth with written premium 7.2% higher than 2021. Commercial lines (Solvency II lines of business; motor vehicle liability, other motor, fire and other damage to property, general liability and legal expenses) premiums increased by 6.4% with strong growth across all lines except Packages. Commercial Property and Engineering experienced strong percentage growth. Personal lines premiums (Solvency II lines of business; miscellaneous financial loss), fire and other damage to property, motor vehicle liability and other motor), increased 8.7% to £664m (2021: £611m) with strong growth in Animal Health (Solvency II line of business; miscellaneous financial loss). This was partially offset by small reductions in discontinued lines of business (Solvency II lines of business; motor vehicle liability, other motor and fire and other damage to property).

Throughout 2022, the Company has maintained good underwriting and pricing discipline and continued its strategy of pursuing long-term profitable growth.

A. Business and Performance continued

The Company's underwriting result decreased slightly in 2022 but the rounded COR remained at 95% (2021: 95%). The heightened inflationary environment posed a significant challenge in 2022, in particular Motor experienced a multitude of challenges in the year including rising repair costs, labour shortages and supply chain challenges. Motor claims frequency also increased, mainly in the first half of the year as drivers returned to the road following the final coronavirus ("COVID-19") lockdown, however this still remained below pre-pandemic levels. Within property lines, the February storms and prolonged cold weather in December drove increased claims.

The Company has maintained strong cost discipline through controlling acquisition costs and operating expenses. Investment in staff, systems, marketing and infrastructure has continued to ensure that the Company is well placed to deliver its profitable growth strategy.

A.3 Investment performance

The table below summarises the investment performance during 2022 of the funds directly invested by the Company and provides a comparison with the prior year.

								2022			2021		
(£m)	Carrying value 31/12/2020	Net additions /(disposals)	Net unrealised gains /(losses)	Carrying value 31/12/2021	Net additions /(disposals)	Net unrealised Gains /(losses)	Carrying value 31/12/2022	Net realised gains /(losses)	Income	Expense	Net realised gains /l(losses)	Income	Expense
Fixed Income	**2,234**	**94**	**(70)**	**2,258**	**118**	**(236)**	**2,140**	**(19)**	**56**	**(4)**	**5**	**42**	**(4)**
Government	442	40	(18)	464	-	(44)	420	(17)	10	(4)	1	6	(4)
Securitised	440	(35)	5	410	(2)	(15)	393	-	10	-	1	5	-
Corporates	1,352	89	(57)	1,384	120	(177)	1,327	(2)	36	-	3	31	-
Deposits	**6**	**-**	**-**	**6**	**1**	**-**	**7**	**-**	**-**	**-**	**-**	**-**	**-**
Collective Investment Undertakings	**120**	**19**	**(3)**	**136**	**(58)**	**(5)**	**73**	**(11)**	**4**	**-**	**-**	**5**	**-**
Loans	**235**	**19**	**(3)**	**251**	**(58)**	**(1)**	**192**	**-**	**4**	**-**	**-**	**1**	**-**
Total	**2,595**	**132**	**(76)**	**2,651**	**3**	**(242)**	**2,412**	**(30)**	**64**	**(4)**	**5**	**48**	**(4)**

The table above shows the investments held directly by the Company. Investment in real estate, small as a proportion of total assets, is held by a subsidiary Company, Allianz Properties Limited ("APL"), which is treated as a participation in this report and so is not shown in the table.

The investment strategy of the Company is to invest in a high quality, well diversified investment portfolio that maximises total investment return, subject to solvency, liquidity, asset liability matching and other constraints. The Company invests insurance assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the business model and nature and duration of its insurance liabilities.

A. Business and Performance continued

Government bonds include an allocation to emerging market issuers. During 2022, the Company impaired a number of emerging market bonds as a result of the Russian invasion of Ukraine. Securitised bonds in the portfolio consist entirely of asset backed securities (mainly AAA and AA-rated UK residential-backed mortgage securities), whilst covered bonds in the portfolio are classified under corporate bonds. Exposure to loans includes a commercial real estate loan and two intercompany loans, to Allianz Management Services Limited ("AMS") and APL. The market value of the loans at 31 December 2022 was £109m and £1m respectively.

The allocation to high quality corporate bonds remained overweight in order to enhance yield. The Company made a small investment in an infrastructure loan (£15m) and made new commitments to a private debt fund (£21m) as well as a commercial real estate debt fund in order to enhance the overall portfolio return and to provide diversification benefit. The Company continues to use the expert investment management services available within the wider Allianz SE Group, particularly in managing the fixed income portfolio.

Investment income in 2022 was £64m compared with £48m in 2021. Investment operating income increased strongly over the year due to rising reinvestment yields and higher income from floating rate assets, while investment non-operating income suffered from realised losses and impairments. Unrealised losses increased over the year due to rising yields and widening spreads. Investment expenses are in line with the previous year.

A.4 Performance of other activities

In 2022, the company incurred £16m (2021: £16m) of other expenses in management charges from a fellow Group undertaking for administrative and claims management services.

Finance costs decreased from £37m in 2021 to £17m in 2022. In 2021, the Company recognised an additional £34m charge to cover the expected total redress in respect of PPI claims. This followed a review to identify additional potential redress which started in December 2021 and continued into 2022. Legal proceedings to recover costs from the agent concluded in January 2023 and resulted in a settlement of £49.5m. This has been accounted for in 2023.

A.5 Any other information

During the year, the Company invested in restructuring and integration activity with related costs reported within other expenses. A restructuring charge of £4m (2021: £7m) was incurred in 2022 relating to organisational design and changes to property footprint. An integration charge of £5m (2021: £7m) was incurred in 2022 relating to costs involved in migration of the Liverpool Victoria General Insurance Group ("LVGIG") Pet portfolio into AZI.

No dividends were received from subsidiaries in 2022.

The solvency ratio as at 31 December 2022 is 174% (2021: 156%).

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

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

A. Business and Performance continued

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

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

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

Management are taking particular care with our people, ensuring that communications are focused on wellbeing and providing additional support to colleagues who are personally impacted by the conflict.

On 9 March 2023 the Board declared an interim dividend of £60m. This was paid to AZH on 21 March 2023.

B. System of Governance

This section is unaudited.

B.1 General information on the system of governance

Boards and Committees

The Company leverages the governance structure of the Group. The Boards of the Company, AZH and other key regulated entities and holding companies within the Group (together the "Boards") have the same Directors. Board meetings for all of these entities are held together, with each company discussing matters relevant to it and the Directors considering matters from the perspective of each relevant Company for each item on the agenda.

On 31 December 2022, the Board of the Company comprised six independent non-executive Directors, including an independent non-executive Chair, one shareholder nominated non-executive Director and four executive Directors.

During the year, the Board was strengthened by the appointment of Teresa Robson-Capps on 13 April 2022 and Jose Vazquez on 1 June 2022 as independent non-executive Directors, whilst Rosanne Murison stepped down from her role as a non-executive Director on 25 September 2022.

The executive Directors include the Group Chief Executive Officer ("CEO") (Colm Holmes), the Allianz Personal ("AzP") and Allianz Commercial ("AzC") CEOs (Stephen Treloar and Simon McGinn respectively) as well as the Group Chief Financial Officer ("CFO") (Fernley Dyson). Colm Holmes and Simon McGinn were appointed during the year on 22 February 2022. The role of the Chair (being the Chair of the Board of AZH as well as the Company and the role of Group CEO) and the Allianz Commercial and Personal CEOs, are separate and clearly defined.

The AZH Board is responsible for deciding the business strategy and for ultimate oversight of the conduct and performance of the Group as a whole. It is also responsible for the external reporting of the Group.

The Board of the Company considers the Group strategy and develops the strategy of the Company, monitors its performance and has oversight of the conduct of the Company. The Board of the Company considers the external reporting of the Company.

The AZH Board has established a number of committees and a system of internal control to ensure the efficient and effective operation of the Group's businesses. The committees include the AZH Executive Committee, the Audit Committee, the Risk Committee, the Customer & Conduct Committee, the Compensation & Nomination Committee and the Finance & Investment Committee. All of these committees (save for the AZH Executive Committee and the Finance & Investment Committee) are chaired by a non-executive Director who provides constructive challenge and oversight across the work carried out by those committees. The Finance & Investment Committee has one non-executive Director member and is chaired by the CEO of AZH. The Committees are responsible for oversight of their subject matter on behalf of the Company and other subsidiaries in the Group. Rolling forward agendas are reviewed at quarterly committee meetings and updated as required, to ensure members have an advanced view of the key matters for consideration throughout the year. The Company's Board is satisfied that the governance structure is appropriate and that the Committees effectively consider matters on behalf of the Company.

The Board regularly reviews its effectiveness and during 2022, the Board undertook a review of Board governance effectiveness (the "Review"), led by the Chair of the Board in conjunction with the Chief Legal Officer and Company Secretary. An independent third party was also engaged to assist with carrying out the effectiveness surveys and collating the findings. The Review covered Board and committee effectiveness in all respects. The methodology used included a Director skills assessment, Director behavioural feedback and the effectiveness survey. The Review concluded that there was an overall improvement in the effectiveness of the Board and its Committees relative to the outcomes from the 2021 review.

B. System of Governance continued

The Directors of the Company as at 31 December 2022 are detailed below, as well as their memberships of the AZH Board Committees. Rosanne Murison was not a Director at the end of 2022 but has been included to illustrate her committee memberships for part of the reporting period.

		AzH Executive Committee	Risk Committee	Audit Committee	Finance & Investment Committee	Compensation & Nomination Committee	Customer & Conduct Committee
Paul Evans	Non-Executive Director - Chair		x	x		x	x
Christian Dinesen	Non-Executive Director		x	Chair		x	
Denise Larnder	Non-Executive Director		Chair	x			x
Rosanne Murison [1]	Non-Executive Director		x	x		Chair	Chair
Teresa Robson-Capps [2]	Non-Executive Director		x	x			Chair[3]
Andrew Torrance	Non-Executive Director		x	x	x	Chair[3]	x
Christopher Townsend	Non-Executive Director						
Jose Vazquez [4]	Non-Executive Director		x	x			x
Fernley Dyson	Chief Financial Officer, AZH	x			x		
Colm Holmes [5]	Chief Executive Officer, AZH	Chair			Chair		x
Simon McGinn [5]	Chief Executive Officer, AzC	x			x		x
Stephen Treloar	Chief Executive Officer, AzP	x			x		x

1 – Resigned from all roles with effect from 25 September 2022

2 – Appointed to all roles with effect from 13 April 2022

3 – Appointed as a Chair with effect from 17 September 2022. Rosanne Murison was Chair before that date

4 – Appointed to all roles with effect from 1 June 2022

5 – Appointed as a Director with effect from 22 February 2022

Potential conflicts of interest between the Company, its policyholders and other companies in the Group are regularly identified and managed. The processes in place to manage those conflicts include documented requirements for governance and appropriate independence. The Company's Board maintains and regularly reviews a register of the interests of the Directors.

The Customer & Conduct Committee is responsible for oversight of material customer and conduct matters both current and emerging, including reviewing matters from a customer impact perspective. The Committee is responsible for highlighting such matters that may require attention by the Company's Board, the Board of AZH or by the Allianz SE Group. Membership of the Committee during the year comprised an independent non-executive Director who acted as Chair, at least three other members who were independent non-executive Directors and one of whom was the Risk Committee Chair. In addition, the executive members of the Committee comprised the CEO of AZH, the CEO of AzP and the CEO of AzC.

B. System of Governance continued

The Risk Committee is responsible for oversight of risks (current and emerging), the links between different risks, the Enterprise Risk Management Framework within which the Company manages those risks, and the activities of the Risk function. The Committee is also responsible for highlighting any risk issues that may require attention by the Company's Board, the Board of AZH or Allianz SE Group. Membership of the Committee comprises an independent non-executive Director who acts as chair and at least three other independent non-executive Directors.

The Audit Committee is responsible for the oversight of policies and procedures relating to internal control and financial/regulatory reporting, to ensure the independence and effectiveness of internal and external audit functions and the integrity of financial and narrative statements for the Company. The Committee is responsible for highlighting such matters that may require attention by the Company's Board, the Board of AZH or by the Allianz SE Group. Membership of the Committee comprises an independent non-executive Director, who acts as chair, and at least two other members who must be independent non-executive Directors.

The Compensation & Nomination Committee is responsible for oversight of all compensation and nomination matters relating to executives and employees of the Company and the Group. The Committee's responsibilities include the designing, governance and operation of the Group's compensation system; identifying local risk takers to controlling their compensation according to applicable regulations; reviewing the size, structure, and composition of the Board; identifying non-executive Director candidates when vacancies arise; reviewing the leadership needs of the organisation; and reviewing gender pay gaps and diversity and inclusion matters. The Committee is responsible for highlighting matters that may require attention by the Company's Board, the AZH Board or Allianz SE Group. Membership of the Committee comprises an independent non-executive Director who acts as Chair and at least two other members who must be independent non-executive Directors.

No senior management appointment is made without the applicant undertaking a comprehensive assessment to determine the level of his or her management skills. The Committee also reviews any Board performance evaluation process and recommendations.

The Finance & Investment Committee has responsibility for oversight and management of the investment portfolios of the Group (including the Company's portfolio) and for overseeing their investment related risks. The Committee also has responsibilities concerning, and reports by exception on, investment risk matters to the Risk Committee. In addition to its investment portfolio responsibilities, the Committee's objectives include overseeing the planning and development of the Group asset allocation and investment income, overseeing the Group capital structure and liquidity position, and approving individual investment transactions with significant impact for companies within the Group. Membership of the Committee comprises the CEO as Chair, the CFO who acts as Deputy Chair, the Group Chief Investment Officer ("CIO") and the Regional CIO of Allianz Investment Management SE, an independent non-executive Director of the Company, the CEO of AzP, the CEO of AzC and the Deputy CFO of the Group.

There is also an Executive Committee of AZH, which is required to meet at least 10 times a year but met at bi-weekly intervals most months during the year. The Committee monitors and oversees the implementation of business performance against strategy, compliance and risk management, discusses developing issues and makes material operational decisions.

The members of the AZH Executive Committee as at 31 December 2022 were:

- CEO, AZH, who will be the chair ("the Chair")
- CFO, AZH
- CEO, AzC
- CEO, AzP
- Chief HR Officer, AZH
- Chief Operations Officer, AZH
- CRO, AZH

The CEOs of AzC and AzP also have a respective Executive Committee, consisting of the senior leadership of each distinct business.

Defined Roles and Responsibilities

The following four key functions required by Solvency II are each headed by the following individuals:

- Risk Function: John Berry – CRO, AZH
- Compliance Function: Alison Rayner - Chief Compliance and Corporate Affairs Officer, AZH (Margo Young – Compliance Director, AZH up to 14 February 2023)
- Actuarial Function: Laurence Townley – Chief Actuarial Officer, AZH (Philip Singh was the Chief Actuarial Officer up to 31 December 2022)
- Internal Audit Function: Matthew Cox – Chief Audit Officer, AZH

Key function authority, operational independence and resources are described in sections B.3 – B.6 of this report. All members of the Company's Board and AZH Executive Committee, the heads of the four key functions and certain other senior managers have been approved by the PRA and/or the FCA.

The Senior Managers and Certification Regime ("SM&CR") sets out the prescribed responsibilities which must be allocated to specific individuals in insurance companies. The following table sets out which role within the Company is responsible for the execution of each specific responsibility.

B. System of Governance continued

Prescribed Responsibility	Allocation
Senior Managers Regime	SMF1 Chief Executive
Certification Regime	SMF1 Chief Executive
Conduct rules training and reporting	SMF1 Chief Executive
Responsibilities map	SMF2 CFO
Anti-financial crime policies and controls	SMF1 Chief Executive
Obligations in Insurance for Fitness and Propriety	SMF9 Chair
Leading development of the firm's culture by the governing body as a whole	SMF9 Chair
Overseeing adoption of the firm's culture in the day-to-day management of the firm	SMF1 Chief Executive
Responsibility for production and integrity of firm's financial information and its regulatory reporting	SMF2 CFO
Management of the allocation and maintenance of the firm's a) capital and b) liquidity	SMF2 CFO
Responsibility for the performance of the firm's ORSA	SMF4 CRO
Induction, training and professional development of all members of the firm's governing body	SMF9 Chair
Induction, training and professional development of all the firm's SMF managers and Key Function Holders	SMF1 Chief Executive
Oversight of the independence, autonomy and effectiveness of Whistleblowing policies and procedures	SMF11 Chair of Audit Committee
Development and implementation of remuneration policies and practices	SMF12 Chair of Remuneration Committee
Obligations in respect of outsourced operational functions and activities	SMF1 Chief Executive
Development and maintenance of the firm's business model by the governing body	SMF1 Chief Executive

B. System of Governance continued

Solvency II legislation requires that the System of Governance be subject to regular internal review. The Group, including the Company, conducts this review annually and it is intended to be a consolidated cross-functional assessment of elements of the System of Governance through all relevant sources for evaluation. Entity level control assessment testing forms part of the review, and is carried out by the Internal Audit department. Adequacy assessment of certain System of Governance elements, as selected by the Allianz SE Group, are also reviewed.

The requirement to conduct the System of Governance review is reflected in the Allianz SE Group Governance and Control Policy, and mirrored in the AZH Governance and Control Policy. The System of Governance review is assessed by the Governance and Control Committee, which is a sub-committee of the AZH Executive Committee, and was assessed for 2022 as being adequate in proportion to the nature, scale and complexity of the risks inherent in the business. The System of Governance review was also reviewed by the Risk Committee and AZH Board, ahead of a Statement of Accountability Attestation being completed by the CEO and CFO and returned to Allianz SE Group.

The Company remuneration framework has been constructed to ensure that it is competitive and provides a balance of both fixed and variable pay but does not encourage excessive risk taking. The framework and the processes within it are reviewed by the Compensation & Nomination Committee. The review also monitors the remuneration framework's consistency with the Company's identified risk appetite.

The Compensation & Nomination Committee is responsible for the sign off of all remuneration decisions affecting the senior executive managers of the Company. This ensures impartiality of decision-making and ensures there are no conflicts of interest in respect of remuneration decisions and is guided by Group principles and requirements.

The remuneration of all employees comprises a combination of basic salary, appropriate benefits and a performance related bonus. In the case of some senior employees the bonus is paid as a combination of cash and long-term equity incentives whose value is related to the price of Allianz SE shares. The performance related bonus is based upon a combination of company performance against targets and personal performance against specific personal objectives. Personal objectives comprise both business and behavioural components which receive equal emphasis. The most senior managers complete a 360-degree feedback process to contribute to their assessment. There is also a standard compliance objective. It is the responsibility of managers to ensure that personal targets in place are objective and understood by the participants.

External non-executive Directors receive fixed remuneration.

In this context "persons who exercise significant influence" are deemed equivalent to "People with Significant Control" as defined by the Companies Act 2006, together with the people with significant control over those people and so on to the ultimate group shareholder.

B.2 Fit and proper

The Company requires that all Directors and other senior managers possess integrity, good repute, specific skills, knowledge and the experience necessary to execute their respective roles. This requirement has been aligned to satisfy the requirements of the PRA and/or FCA within the UK regulatory SM&CR, including all managers identified as Key Function Holders and/or Key Function Performers. The individuals, with the support of their line managers, are responsible for ensuring that their skills, knowledge and experience remain adequate and are kept up to date.

Processes are undertaken to assess the fitness and propriety of individual managers and Directors subject to the SM&CR prior to those persons joining the Company or assuming a relevant position. Thereafter, annually throughout their employment, a detailed attestation is required from the relevant individual. This includes declarations concerning:

- Criminal proceedings or investigations against them or any firm over which they have held influence

B. System of Governance continued

- Civil proceedings and bankruptcy orders or liquidation or similar proceedings against them or any firm over which they have held influence
- Disciplinary proceedings or findings against them
- Regulatory proceedings or findings against them or any firm over which they have held influence
- Compliance with procedures concerning personal account dealings in Allianz SE and other securities and
- Potential or actual conflicts of interest

B.3 Risk management system including Own Risk & Solvency Assessment

Risk Management Framework

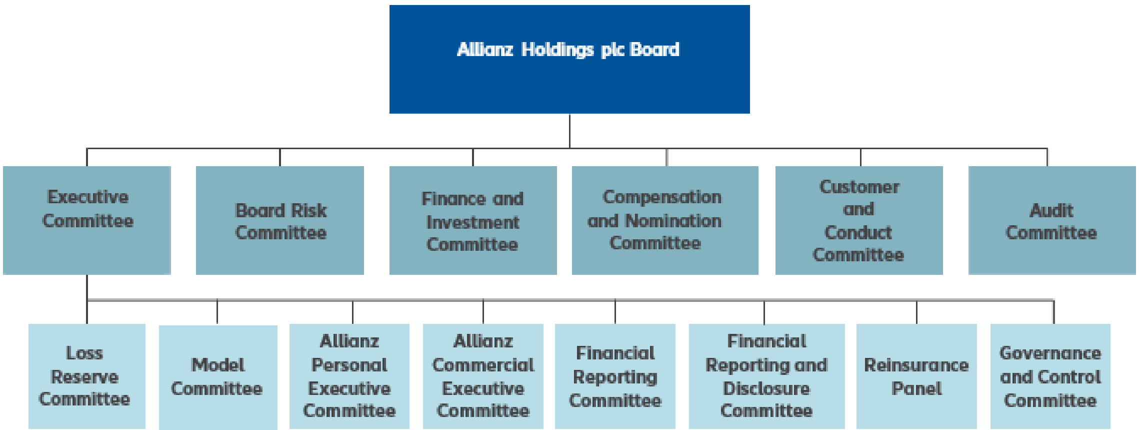
The design and operation of the Risk Management Framework is the responsibility of the CRO. The Risk Management Framework encompasses all levels of the Company's management. The components of the system, described below, are embedded in the operations of the organisation.

The system is built around the Three Lines of Defence model:

- The first-line of defence comprises risk taking units which are responsible for delivering profit or loss
- The second-line comprises independent risk controlling units, including Risk and Compliance, which oversee the framework in which the business works
- The third-line of defence is the Internal Audit function, which reviews the activities of both first and second lines of defence

The Board of Directors and Executive Committee are responsible for setting the firm's strategy and risk appetite, with the support and challenge of the Risk function.

A comprehensive committee structure is in place to ensure that risks are considered at the appropriate level. The diagram on the next page gives further details of the Board Committees.



B. System of Governance continued

The Board identifies and prioritises all the material risks facing its business, supported by the Executive Committee, the Risk Committee and the Risk function. After identifying the risks the Executive Committee ensures arrangements are put in place to control those risks, along with the respective Executive Committees for AzP and AzC. Risk and control policies are documented.

To ensure risk management is fully integrated into the business and effective control is maintained, key risks and controls are owned by members of the Executive Committee and the respective Commercial and Personal Executive Committees. Members of the Executive Committee and their direct reports take first-line accountability for the identification and management of all risks in the organisation.

The main risks are kept under regular review by the Board via reports from the Risk function to the Risk Committee. The Executive Committee is supported in its oversight of risk by a number of sub-committees including the Executive Committees for AzC and AzP.

The role and responsibilities of the CRO, the Executive Committee, and its sub-committees, are laid down in relevant job description or terms of reference.

The CRO is supported by a full-time Risk function consisting of risk and actuarial professionals. It has responsibility for the calculation of risk capital and validation of the risk capital model, the development and monitoring of the implementation of risk policies, the identification and monitoring of risks, including conduct risk, and the management testing of the key controls that mitigate risk.

The Risk function has a reporting line independent of first-line functions, and independence is prescribed by written policy and overseen by the Risk Committee.

In order to ensure comprehensive coverage of the risk landscape, risk analysis is undertaken within a risk taxonomy which is also represented in the design of the internal model (refer to section C).

The local risk taxonomy is split into three broad groups of risk types:

1) Quantified: Market, Credit, Insurance and Operational
2) Unquantified: Reputational, Liquidity and Strategic
3) Cross-risks: Aggregation and accumulation, Conduct, Group and Emerging

Modelled risks are quantified using the internal capital model and recalculated in a full model run each quarter. Risk tolerance limits are used to monitor quantifiable risks regularly. A number of qualitative risk assessment processes covering all risks are undertaken by the first-line of defence, with support, challenge and oversight from the Risk function. The results of these assessments are used to inform key business decisions and planning.

INTERNAL MODEL GOVERNANCE AND VALIDATION

AZI received approval from the PRA as a member of the College of Supervisors of the Allianz SE Group to use the Allianz SE Group internal model to calculate its SCR and following Brexit received separate written notice from the PRA confirming its internal model approval dated 6 January 2021. A full governance framework is in place including defined roles and responsibilities based on requirements laid down by Allianz SE Group.

B. System of Governance continued

The Board is responsible for confirming the ongoing appropriateness of the internal model at least annually, and for approving internally any major model change and associated application for regulatory approval.

The Risk Committee is responsible for making a recommendation to the Board on those subjects, and for monitoring remediation action for identified model weaknesses. It is complemented by the Model Committee, which is an executive sub-committee of the Executive Committee but is also authorised to make recommendations to the Risk Committee in relation to matters within its remit. The Model Committee undertakes detailed reviews of modelling decisions and validations and makes recommendations to the Risk Committee.

All components of the internal model are subject to independent validation, either locally or at Allianz SE Group level. For each component of the model maintained at group level, a suitability assessment is produced by the Risk function on a rolling cycle over 3 to 5 years (timing is dependent on the materiality of the component). The suitability assessment allows the Risk function to review the appropriateness of the component as it pertains to the Company. These validation components are brought together in an Annual Validation Report. All parts of the validation suite are reviewed in depth by the Model Committee on behalf of the Risk Committee. The Risk Committee reviews the recommendations of the Model Committee and applies a top-down, high-level validation of the model and its results.

ORSA PROCESS

The ORSA process forms a substantial part of the Risk Management Framework described above. The ORSA consists of a number of interlinked sub-processes, including but not limited to:

- Top risk assessments;
- Internal Risk and Control System;
- Stress and scenario testing;
- Internal capital modelling; and
- Corporate strategy and planning.

The Board is responsible for setting AZI's business strategy and risk appetite. Business strategy is determined by the Board and its implementation in terms of types of business, business volumes, capital requirements, financial performance and other appropriate measures, is set out in the business plan. The business plan is prepared annually and outlines the goals in support of corporate strategy to be implemented by the Executive Committee and supporting Executive Committees throughout the business.

The risk strategy and appetite are agreed by the Board with reference to the latest versions of the Allianz SE Group Risk Strategy and Risk Appetite. These include specific principles around capital management which give the Board comfort that the Company can rely on its ultimate parent for support. The Company manages risk in line with the stated risk appetite through its Enterprise Risk Management framework. This consists of ORSA processes which identify, evaluate, treat, mitigate and monitor events or a combination of events, so that through an informed decision making process the likelihood and consequences of occurrence are within limits considered acceptable by the Board.

The ORSA covers the overall solvency needs from a forward-looking perspective taking into account the company risk profile, approved risk tolerance limits, the business strategy and the significance with which the company risk profile deviates from the assumptions underlying the internal capital model. The ORSA is an integral part of the development and monitoring of the business strategy and is taken into account on an ongoing basis in strategic decisions. The roles and responsibilities relating to the ORSA include the Board setting the process requirements and challenging and approving the ORSA report.

B. System of Governance continued

The ORSA report is produced annually in alignment with the corporate planning process, and is supported by quarterly updates to the Risk Committee. The ORSA may also be updated following any event that materially changes the risk profile of the organisation.

A full non-regular ORSA process may be required after any event that could substantially alter the overall conclusions of the most recent (regular annual) ORSA report. The following potential trigger events have been identified:

- Large UK-based natural catastrophe events that have a significant impact on the Company risk portfolios
- Major change in business situation e.g. merger, acquisition or divestiture activity which would require the Company to assess the impact on its current and projected solvency
- Significant capital market dislocation that has a material impact on the Company investment portfolios
- Material regulatory intervention
- Significant changes to the risk capital model
- Significant changes to reinsurance arrangements
- Significant changes in regulation or legislation, e.g. material changes to capital requirements and
- Materialisation of a significant non-quantified risk (e.g. strategic, reputational or liquidity risk)

In 2022, a comprehensive analysis of the potential impact of different economic scenarios has been regularly performed. The impact of inflation and global geo-political conflicts has also been considered as part of the regular ORSA process, with the Risk function being involved across the business in evaluating emerging risks.

The ORSA process is underpinned by individual accountabilities and processes undertaken by first-line managers across the organisation. These include but are not limited to defined authority levels for claim handling and underwriting, and limits on investment risk-taking.

The major sub-processes which contribute to the ORSA process are:

- The setting of risk strategy and appetite by the Board, on the advice of the Risk Committee and CRO;
- The development of strategy and a business plan by the Executive Committees within the defined risk appetite;
- The approval of policies and standards in the management of risk by appropriate governance bodies and the monitoring of compliance with those policies and standards by the Risk function;
- A number of Risk evaluation processes, including:
    - The maintenance of a top risk register, including a record of the controls around those risks.
    - The regular analysis of the impact of specific stress scenarios.
    - The operation of the internal model.
    - The maintenance of a register of key operational risks.
- Regular internal reporting on risk exposure and control to governance bodies inside the organisation; and
- Regular external reporting to regulators and to the public, as required by Solvency II and UK regulation.

The Company uses Allianz SE's risk based internal model to determine its solvency needs. This capital model is directly based on the risk profile of the Company (refer to section C) and is used as the primary input for decisions on capital management (refer to section E). The CFO ensures that recommendations to the Board on capital management take account of risk management activities, including internal model calculations. The Company's policy on capital management is documented and approved by the Board.

Dividends are planned through the Company's annual planning mechanisms, taking into account the Board's requirement to hold an appropriate buffer of capital over the SCR and MCR.

B. System of Governance continued

B.4 Internal control system

To ensure an effective internal control system, all functions cooperate to exchange necessary information and advice. Second-line and third-line functions maintain open lines of communication with first-line functions, and regularly attend key committees at all levels.

With specific regard to the integrity of financial reporting, the Risk function oversees the operation of a process of internal control via the Integrated Risk and Control System ("IRCS"). Under IRCS, processes relevant for financial reporting are tested by first-line management and discussed with the Risk function. Internal Audit tests the operating effectiveness of entity level controls. Senior managers across the organisation, culminating in the CFO and the CEO, are held accountable for the effective design and performance of processes within their span of control. The IRCS process, including the reporting of deficiencies and their remediation, is monitored by the Audit Committee.

Compliance Function

Compliance is a key function within the Internal Control System of the Group. The function's primary responsibilities and activities are:

- To support and monitor compliance with applicable law, regulations and administrative provisions to protect the Company against compliance and conduct risks.
- To advise senior management, committees and the Board on compliance with laws, regulations and administrative provisions adopted pursuant to the Solvency II Directive.

The activities and processes of the compliance function are not exclusively performed by the Compliance Department but may be delegated to, or supported by, other departments, business areas, Internal Audit, Risk, and Actuarial, or external resources.

During the period of the report, the Compliance Department comprised a full-time team of compliance professionals led by the Chief Compliance Officer ("CCO"). It is a second-line function reporting into the CRO, but with dotted lines to the Risk Committee and Group CCO for Allianz SE Group; independence of the function is ensured by written policy and by the oversight of the Risk Committee. The Compliance Department produces an annual plan in consultation with the Risk and Internal Audit functions for approval by the AZH Executive Committee and the AZH Risk Committee. Delivery of this plan, findings from monitoring exercises and remediation of those findings are overseen by the AZH Executive Committee and the AZH Risk Committee.

B.5 Internal audit

The Group Internal Audit function exists to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. Internal Audit helps the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. Internal Audit has a Policy and Charter, approved annually by the AZH Audit Committee to document its mission, scope, independence, accountabilities, responsibilities, authorities and standards.

The Chief Audit Officer reports functionally to the Chair of the AZH Audit Committee and administratively (i.e., day-to-day operations) to the AZH CEO. The Chief Audit Officer has unrestricted access to, and communicates and interacts directly with, the AZH Executive Committee and AZH Audit Committee, including in private meetings without management present. The Chief Audit Officer does not have any additional roles or responsibilities outside of internal auditing and all internal audit personnel report directly to the Chief Audit Officer.

B. System of Governance continued

Internal Audit prepares, at least annually, a risk-based internal audit plan to the Audit Committee for review and approval. Senior management and second-line assurance functions are consulted during the preparation of the plan. Over the five year planning cycle, all applicable audit universe components and legal entities are expected to be audited, with exceptions identified to the AZH Audit Committee for ratification.

The plan is reviewed and adjusted, as necessary, in response to changes in the Group's business, risks, operations, programmes, systems, and controls. Plan performance, including the results of audits, completion of open audit findings and any significant interim changes to the internal audit plan, are regularly communicated to senior management and the AZH Audit Committee.

B.6 Actuarial function

Solvency II requires that each company has an Actuarial function to:

- Coordinate the calculation and validation of technical items under IFRS and Solvency II, including technical provisions calculations
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions
- Assess the sufficiency and quality of the data used in the calculation of technical provisions
- Compare best estimates against experience
- Inform the Board of the reliability and adequacy of the calculation of technical provisions
- Express an opinion on the overall underwriting policy
- Express an opinion on the adequacy of reinsurance arrangements
- Contribute to the effective implementation of the risk management framework, in particular with respect to the risk modelling underlying the calculation of the capital requirements
- Prepare an annual report on the actuarial function ("Actuarial Function Report") and
- Report the results of the reserve valuations to the Board and Group via the Audit Committee

The Actuarial function is independent of pricing and underwriting decisions and this independence is supported by an actuarial policy. It recommends the level of Technical Provisions to the Financial Reporting and Disclosure Committee. The work of the Actuarial function, and its independence, is overseen on behalf of the Board by the Audit Committee.

The Actuarial function consists of the Chief Actuary who is supported by a team of actuarial professionals with a depth of experience. The Actuarial function's compliance with the above requirements are documented in an Actuarial Function Report.

B.7 Outsourcing

All outsourcing arrangements are entered into and managed in accordance with the requirements of the Outsourcing Policy ("the Policy"). The Policy is owned by the Head of Procurement and is approved by the AZH Board on an annual basis (approved November 2022). The Policy is aligned to the Allianz SE Group Outsourcing Policy.

The Policy sets out a clear framework for making a decision on when to outsource, the requirements to contract with a service provider and the management of the outsourcing arrangement. Compliance with the Policy is overseen by the local outsourcing function, who, with the procurement team, also provide expert advice on setting up, managing and terminating outsourcing and other contracts. Suppliers are risk-assessed by procurement at the point of initial engagement, and at intervals throughout the lifetime of the contract, drawing advice from safeguarding functions as and where required. Risks considered include (but are not limited to) cyber risk, information security risk, business continuity risk and data privacy risk. Critical or important function suppliers are managed closely ensuring that the appropriate monitoring and oversight is in place for these suppliers.

B. System of Governance continued

All requirements set out in the Policy also apply to Internal Outsourcing. If Internal Outsourcing is followed by an external Sub-Outsourcing, compliance of the Sub-Outsourcing with the requirements set out in the Policy needs to be ascertained and the Outsourcing itself has to be classified as external Outsourcing.

In 2022 the approach to oversight included the following controls;

- All outsourcing arrangements must have a signed contract incorporating standard terms and conditions or necessary risk assessed and negotiated terms
- Financial health monitoring using an industry automated alerting system
- Monitoring of third-party Directors against the HMRC Sanctions list
- Where information is shared with third parties a series of questionnaires (relating to cyber risk, information security and data protection) are sent to each supplier prior to the commencement of their service and subsequently the risks assessed against appetite
- Privacy impact assessment used to inform data protection
- On an annual basis a review is completed on each critical or important supplier. It reviews third parties' internal controls as well as completion of activities relating to relationship management and oversight. This includes, but not limited to, details relating to Policy Compliance, Exit Planning, Business Continuity Planning, Supplier Capability, Performance Reviews, Conduct Risk etc. Summaries of information are provided to safeguarding functions and Business Owners for sign off prior to being submitted to the Executive Committee for review
- Creation of supplier service specific business continuity and exit plans including provisions for management of cyber risk events– agreed and signed off by business owners
- The table below outlines the critical or important functions or activities that at the end of 2022 the Company outsourced, and the jurisdiction in which the service providers are located

Activity outsourced	Fellow member of the Allianz SE Group	Outsourcing Provider's Jurisdiction
Delegated authority to handle specific claims and/or underwriting of specific segments	N	United Kingdom
Handling of run-off claims and provision of specific underwriting expertise	Y N	Germany United Kingdom
Provision of document preparation, printing and distribution	N	United Kingdom
IT services including hosting, development and support of business services	Y Y N N	United Kingdom India Ireland United States of America
Application development and maintenance, customer and business services	Y	India
Information technology infrastructure provision	Y	Germany
Asset and Real Estate Management	Y N	United Kingdom United Kingdom
Pension Advisory services	N	United Kingdom
Management Services, including provision of staff	Y	United Kingdom

The Company does not outsource outside the Group any of the four key functions – Risk, Compliance, Actuarial and Internal Audit – as defined by Solvency II.

B.8 Additional information

The Group continuously monitors the effectiveness and adequacy of its System of Governance, including the effectiveness of specific functions, and believes them to be operating effectively. This assessment takes into account the nature, scale and complexity of the risks inherent in its business.

Throughout 2022, inflation has brought material uncertainty to current and future performance, driven by supply chain issues and materials shortages, rising energy costs, claims inflation costs and increased general expenses. The cost of living continues to be challenging for UK households, with inflation the highest in 41 years. This challenge is likely to extend into the medium term, and the Company will continue to react accordingly to the macro-economic situation.

The Risk function is responsible, among other things, for assessing risks and monitoring risk capital. This also includes the ongoing assessment of risks resulting from global geo-political conflicts and high inflation rates. Financial impacts of potential adverse events on the Company's solvency position have been assessed and closely monitored by a quarterly stress and scenario analysis, reported in the Company's ORSA.

C. Risk Profile

This section is unaudited.

This section provides information on the Company's overall risk profile followed by a description of each risk category in detail.

Measurement of risk

Risk is measured and steered using a number of quantitative and qualitative tools which allows management to identify the key areas of risk exposure and make informed decisions as to whether the current levels of exposure are consistent with risk appetite:

- The main quantitative tool is the approved internal model, under which the Company derives its risk capital from potential adverse developments of Own Funds. The resulting profile provides an overview of how risks are distributed over different risk categories and determines the regulatory capital requirements in accordance with Solvency II.
- The Company also maintains its own Standard Formula view of capital measurement for regulatory purposes.
- An analysis of change is performed on the regulatory capital requirements on a quarterly basis, looking at individual risks as well as the whole SCR.
- Capital and Own Funds are monitored on a regular basis and the results are reported to Senior Management.
- Stress testing and sensitivity analysis for all material risks and events is performed quarterly for the ORSA and business planning exercises. Information on the Company's risk sensitivities, including a description of methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks is provided in section C.7.
- The Company uses a combination of processes, such as expert judgement and incident management, to identify, assess and control qualitative risks. Qualitative risks are regularly monitored by management to ensure that they do not materially impact on the operational activities necessary for the achievement of business plans.

Risk exposures overview

The Company insures only non-life insurance risks though it is also exposed to some life insurance risks because it settles certain claims as Periodic Payment Orders ("PPOs"). These make up a small proportion of the Company's overall claims. As a result of its asset management activities to support its primary business activities, the Company is also exposed to market and credit risks.

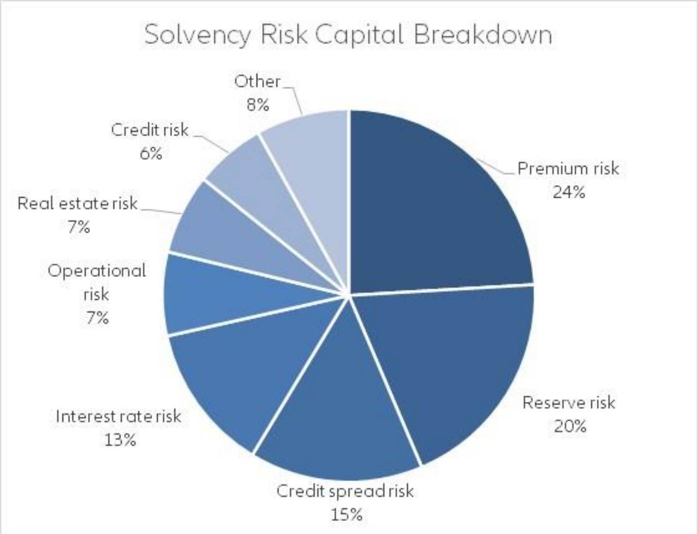
The Allianz Retirement and Death Benefits Fund ("ARDBF") has exposure to life insurance risks as well as further market and credit risks. AMS, a fellow Group subsidiary, is the sponsoring employer of the ARDBF, however the Company allows for the risks associated with the ARDBF as part of its solvency capital requirement assessment because an IAS 19 pension deficit, should it arise, would be deducted from the Company's Own Funds.

The Company does not use Special Purpose Vehicles to transfer risk and is not exposed to risk from positions off its balance sheet, except in relation to securitised investments.

During 2022 no significant changes were made to the internal model that impacted the Company. There were no other material changes in the methods used to assess risks during 2022.

The chart shows the 2022 Year End split of the internal model SCR by risk type, before diversification between the categories. The largest exposure, 24% of the SCR, relates to premium underwriting risk followed by reserve risk with 20%, credit spread risk with 15% and interest rate risk with 13%.

C. Risk Profile continued



Prudent Person Principle

The Company operates within an investment framework which ensures that all assets are invested in accordance with the prudent person principle. All investment and strategic management decisions are set within Board approved risk appetite limits. The Company meets the Prudent Person Principle by employing a professional CIO, who is supported by the global and specialist expertise of Allianz Investment Management. It also invests with reference to a Strategic Asset Allocation ("SAA") which defines its long-term investment strategy for the investment portfolio as a whole. All investment guidelines are approved by the Board or a delegated authority of the Board.

C.1 Underwriting risk

In determining the price of its insurance products and when reporting the financial results relating to these products, the Company makes a number of assumptions related to the future amount and timing of payments. Underwriting risk arises from the actual outcome being different to these assumptions.

Underwriting risk consists of:

- Premium risk and reserve risk for the insurance business
- Business risk

In addition longevity risk is allowed for within overall underwriting risk, though it is due to exposure from the pension fund.

C. Risk Profile continued

The key underwriting risk concentration for the Company is geographical – almost all of its business is written in the UK so it is exposed to UK government decisions, such as the change in the Personal Injury Discount Rate. Nevertheless, its insurance portfolio is geographically dispersed across England, Scotland, Wales and Northern Ireland in order to help reduce concentration and potential impacts from a Natural Catastrophe risk perspective, and it displays significant diversity within its product set, as illustrated by the table in section A.2. The geographical diversity of the Company risk exposure has remained fairly stable over 2022.

Reinsurance purchase is the main tool used for the risk management of its underwriting exposure. A range of reinsurance contracts are entered into, typically annually, across different lines of business to mitigate peak risks including accumulation risks:

- Excess of loss programmes to limit the impact of individual losses.
- Catastrophe reinsurance, which covers total losses stemming from an event across property lines, reduces catastrophe risk.
- A 40% Whole Account Quota Share programme to reduce the total premium risk, reserve risk and catastrophe risk.

The continued effectiveness of these contracts is overseen by a reinsurance panel, which is a sub-committee of the Executive Committee.

The capital held for underwriting risk before diversification within this category or with other risk categories is £513m. The main movements in the underwriting risk capital over 2022 were driven by reductions in longevity and reserve risks discussed in section E.2.

Premium risk

The Company receives premiums from its customers and provides insurance protection in return. Changes in profitability over time are measured based on combined ratios and their fluctuations. The Company faces the risk that underwriting profitability is less than expected because there are more claims than expected, or claims are higher in value than expected on average.

Premium risk is subdivided for the purposes of assessment into natural catastrophe risk, non-catastrophe risk and terror risk. The undiversified risk capital as at 31 December 2022 for each of these was £109m, £130m and £16m respectively. The calculation of premium risk capital is derived from actuarial models that are used to derive loss distributions and from external models for natural catastrophe risk.

The Company actively manages its premium risk. There are clear underwriting limits and restrictions, and other controls, including file reviews, underwriting authorities and training, defined and monitored by the Chief Underwriting Officer and Pricing Director. There is a product development process which defines governance around product development, including review by both the Technical and Risk teams.

The Underwriting Committee provides review and oversight of the underwriting risk and technical underwriting control environment. It acts as the prime interface between the Technical department, the Risk and Compliance department and Risk Committee on underwriting risk matters.

C. Risk Profile continued

Reserve risk

The Company holds reserves for claims resulting from past events that have not yet been settled. If the claims reserves are insufficient to cover claims to be settled in the future due to unexpected changes, losses would be incurred. Claims reserves could be under-estimated if, for example, more claims had occurred in the past than have been estimated or average amounts paid per claim to settle these are higher than expected.

The Company monitors the development of reserves for insurance claims on a line of business level quarterly through a reserving exercise assessing the unpaid claims reserves both gross and net of reinsurance. In addition, it conducts annual reserve uncertainty analyses based on similar methods to those used for premium risk calculations. Allianz SE performs regular independent reviews of these analyses and representatives participate in the local Reserve Committee meetings.

The undiversified reserve risk capital as at 31 December 2022 was £207m.

Life insurance risk

Technical provisions held in respect of PPO claims are classified as annuities stemming from non-life insurance contracts and are subject to longevity risk. The longevity risk from these technical provisions is assessed within the reserve risk module of the internal model and is therefore categorised as reserve risk in the SCR breakdown.

The ARDBF is subject to a number of life risks. The only material risk is longevity, the risk that members live longer than expected and therefore the pension fund liabilities increase. The Company holds risk capital against this risk; the risk diversifies very well against other risks and so is of limited materiality in combination. The undiversified risk capital for longevity risk as at 31 December 2022 was £30m.

Business risk

The business risks for the Company include cost risks associated with expenses incurred in administering policies transpiring to be higher than expected, or that new business volumes decrease to a level that does not allow the Company to absorb its fixed costs. The undiversified risk capital for business risk as at 31 December 2022 was £22m and after allowing for diversification against other risks it is of limited materiality in combination.

C.2 Market risk

Market Risk arises as part of the general investment performance and impact of discounting on liabilities. In addition, the Company is indirectly exposed to movements in financial markets through the investments of the ARDBF, as described previously, any IAS 19 pension deficit would be deducted from the Company's Own Funds.

The Company assesses its market risk exposure via quantitative and qualitative processes carried out by the Investment and Risk functions, including regular dialogue between the functions and formal reporting to the Finance & Investment Committee and the Risk Committee.

The guiding principle for the Company's investment risk management, covering market risk, credit risk and liquidity risk, is the Prudent Person Principle. The Company only invests in assets it can properly identify, measure, monitor, manage, control, report and appropriately integrate in its solvency assessment. The table in section A.3 provides information on the investment portfolio as at 31 December 2022.

C. Risk Profile continued

The SAA is the main mechanism used to mitigate investment risk – it covers both the target value of assets in particular asset classes and the matching of duration between the asset and liability portfolios. Compliance with the SAA is monitored by the Risk function and by the Risk Committee with support from the Finance & Investment Committee. When setting up the SAA, care is taken to ensure an adequate target level of asset quality and security (for example, ratings and collateral) together with a sustainable return, as well as sufficient liquidity.

Concentrations in any one company or industry are limited by investment policies in place.

The risk capital before diversification within this category and with other risk categories allocated to market risks amounts to £403m. The main driver is credit spread risk.

The main movements in the market risk capital over 2022 were driven by the rise in interest rates which had an impact on both assets and liabilities of the Company. More details can be found in section E.2.

Interest rate risk

Movements in interest rates can cause the value of the Company's investments to move adversely relative to its technical provisions which are discounted on the Solvency II balance sheet. Exposure to this risk is mitigated substantially by undertaking asset-liability matching exercises in order to consider the liability duration when setting a target asset duration as part of the SAA. The undiversified risk capital for interest rate risk as at 31 December 2022 was £136m.

Credit spread risk

Credit spread is the difference in yield between two assets of similar maturity but different credit quality.

The Company is directly exposed to credit spread risk through its investments in fixed income assets – such as bonds. Credit spread risk is mitigated by managing the credit quality of the fixed interest portfolio by monitoring the credit ratings and large exposures in the portfolio, in conjunction with stress testing to assess the sensitivity of credit spread risk to movements in spreads.

The ARDBF is exposed to credit spread risk through its investments in fixed income assets such as bonds – moving adversely relative to its liabilities (which are valued under IAS19 using corporate bond yields). The Company allows for this as part of its SCR assessment. The total undiversified credit spread risk as at 31 December 2022 was £160m.

Equity risk

The only equity risk exposure relates to the strategic participations which the Company holds. The undiversified risk capital for equity as at 31 December 2022 was £17m and is therefore small.

C. Risk Profile continued

Inflation risk

The Company is exposed to changing inflation rates due to its non-life insurance obligations. As inflation increases both claims and costs, higher rates of inflation will lead to greater liabilities. The SCR also allows for inflation risk relating to the ARDBF pension obligation. This risk is mitigated by investment in index linked bonds and other inflation-linked assets, although the mitigation is not perfect because of caps and floors in the sensitivity of pension liabilities to inflation indices. The undiversified risk capital for inflation risk as at 31 December 2022 was £14m. This amount reflects exposure to the general market inflation measured by the Retail Price Index ("RPI"). Apart from this, the underwriting risk module implicitly allows for excess claims inflation which is specific for particular lines of business.

Currency risk

Currency risk is not a material risk as almost all the Company's insurance business is written in British Pounds and therefore the investment portfolio is almost all GBP denominated. There are limited historical insurance liabilities in other currencies. It is mitigated by ensuring that where such exposures do exist they are matched by appropriate assets but again as the investment portfolio is predominantly denominated in GBP and so does not lead to any material currency risk. The Company tolerates the currency risk inherent in outsourcing services to fellow Allianz SE Group subsidiaries, which charge in Indian Rupees and Euros.

Real estate risk

Direct and fund real estate investments are held to diversify the portfolio and take advantage of expected long-term returns and increased short-term yields. The key risk from these holdings is a decrease in property values. Real estate risk is mitigated by maintaining a diverse, high quality property portfolio and by taking advice from professional property managers. The undiversified risk capital for real estate risk as at 31 December 2022 was £74m.

Derivatives

The Company uses a derivative to hedge against fluctuations in share price within long-term incentive plans awarded to senior managers. In addition, with regard to the emerging market investment portfolio the Company has currency forward contracts in order to hedge the US Dollar and Euro denominated bonds held in this portfolio.

C.3 Credit risk

The Company's credit risk exposure arises from its investment portfolio and reinsurance counterparties. Credit risk is measured as the potential economic loss in the value of the Company's portfolio due to changes in the credit quality of its counterparts ("migration risk") or the inability or unwillingness of the counterparty to fulfil contractual obligations ("default risk"). Credit risk arising from the investment portfolio accounts for the most significant part of the pre-diversified credit risk.

The only material concentration of credit risk is in respect of fellow Allianz SE Group companies. The Company's current reinsurance programme is placed with Allianz Re Dublin for all risks. In respect of reinsurance, the credit rating of Allianz Re Dublin is such that an impact on the Company would only be felt in the event of a major global shock impacting the ability of reinsurance to respond to a major localised shock, such as a 1:200 natural catastrophe in the UK.

C. Risk Profile continued

The Company is exposed to off-balance-sheet credit risk in respect of the collateral maintained by issuing institutions to back certain securitised investments. This credit risk is managed by means of a careful selection of counterparties and by ensuring over-collateralisation of securitised investments.

The Company monitors and manages credit risk exposures and concentrations monthly to ensure it is able to meet policyholder obligations when they are due and to maintain adequate capital and solvency positions. Limits are set and monitored by counterparty, with limits varying by type of investment and by counterparty credit rating.

This credit risk monitoring includes monitoring of off-balance-sheet exposures to ensure that the risk mitigation techniques which give rise to the exposures remain effective. The Company uses a variety of measures to limit any excess concentrations in credit risk, such as investing in a range of assets governed by investment mandates and asset counterparty limits as well as managing counterparty risk through risk limits on exposure and concentration.

The risk capital before diversification with other risk categories allocated to credit risk amounts to £65m.

C.4 Liquidity Risk

Liquidity risk is the risk that requirements for current or future payment obligations cannot be met. Liquidity risk is not modelled within the internal model because capital is not an appropriate mitigant. Instead, the Company closely monitors liquidity risk on a quarterly basis through scenarios.

The nature of the Company's core business limits its exposure to liquidity risk, to the extent that it has negligible residual risk in normal circumstances.

Premiums are received well in advance of liabilities and most assets are traded in deeply liquid markets so that funds are available from the selling of these without a material discount except in the most extreme situations.

The Company monitors the liquidity position under stressed scenarios, including major claim events and extreme reductions in market liquidity, to ensure that should large amounts of liquidity be required at short notice adequate liquidity would be available. Even in the most extreme modelled situation, the Company liquidity remains that it is able to meet its ongoing liquidity requirements.

There have been no material changes in exposure to liquidity risk over the reporting period and the Company has no major concentrations which affect its liquidity risk. Any large cash transfers are managed closely by the accounting functions in conjunction with the CIO.

C.5 Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, or from external factors other than financial risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The risk capital before diversification with other risk categories allocated to operational risk as at 31 December 2022 amounts to £77m.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

C. Risk Profile continued

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

The main operational risks identified include those related to information security, management stretch and supplier risk management; these are included in the top risk assessment reviewed by the Risk Committee.

The key mitigants around operational risk are the development and maintenance of controls to address the risks, this is documented in a risk catalogue which is reviewed annually to ensure appropriate mitigation is in place for identified risks. First-line governance forums and the Commercial and Personal Risk Committees undertake monitoring of operational risks, including reviewing operational losses and key control failings on a quarterly basis. Operational risks are assessed as per the IRCS and an annual plan is produced with progress against this plan reported to the Commercial and Personal Risk Committees.

Concentration of internal operational risks, insofar as it exists in relation to business continuity, compliance and outsourcing risks, is monitored and managed through second-line and first-line review and oversight. In addition, the Internal Audit department assesses the effectiveness of the internal control system through planned reviews of business activities.

C.6 Other material risks

Strategic risk

Strategic risk is defined as negative effects on capital and earnings due to business policy decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the economic environment. Strategic risks are mitigated by the review of strategies and plans by the Board and Allianz SE. They are evaluated and analysed as an input to the strategy and planning process and as part of the review of corporate plans by the CEO, CFO and CRO.

Reputational risk

Reputational risk is the risk of an unexpected negative change in the Company's value as a result of a decline in the reputation of the Company in the eyes of its customers, regulators or staff. Reputational risks are mitigated by the implementation of policies on external and internal communication, and by active management of the relationships between the Company and its regulators. They are evaluated and analysed in discussions between the Risk function and the corporate communications team.

Conduct risk

Conduct risk is defined as the risk that inappropriate decisions, actions, and/or processes impact the ability to achieve fair customer outcomes. Conduct risk considerations arise for all business activities and risk categories. The Company endeavours to execute its business activities appropriately, seeking to ensure that there is no risk of significant detriment to customers, the Company itself or corporate partners as a result of inappropriate delivery. The Company aims to have a culture of appropriate behaviour throughout the business. Conduct risk is mitigated by internal processes and is reinforced by thorough training and communication programmes. It is evaluated and analysed by the Risk and Compliance functions in conjunction with the first-line.

C. Risk Profile continued

Climate change

Climate change risk refers to climate change resulting in volatile weather patterns. These volatile weather patterns could have a material impact on the Company's claims experience as extreme weather events such as flooding, droughts, storms and heat waves become more frequent and more severe. Both the physical and investment risks arising from climate change continue to be areas of focus for the Company and these are managed through our risk management framework.

C.7 Any Other Information

Risk sensitivity analysis

In order to adequately understand its risk exposures, the Company uses stress testing and sensitivity analysis for all material risks and events. The primary mechanism for this analysis is the internal model, which is itself a stress testing model, assessing the impact on the balance sheet of stresses on specific parameters.

These stresses are used to identify the most material impacts to the Company and then feed into investment decisions and underwriting activities as well as areas of focus for monitoring.

It is also periodically used to perform investigations into specific real-world scenarios of relevance to the Company, across all risk types, and also to undertake regular analyses of one-factor stresses. This analysis covers both the direct impact on the balance sheet and also secondary impacts on solvency. All these analyses are reported to the Risk Committee, and are also used as input into decisions about capital requirements.

As at 31 December 2022 the Company's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) was 174%. The table shows the results of the sensitivity analysis for one-factor stresses, covering both market and non-market risks. The results include the impact on Own Funds, the subsequent impact on the SCR and the resulting combined impact on the Company's Solvency ratio.

The results represent the estimated direct quantitative impact of the stresses and do not consider future management actions that could potentially alleviate the situation. Examples of possible recovery options that the Company's management could decide to action following a stress include changing the investment portfolio to address market or credit risk, requesting capital from Allianz SE, altering the business portfolio and changing reinsurance arrangements.

C. Risk Profile continued

The results are reasonable given the strategy and business of the Company.

	Impact on Own Funds (£m)	Impact on SCR (£m)	Impact on Solvency ratio
Market risk			
Interest Rates: 100bps increase	(9)	(8)	1%
Interest Rates: 100bps decrease	2	8	(2%)
Credit Spreads: 100bps increase relative to swaps	(67)	(1)	(14%)
Credit Spreads: 100bps decrease relative to swaps	73	4	14%
Inflation: 100bps increase	(26)	–	(5%)
Inflation: 100bps decrease	22	–	4%
Equity: 30% decrease in equity markets	(7)	(3)	–
Real estate: 30% decrease in property markets	(45)	1	(10%)
Non-market risk			
Premium risk: 1 in 5 year event	(33)	4	(8%)
Reserve risk: 1 in 5 year event	(39)	5	(10%)
Credit risk: 1 in 5 year event	(20)	–	(4%)

Following the Russian-Ukrainian crisis, high inflation as well as prolonged post-pandemic effects, the economic environment in the UK remained uncertain in 2022. The risk profile of the Company was impacted by 41 year high inflation rates in 2022 as well as by rising interest rates, which affected both assets and liabilities of the Company and led to impacts on underwriting risk and market risk profiles of the Company. In addition to the one-factor stresses presented above, the Company performs a regular assessment of how its solvency position could be affected in a range of adverse real-world economic scenarios, as part of the quarterly risk reporting to the Risk Committee.

D. Valuation for Solvency Purposes

The scope of this section of the report is to represent the excess of assets over liabilities of the Company.

The recognition, measurement and valuation policies for IFRS reporting purposes applied by the Company are summarised in notes 1.4 and 2 within the Allianz Insurance plc Annual Report and Financial Statements. This report summarises any differences to those valuation policies for solvency purposes.

The table below shows the IFRS Statement of Financial Position ("SoFP") of the Company as at 31 December 2022 and the key reclassifications and valuation differences between that and the balance sheet used for Solvency II purposes ("MVBS").

D. Valuation for Solvency Purposes continued

	IFRS SoFP (£m)	Reclassifications (£m)	Valuation Difference (£m)	MVBS (£m)
Deferred acquisition costs	73	–	(73)	–
Intangible assets	32	–	(32)	–
Deferred tax asset	59	–	(6)	53
Property, plant and equipment held for own use	7	–	–	7
Holdings in related undertakings, including participations	232	–	115	347
Government bonds	417	3	–	420
Corporate bonds	1,305	22	–	1,327
Securitised bonds	391	2	–	393
Collective investment undertakings	73	–	–	73
Accrued interest	27	(27)	–	–
Derivatives	1	14	–	15
Deposits other than cash equivalents	7	–	–	7
Loans and mortgages	144	54	(6)	192
Reinsurance recoverables from:				
Non-life and health similar to non-life	1,315	(35)	(224)	1,056
Life and health similar to life, excluding health and index-linked and unit-linked	113	–	(9)	104
Insurance and intermediaries receivables	785	(772)	–	13
Reinsurance receivables	8	–	–	8
Receivables (Trade, not insurance)	122	(59)	–	63
Cash and cash equivalents	57	–	–	57
TOTAL ASSETS	**5,168**	**(798)**	**(235)**	**4,135**
Best Estimate – non-life	2,893	(772)	(364)	1,757
Risk Margin – non-life	–	–	57	57
Best Estimate – life	152	–	(15)	137
Risk Margin – life	–	–	23	23
Provisions other than technical provisions	10	9	–	19
Deposits from reinsurers	974	13	(26)	961
Insurance and intermediaries payables	68	–	(19)	49
Reinsurance payables	44	(44)	–	–
Payables (trade, not insurance)	63	–	–	63
Other liabilities	243	(4)	(2)	237
TOTAL LIABILITIES	**4,447**	**(798)**	**(346)**	**3,303**
Excess of assets over liabilities	**721**	–	**111**	**832**

D.1 Assets

Intangible assets and deferred acquisition costs

For Solvency II valuation purposes, these are valued at £nil.

Participations

Participations are valued using the adjusted equity method, that is, at their IFRS Net Asset Value, adjusted for Solvency II valuation differences.

Receivables

Receivables have been reported in the Solvency II balance sheet at the value included under IFRS accounts. This is deemed market consistent given that the receivables are due within 12 months and therefore the discounting effect of the time value of money is not deemed significant.

In the case of insurance-related receivables, the difference between IFRS and Solvency II balance sheet mainly relates to the recognition of certain premiums that are included in the receivables under IFRS, while they are recognised within technical provisions in the Solvency II balance sheet, because such premiums are not yet due by the balance sheet date.

Loans

Loans have been included in the Solvency II balance sheet at their market value. The Company has three loans; two are with fellow Group Companies (with AMS and APL) and one is an infrastructure loan.

The AMS intercompany loan is repayable in equal annual instalments of £16m over 10 years, up to 30 September 2029. The loan carries interest at the Bank of England base rate plus 0.25% and is guaranteed by Allianz SE. The loan is valued in the Solvency II balance sheet using a discounted cash flow model and the fair value at 31 December 2022 is £109m.

The APL intercompany loan is a facility (up to £47m) and is repayable by 31 December 2026. The loan carries interest at the Bank of England base rate plus 0.50%. The loan is valued in the Solvency II balance sheet using a discounted cash flow model and the market value of the loan at 31 December 2022 is £1m.

The infrastructure loan is valued in the Solvency II balance sheet using a discounted cash flow model. The cost is £30m and the market value is £28m.

Investments

Where there are quoted prices in active markets for identical assets, these assets are classified as "Level 1". Investments classified as Level 1 are reported in the Solvency II balance sheet at the value included in the IFRS accounts except for the reclassification of accrued interest.

D. Valuation for Solvency Purposes continued

Where there are inputs other than quoted prices that are observable either directly or indirectly these assets are classified as "Level 2". According to Article 10 of the Delegated Regulation 2015/35, Level 2 investments are valued using quoted market prices in active markets for similar assets with adjustments to reflect factors specific to the asset, including the condition or location of the asset, the extent to which inputs relate to items that are comparable to the asset and the volume or level of activity in the markets within which the inputs are observed. The value used for the preparation of the IFRS accounts is considered a fair approximation of the market value according to Solvency II rules, therefore no adjustment has been made to the value included in the IFRS accounts except for the reclassification of accrued interest.

Where inputs that are not based on observable market data are used, these assets are classified as "Level 3". Investments classified as Level 3 are valued using an income approach for both IFRS and Solvency II balance sheets and are covered in section D.4 Alternative Valuation Methods.

The split of investment classifications is provided in the table below.

	Level 1 (£m)	Level 2 (£m)	Level 3 (£m)	Total (£m)
Government bonds	182	238	–	420
Corporate bonds	–	1,303	24	1,327
Securitised bonds	–	393	–	393
Collective investment undertakings	–	–	73	73
Total	182	1,934	97	2,213

For the following classes of asset there is no material difference in valuation between the Solvency II balance sheet and the IFRS accounts: Property and equipment held for own use, and cash and cash equivalents. Full details on the valuation methodologies used are disclosed in the Company Annual Report and Financial Statements.

For all material classes of assets there have been no changes to the recognition or valuation basis in the year.

Assumptions and judgements that affect the reported amounts of assets are disclosed in the Company Annual Report and Financial Statements.

Deferred tax asset

Deferred taxes, except deferred tax assets arising from the carry forward of unused tax losses, are valued on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive, and the values ascribed to assets and liabilities as recognised and valued for tax purposes. The valuation difference relating to deferred taxes mainly results from differences in technical provisions and insurance receivables for Solvency II.

Temporary differences between the Solvency II value of the assets and liabilities and their corresponding tax base as defined in International Accounting Standard ("IAS") 12 are assessed, and any deferred tax asset or liability is adjusted or set up as required. The methods used to value deferred tax assets and/or liabilities under IAS 12 are disclosed in the Company's Annual Report and Financial Statements.

D. Valuation for Solvency Purposes continued

The tax rates used in the calculation are the applicable UK tax rates. For losses this is a rate based on the applicable rate at the time the deferred tax items are expected to reverse. Deferred tax on all other items is calculated at the rate that was in force on the reporting date.

The UK Government announced its intention in the budget of 3 March 2021 to legislate to increase the rate of corporation tax from 19.0% to 25.0% with effect from 1 April 2023. This legislation was substantively enacted on 24 May 2021.

The Solvency II to IFRS valuation differences, their applicable tax rate and the deferred tax impact are outlined below.

	Valuation differences before deferred tax (£m)	Tax rate applied	Deferred tax impact (£m)	Net differences between IFRS and SII (£m)
Deferred acquisition costs	(73)	25%	19	(55)
Intangible assets	(32)	0%	–	(32)
Holdings in related undertakings, including participations	116	0%	–	116
Loans and mortgages	(6)	25%	2	(4)
Reinsurance recoverables from non-life and health similar to non-life	(224)	25%	57	(168)
Reinsurance recoverables from life and health similar to life, excluding health and index-linked and unit-linked	(9)	25%	2	(7)
Technical provisions– Best Estimate – non-life	364	25%	(90)	273
Technical provisions– Risk Margin – non-life	(57)	25%	14	(43)
Technical provisions– Best Estimate – life	15	25%	(4)	11
Technical provisions– Risk Margin – life	(24)	25%	6	(18)
Deposit from reinsurers	26	25%	(7)	19
Insurance and intermediaries receivables	19	25%	(5)	14
Other Liabilities	2	25%	–	2

D. Valuation for Solvency Purposes continued

D.2 Technical Provisions

The table below shows the technical provisions both gross and net of reinsurance by Solvency II line of business.

SII line of business	Gross (£m)				Net (£m)			
	Claims Provision	Premium Provision	Risk Margin [1]	SII Technical Provision	Claims Provision	Premium Provision	Risk Margin [1]	SII Technical Provision
Motor vehicle liability insurance	649	67	9	725	359	16	9	384
Other motor insurance	31	29	1	61	18	6	1	25
Fire and other damage to property insurance	372	18	7	397	143	(12)	7	138
Miscellaneous financial loss	64	(59)	1	6	39	(166)	1	(126)
Legal expenses insurance	12	(12)	2	2	11	(30)	2	(17)
General liability insurance	521	22	35	578	307	(1)	35	341
Non-proportional marine, aviation and transport reinsurance	43	–	1	44	10	–	1	11
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	137	–	24	161	34	–	24	58
Total	1,829	65	80	1,974	921	(187)	80	814

[1] Unaudited

The COVID-19 business interruption losses follow the property damage losses and have been included within the Solvency II line of business "7. Fire and other damage to property insurance".

Technical provisions are calculated in respect of all insurance obligations to policyholders.

The value of the technical provisions corresponds to the current amount required to transfer insurance obligations immediately to another insurance entity.

The technical provisions consist of the claims provision, premium provision and risk margin, and these elements are calculated separately. Each element is calculated by line of business, both gross of reinsurance and for associated reinsurance recoveries. For each line of business, the approach taken is the same, and the methods and assumptions used for each line of business are based on the actual exposure and experience of that line of business.

Methods and main assumptions

The calculation of the technical provisions is based on up-to-date and credible information and realistic assumptions and is performed using actuarial and statistical methods relevant to the line of business.

Claims provision

The claims provision is based on the IFRS claims provision, with the addition of an allowance for future claims handling and investment management expenses. A payment pattern derived from historical data for each line of business is applied to each element of the claims provision to obtain future cash flows, which are discounted to reflect the time value of money in line with Solvency II requirements. A final adjustment is made as described below in respect of future premiums.

D. Valuation for Solvency Purposes continued

Premium provision

To calculate the premium provision, the IFRS Unearned Premium Reserve ("UPR"), adjusted to allow for future premium development arising from mid-term adjustments or cancellations and premiums relating to business written but not incepted, is used as an exposure measure.

Future loss ratio assumptions, derived separately for each line of business, are applied to the adjusted UPR to obtain an estimate of future claims. Allowances are also made for future expenses, profit commission and levies. A payment pattern is applied to each element of the premium provision to obtain future cash flows, which are discounted in line with Solvency II requirements.

Under IFRS, future premiums are held as receivables on the SoFP. Under Solvency II, all future cash flows arising from insurance contracts, including future premiums, must be included within the technical provisions. Accordingly, the portion of IFRS receivables that is not overdue is transferred to the technical provisions under Solvency II.

The receivables are adjusted for future premium development and future premiums relating to business written but not incepted consistent with the UPR adjustment described above, and are discounted. Future premiums relating to business that has already been earned are included within the claims provision, whereas the unearned and written but not incepted parts are assigned to the premium provision.

Negative premium provisions may arise when future premium is greater than future claims and expenses. Future claims and expenses are based on adjusted UPR. On a gross basis, the following lines have a negative premium provision:

- Miscellaneous financial loss, which is predominately Animal Health business, has high future premiums due to regular premium payments. This exceeds the expected claims and expenses estimated.
- Legal expenses insurance has high future premiums due to the fact that all the future premium for our legal protection (After The Event) business is assumed to be unearned. This is because premiums are paid on claim settlement and depend on the outcome of the claim.

On a net basis, there is an impact from the Whole Account Quota Share, which reduces net claims but with no corresponding premium, as no premium is paid on this contract. Therefore, the net premium provision is lower than the gross premium provision and in some classes this causes the net premium provision to be negative. This is purely presentational from an Own Funds perspective, as there is an equal and opposite adjustment outside of the technical provisions on the Market Value Balance Sheet.

Risk Margin

The risk margin is calculated by determining the cost of providing an amount of eligible Own Funds equal to the SCR necessary to support the insurance obligations over their lifetime. The risk margin is unaudited.

Our approach to estimating future SCRs is based on the current SCR as a proportion of best estimate provisions, adjusted to reflect the increased levels of risk inherent in the claims reserves over time. It uses ratios to assess premium risk and reserve risk capital throughout the run-off period, and grossing up factors to scale up for other risks.

This approach is based on the following assumptions:

- The current ratios of reserve risk capital to net reserves by line of business will increase over time due to loss of diversification.
- The run-off profile of non-insurance risks follows that of the insurance risks (for example, operational risk will not reduce faster or slower than reserve risk).
- The risk margin is held to cover run-off of an ongoing entity, which benefits from its existing diversification between reserve risk and premium risk.

D. Valuation for Solvency Purposes continued

The cost of capital rate used in the calculation of the risk margin is set by the regulator at 6%.

Uncertainty

The Solvency II basis has inherent uncertainty around the discount benefit arising from future movements in the yield curve and payment patterns. Other than discounting, the assumptions that have the greatest effect on the movement of provisions are those that affect the expected level of claims. Uncertainty around the level of claims can come from a number of sources, including, but not limited to:

- Claim reporting patterns being different from those expected
- Claims settlement amounts being different in aggregate to that expected; for example, as a result of different levels of inflation
- The impact of a future change in Ogden discount rate
- Reinsurance recoveries being different to the levels expected
- Claims handling costs being different from those expected and
- The emergence of currently unknown latent diseases at a different level from that expected

The calculation of the technical provisions requires a number of assumptions in addition to those supporting the IFRS calculations. Key additional assumptions include:

- Future loss ratio assumptions drive the allowance for future claims within the best estimate premium provision
- Future expense assumptions are required for claims management expenses, future policy administrative expenses and future investment management expenses as well as future reinsurance costs (net of future recoveries) and levies and
- Future cash flow assumptions are used for the discounting calculation

Sensitivity analysis has been conducted to understand how the technical provisions react to changes in the key assumptions documented above. The results are shown below:

Sensitivity	Change in net technical provisions (£m)	% change in net technical provisions
Increase future loss ratios by 2%	12.9	1.6%
Decrease future loss ratios by 2%	(12.8)	(1.6)%
Increase risk yield by 1%	(42.0)	(5.2)%
Decrease risk yield by 1%	56.3	6.9%
Delay payment time by 1 year	(48.7)	(6.0)%
Advance payment time by 1 year	22.4	2.7%

Note that the sensitivities increasing and decreasing the risk-free yield include the impact on settled PPOs and PPOs incurred but not enough reported ("IBNER") and incurred but not reported ("IBNR").

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

D. Valuation for Solvency Purposes continued

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

Events Not In Data ("ENIDs")

ENIDs are derived by using a scenario approach, with estimated probabilities and severities for each scenario used to calculate an explicit load for latent and unexpected claims or claim deteriorations. The ENIDs are allocated to line of business and are derived on both a Claims Provisions (i.e. earned) and Premium Provisions (i.e. unearned) basis.

Differences in valuation methodologies

The Solvency II Best Estimate Liabilities ("BEL") is based upon the IFRS Best Estimate ("BE"). However, elements of the BE which are required under IFRS are not required under Solvency II and vice versa. Broadly, these can be summarised as follows:

- Past Deferred Acquisition Costs ("DAC") are not included in the cashflow projections. However, the future DAC expenses in the unincepted business are included
- An explicit claims margin is inadmissible under Solvency II. However, this is replaced by an allowance for ENIDs that is calculated using standard actuarial techniques
- Under IFRS where liabilities are discounted (only PPOs) the Company can make an appropriate assumption as to expected asset returns whereas under Solvency II all liabilities (PPOs and non-PPOs) must be discounted using the yield curve specific to the UK and
- The UPR (net of DAC and Premium receivables) under IFRS is inadmissible under Solvency II. However, this is replaced by the premium provision

Matching and volatility adjustments

No matching adjustment or volatility adjustment is applied to the risk free yield curve used to discount the technical provisions.

Reinsurance recoverables

Reinsurance recoverables are calculated separately for the claims provision and premium provision. The following cash flows are taken into account:

Cash inflows:

- Recoverables from reinsurance contracts for claims payments and related expenses.

Cash outflows:

- Future premiums for reinsurance contracts; and
- Counterparty default adjustment.

For the main lines of business the Company purchases excess of loss contracts with sufficiently high retentions for only relatively few large claims to be recoverable. Any difference in timing between expected claims settlement and related reinsurance recoveries is reflected in the timing of the reinsurance cash flows.

For the claims provision, reinsurance recoveries for outstanding claims are calculated on a case by case basis. Incurred but not reported provisions for outstanding claims are estimated at both gross and net levels separately.

D. Valuation for Solvency Purposes continued

For the premium provision, future claims within the premium provision are calculated both gross and net of reinsurance and the reinsurance recoverable is calculated as the difference between them. Future net claims are based on a loss ratio method consistent with the gross claims projection. The net UPR is adjusted to ensure that contract boundaries are consistent between the gross liabilities and the reinsurance recoveries on those liabilities. This involves removing any reinsurance exposure related to future new business and including additional reinsurance exposure for current business covered by the reinsurance treaties incepting on 1 January 2023. This is based on an assumed management action to renew the reinsurance programme at the next renewal date under terms and conditions similar to those which currently apply. Correspondingly, a share of the future reinsurance premiums for these contracts relating to current business is also allowed for within the technical provisions.

Reinsurance future premiums are included within the technical provisions based on the payment terms of the individual reinsurance contracts. In respect of the Whole Account Quota Share contract with a fellow Allianz SE group subsidiary, the assumed management action continues to be that this cover remains in place throughout the run-off of the liabilities. Allowance is made for the expected future cash flows arising from this arrangement.

A counterparty default adjustment is held to reflect the expected amount of losses due to default of reinsurance counterparties. This consists of the bad debt provision held under IFRS in respect of run-off Marine business, as well as a further default adjustment in respect of PPO reinsurance recoveries, given the long-term relationship involved with the reinsurers for these exposures.

IFRS to Solvency II Technical Provisions

The table shows a breakdown of the differences between IFRS technical provisions (net of reinsurance and DAC) and Solvency II technical provisions by Solvency II line of business.

The first column shows the IFRS technical provisions net of reinsurance and deferred acquisition costs. The final column shows the Solvency II net technical provisions including the risk margin.

The most significant adjustment is in respect of future premiums and exposures, which mainly reflects the inclusion of future premiums within the technical provisions, rather than being held as debtors on the IFRS SoFP. This is most material for the miscellaneous financial loss line which contains a significant amount of regular premium from animal health. In the case of the miscellaneous financial loss and legal expenses insurance, this adjustment causes overall technical provisions to be negative.

Sundry adjustments include adjustments in respect of expenses and counterparty defaults, which are not material individually.

The Solvency II risk margin is a material component of the technical provisions that is not required under IFRS. The risk margin for the annuities line is most significant as a proportion of overall provisions, due to the long duration of the PPOs contained within this line and high capital charges that PPOs attract under Solvency II. The risk margin is unaudited.

D. Valuation for Solvency Purposes continued

SII line of business	IFRS provisions (£m)	Adjustment in respect of future premiums and exposures (£m)	Sundry adjustments (£m)	Discounting adjustment (£m)	Risk margin (£m)	SII technical provisions (£m)
Motor vehicle liability insurance	484	(80)	4	(33)	9	384
Other motor insurance	60	(34)	-	(2)	1	25
Fire and other damage to property insurance	262	(124)	1	(8)	7	138
Miscellaneous financial loss	251	(377)	1	(2)	1	(126)
Legal expenses insurance	46	(70)	-	5	2	(17)
General liability insurance	394	(53)	4	(39)	35	341
Non-proportional marine, aviation and transport reinsurance	13	1	(2)	(2)	1	11
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	34	–	8	(8)	24	58
Total	1,544	(737)	16	(89)	80	814

Material changes in the relevant assumptions made in the calculation of the technical provisions

	Gross (£m)			Net (£m)		
	2022	2021	Change	2022	2021	Change
Best estimate	1,894	2,070	(176)	735	797	(62)
Risk Margin	80	166	(86)	80	166	(86)
SII Technical Provisions	1,974	2,236	(262)	815	963	(148)

The table above shows the change in the technical provisions from 2021 to 2022, both gross and net of reinsurance.

Overall, the net technical provisions have decreased by £148m over the year.

The decrease in best estimate is driven by a £62m decrease in the claims provision. This is primarily driven by a significant rise in yields over the year, with the Bank of England Base Rate rising from 0.25% to 3.5%, increasing the discount benefit. There were also various other changes which offset each other: a decrease in premium provisions due to the change in discount benefit, an increase in claim provisions from IFRS technical provisions increasing due to inflationary pressures and settlement delays and an increase in premium provisions due to increasing future loss ratios, reflecting the uncertain inflationary environment.

The risk margin has decreased by £86m in the year, driven by the rise in yields and the implementation of a PPO model change. The change to the model is to no longer apply the PPO risk charge factor to the potential PPO case estimates, but only to the settled PPOs, potential PPO IBNER and potential PPO IBNR. This is consistent with how the PPO risk charge is parameterised within the capital model.

Assumptions are subject to a regular review cycle with the period between reviews chosen to reflect the materiality of the assumption.

Simplifications

The calculation of the technical provisions is carried out using materially appropriate, complete and correct data and using valuation methods which are appropriate to the nature and complexity of the insurance technical risks. The limitations of the calculation methodology are identified and understood. Selection of the appropriate method is based on expert judgement, considering the quality, quantity and reliability of the available data and analysis of all important characteristics of the business. The assumptions and parameters used in each method are clear and explicitly identified. The key drivers and uncertainties associated with the best estimate are explored and described.

For some elements of the technical provisions, simplified methods are applied that are appropriate to the nature and complexity of the risks. These are outlined below.

For the premium provision, the reinsurance recoverables are estimated as the difference between the best estimate provisions gross and net of reinsurance. This is defined as a simplified method under Solvency II and is appropriate because the exposure assumptions underlying the gross and net estimates of future claims use consistent contract boundaries.

The risk margin is estimated using an adjusted proportional proxy method to project future SCRs. It uses ratios to assess premium risk and reserve risk capital throughout the run-off period allowing for the changing nature of the liabilities through the run-off period and grossing up to allow for other risks, adjusted to reflect the changing levels of riskiness of the claims reserves over time. This method is defined by Solvency II regulation as a simplification.

D.3 Other liabilities

Differences between IFRS and Solvency II balance sheet relating to the valuations of deposits from reinsurers and other liabilities arise from the reclassification of interest on funds withheld under the quota share contract from other liabilities and reinsurance recoverables from non-life and health similar to non-life to deposits from reinsurers. Reinsurance payables are also reclassified to technical provisions. Provisions other than technical provisions have been reclassified to other liabilities, derivatives and receivables.

For all other classes of liability there is no difference between the IFRS valuation and the Solvency II balance sheet valuation. Full details on valuation methodologies can be found in the Allianz Insurance plc Annual Report and Financial Statements.

D.4 Alternative methods for valuation

The Company holds an infrastructure bond along with managed fund investments which are classified as Level 3. The infrastructure bond is valued using an income approach for Solvency II purposes and involves discounting future cash flows (coupon and principal payments). The valuation of the various fund investments is conducted by independent third party valuation service providers on a quarterly basis. Full details on the valuation methodology can be found in the Allianz Insurance plc Annual Report and Financial Statements.

D.5 Any other information

There is no other material information on the valuation of assets or liabilities.

E. Capital Management

E.1 Own funds

One of the core objectives of the Company's strategy is to maintain financial strength. Capital is a resource that supports the risk bearing capacity of the Company, forming a foundation for the Company's long-term viability and the trust of its customers.

The Company maintains a formal capital management policy, and capital management planning is embedded within the main planning process, with a time horizon of three years.

The Company applies an integrated risk capital framework, taking into account appetite and capital allocation across the Company. Capital management protects the Company's Own Funds in line with the Risk Strategy and Appetite. Both risk considerations and Own Funds needs are integrated into management processes through the attribution of risk and allocation of Own Funds to the various lines of business.

A core element of the approach to capital management is the approval by the Board of any dividends or requests for additional capital. This approval is subject to maintaining an adequate local buffer over the SCR.

The current liquidity plan and solvency projections reflect all planned changes in Own Funds for the next three years.

There were no material changes over the reporting period with regard to objectives, policies and processes employed by the Company for managing its Own Funds.

The table shows the breakdown of the Own Funds by tier, and the SCR coverage. The SCR is unaudited.

E. Capital Management continued

The table shows the breakdown of the Own Funds by tier, and the SCR coverage. The SCR is unaudited.

	2022 (£m)	2021 (£m)	Movement (£m)
Ordinary shares	173	173	–
Share premium	5	5	–
Reconciliation reserve	601	651	(49)
Total tier 1	779	829	(49)
Net deferred tax assets	53	48	5
Total tier 3	53	48	5
Total eligible own funds to meet the SCR	832	877	(45)
SCR	480	562	(82)
SCR coverage ratio*	174%	156%	17%
Total eligible own funds to meet the MCR	779	829	(50)
MCR	195	189	6
MCR coverage ratio	400%	439%	(39%)

*There is no allowance for a foreseeable dividend.

Only tier 1 and tier 2 Own Funds are eligible to meet the MCR so tier 3 Own Funds have been excluded from the MCR coverage ratio. No Own Fund items for the Company are subject to transitional measures for their inclusion in tier 1. The Company does not have any tier 2 Own Funds. There are no restrictions on the eligibility of available Own Funds to support the SCR and MCR, and no matching adjustment portfolio exists. The Company has no subordinated debt, or ancillary Own Fund items. No Own Fund items were issued or redeemed during the year. The reconciliation reserve is made up of retained earnings and reconciliation adjustments from IFRS to Solvency II balance sheet only.

The sensitivity of the Own Funds to both market and non-market risks is provided in the table in section C.7. The significant changes in Own Funds over the reporting period are provided in the table below. The changes in tier 1 capital over the reporting period are all within the reconciliation reserve.

E. Capital Management continued

	£m
Profit after tax earned by the company in the year	41
Net unrealised losses after tax on the investment portfolio	(185)
Movement in technical provisions	148
Dividend payment	(50)
Other valuation differences	1
Total movement over year	**(45)**

As at 31 December 2022 there is no difference between the excess of assets over liabilities and Own Funds.

Reconciliation between IFRS and Solvency II excess of assets over liabilities

The Solvency II excess of assets over liabilities amounts to £832m, whereas the IFRS excess of assets over liabilities amounts to £721m. The difference of £111m is largely attributable to the drivers previously analysed in section D and summarised in the table below. The risk margin is unaudited.

	£m
IFRS excess of assets over liabilities	**721**
Intangible assets (IFRS balance sheet items that are not recognised in the Solvency II balance sheet)	(32)
Differences in the valuation of loans and mortgages	(6)
Risk margin (a Solvency II balance sheet item that is not recognised in IFRS)	(80)
Differences in recognition and valuation of technical provisions and reinsurance recoverable (including associated receivable/payable and DAC)	109
Inclusion of participations at Solvency II value	115
Deferred taxes on the above mentioned balance sheet valuation differences	(6)
Other adjustments	11
Solvency II excess of assets over liabilities	**832**

E.2 SCR and MCR

This sub-section is unaudited with regard to information on the SCR.

The SCR at 31 December 2022 amounts to £480m, and the MCR amounts to £195m.

The Company has received approval to use an internal model to determine its SCR. The calculation of the MCR follows the methodology described in the Solvency II regulation. It uses the SCR as an input parameter for determining the possible range for the MCR, as well as the standard set of inputs required by the formula-based calculation.

A split of the SCR by the different risk categories modelled in the internal model is shown in the following table. The comparative figures for 2021 and the movement over the reporting period are also shown.

Category of risk	Capital (£m)		
	2022	2021	Movement
Underwriting risk	**513**	**577**	**(64)**
Premium risk	255	259	(4)
Longevity risk	30	65	(35)
Reserve risk	207	236	(29)
Business risk	21	17	4
Market risk	**403**	**424**	**(21)**
Equity risk	17	17	–
Interest rate risk	136	92	44
Credit spread risk	160	195	(35)
Inflation risk	14	10	4
Currency risk	2	2	–
Real estate risk	74	108	(34)
Credit risk	**65**	**79**	**(14)**
Operational risk	**77**	**75**	**2**
Sum of standalone risks	**1,058**	**1,155**	**(97)**
Diversification benefit	(578)	(593)	15
SCR	**480**	**562**	**(82)**

The total diversified SCR for the Company decreased by £82m over the year from £562m to £480m. The movement is predominantly driven by higher interest rates, in particular:

- £35m reduction in credit spread risk due to the rise in yield curve and credit spreads, reducing the market value exposure across the asset portfolio.
- £29m reduction in reserve risk due to increased discounting benefit following the rise in yields, as well as a reduction in the PPO reserves.
- £35m reduction in longevity risk due to lower value of the pension fund obligations following the increase in the yield curve.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

This sub-section is unaudited.

Because the Company uses an internal model rather than the standard formula, simplifications, undertaking-specific parameters and the duration-based equity risk sub-module are not applicable.

E.4 Differences between Standard Formula and any Internal Model used

This sub-section is unaudited.

The scope of the internal model is the whole of the business of the Company. It also covers the risks inherent in the ARDBF which is sponsored by AMS, a fellow subsidiary of the Group.

The risk categories covered by the internal model are presented and explained in section C.

The table below outlines at a high level the key material differences between the methodologies underlying the internal model applied to the Company and the Standard Formula, including identification (highlighted in bold) of risks modelled within the internal model but not within the Standard Formula.

E. Capital Management continued

Risk Module	Methodologies used by Allianz Insurance plc Internal Model
Underwriting Risk for Non-life	Differences in calibration, based on specific local experience, and split between attritional, large and catastrophic claims. Explicit allowance modelled for variability of rate strength. Catastrophe risk modelled using an externally supplied model. Risk mitigating effect of reinsurance replicated closely. Lapse risk and underperformance of new business risk modelled explicitly. Risks aggregated using a copula and Monte Carlo simulation.
Equity risk	Differences in calibration, based on specific local experience.
Interest rate risk	Model includes consideration of changes to the yield curve other than simply parallel shifts.
Property risk	Differences in calibration, based on specific local experience.
Spread risk	Differences in calibration, based on specific local experience. Sovereign bonds are assumed to be subject to spread risk. Spread risk applies to both assets and spread-sensitive liabilities.
Concentration risk	No separate concentration risk module; concentration risk covered by the credit risk module.
Credit risk/counterparty default risk	Differences in calibration, based on specific experience. Credit risk is calculated for current market value of exposure of entire fixed interest, cash and reinsurance assets plus an allowance for possible future exposure in an insurance stress scenario.
Pension fund risk	Longevity risk is modelled, based on specific local experience.
Intangible asset risk	Intangible asset risk is not covered by the internal model.
Operational Risk	Capital based on specific scenarios, modelled using a frequency and severity approach, and aggregated using Monte Carlo simulation.
Aggregation	Aggregation uses a Gaussian copula applied using Monte Carlo simulation.

E. Capital Management continued

Use of the internal model

The internal model is widely integrated into the Company's Enterprise Risk Management Framework and is the primary method used to understand the material and quantifiable risks inherent in the Company's business. To that end it is used for a number of purposes, in particular for comparison of different risk categories and segments. It is a fundamental element for risk based and forward looking steering. Uses of the model are documented internally and include:

- Setting the risk strategy
- Setting risk tolerance limits
- Risk and capital reporting
- Calculating capital requirements
- Capital management, including the affordability of dividends and requirements for capital injections
- Setting the business strategy
- Setting the reinsurance strategy
- Strategic asset allocation
- Merger and acquisition transactions
- Stress and scenario testing and
- Planning

Methodological approach to the internal model

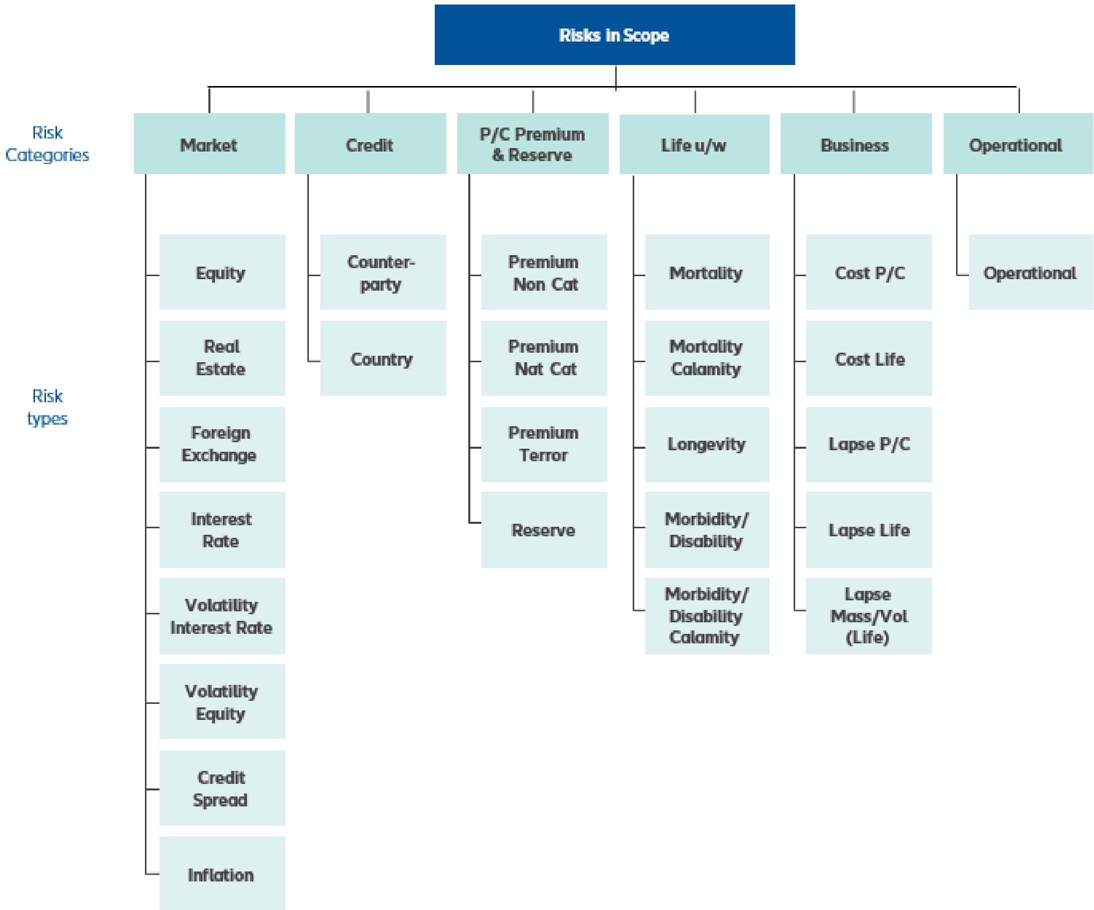
The internal risk internal model is based on a Value-at-Risk approach using a Monte Carlo simulation model. The starting point of the risk calculation is the Solvency II balance sheet and the allocation of each item to the relevant risk categories. Risk capital for each category is defined as the change in economic value over the projected time period based on the underlying distribution assumptions for each risk factor. Where possible, the distributions are calibrated to market data or the Company's internal historical data. Where appropriate, expert judgement is used to support historical data analysis within the confines of a defined and documented governance process.

Following this approach, the maximum loss in the portfolio value is determined within a specified timeframe ("holding period") and probability of occurrence ("confidence level"). The risk capital is computed as the 99.5th percentile Value at Risk from the profit and loss distribution for a one year holding period, where in each scenario the change in economic value is derived from the joint realisation of all risk factors. Accordingly the SCR is calculated using exactly the risk measure and time period specified in article 101(3) of the Solvency II Directive (Directive 2009/138/EC).

The internal model contains different risk categories, which can themselves be further subdivided into different risk types. For each level the internal model delivers risk capital figures on a standalone basis, that is before diversification with other risk types or categories, but also on an aggregated level taking diversification into account.

The risk categories available in the Allianz SE Group internal model, as applied by the Company, and the aggregation structure of the model, are outlined below.

E. Capital Management continued



The Company's pension fund risk is modelled as a life insurance risk, and is captured partly under the market risk and credit risk categories and longevity risk in the life underwriting category.

The following modules are not used by the Company because there is no material exposure to the risks modelled therein:

Module	Reason
Mortality, Mortality Calamity	Death benefits are not material within the pension fund
Morbidity/Disability, Morbidity/Disability Calamity	Disability benefits are not material within the pension fund
Cost Life, Lapse Life, Lapse mass/Vol (Life)	Modules not applicable because the pension fund book is closed to new entrants and there is no material risk associated with withdrawal

E. Capital Management continued

For the aggregation of risks, the internal model uses a copula to derive an overall distribution of risk for the whole of the Company, from which the 99.5th percentile is taken as the SCR. The dependency structure between risks is parameterised using a copula with a matrix of correlations. Where possible, correlation parameters are derived for each pair of market risks through statistical analysis of historical market data, considering observations over several years. Where historical market data or other portfolio-specific observations are insufficient or not available, correlations are set according to a well-defined process using expert judgement.

Model changes

The Company has a defined and approved policy for making changes to its internal model. This policy includes internal validation and governance processes to ensure that proposed changes are appropriate for the Company's business.

During 2022 minor changes were made to the internal model in order to address validation findings. There were no other material changes in the methods used to assess risks during 2022.

Nature and appropriateness of data

Various sources of data are used as input for the internal model and for the calibration of parameters. A control framework is in place to ensure that the data is accurate, complete and appropriate.

Where possible, the input data is identical to data used for other purposes, for example the calculation of the insurance liabilities for the purposes of IFRS reporting or the valuation of the IFRS balance sheet.

E.5 Non-compliance with the MCR and the SCR

The Company has complied continuously with the MCR and the SCR.

E.6 Any other material information

In view of the Solvency II solvency ratio of 174% as at 31 December 2022 and the stress tests performed, the Company does not expect any breach of its SCR and anticipates that it will remain suitably capitalised going forward.

Statement of Directors' Responsibilities

Financial period ended 31 December 2022

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b) it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

The SFCR was approved by the Board of Directors on 4 April 2023 and signed on its behalf by:

F K Dyson

Director

Allianz Insurance plc

Registered Number: 00084638

Report of the external independent auditors to the Directors of Allianz Insurance plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2022:

- The 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2022, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01 and S.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- Information contained within the relevant elements of the Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;

- The 'Summary', 'Business and Performance', 'System of Governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02, S.19.01.21 and S.25.03.21

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2022 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

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

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

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for Solvency Purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA

Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use a full internal model and the approval of subsequent major changes thereto.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

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

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

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as UK and European regulatory principles. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of technical provisions. Audit procedures performed included:

- Discussions with the Board of Directors, management, internal audit, senior management involved in the Risk and Compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud report and the results of management's investigation of such matters
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Engaging our PwC actuaries to examine the methodologies and assumptions used by management in valuing the technical provisions;
- Reviewing relevant meeting minutes including those of the Board Risk Committee and Audit Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The engagement partner on the audit resulting in this independent auditors' report is Matthew Nichols

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

London

SE1 2RT

5 April 2023

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions - non-life (excluding health) - risk margin
  - Row R0590: Technical provisions - health (similar to non-life) - risk margin
  - Row R0640: Technical provisions - health (similar to life) - risk margin
  - Row R0680: Technical provisions - life (excluding health and index-linked and unit-linked) - risk margin
  - Row R0720: Technical provisions - Index-linked and unit-linked - risk margin

- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM - Risk margin

- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM - Risk margin

- The following elements of template S.23.01.01
  -
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

- The following elements of Company template S.28.01.01
  - Row R0310: SCR

- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

Balance sheet

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	53,070
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	7,300
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2,581,644
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	347,357
Equities	R0100	0
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	2,140,029
Government Bonds	R0140	419,896
Corporate Bonds	R0150	1,326,810
Structured notes	R0160	
Collateralised securities	R0170	393,323
Collective Investments Undertakings	R0180	72,869
Derivatives	R0190	14,591
Deposits other than cash equivalents	R0200	6,798
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	192,242
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	192,242
Reinsurance recoverables from:	R0270	1,159,953
Non-life and health similar to non-life	R0280	1,056,152
Non-life excluding health	R0290	1,056,152
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	103,801
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	103,801
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	12,990
Reinsurance receivables	R0370	8,052
Receivables (trade, not insurance)	R0380	62,979
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	57,057
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	4,135,287
Liabilities		
Technical provisions - non-life	R0510	1,813,352
Technical provisions - non-life (excluding health)	R0520	1,813,352
TP calculated as a whole	R0530	
Best Estimate	R0540	1,756,596
Risk margin	R0550	56,755
Technical provisions - health (similar to non-life)	R0560	0
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	161,036
Technical provisions - health (similar to life)	R0610	0
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	161,036
TP calculated as a whole	R0660	
Best Estimate	R0670	137,362
Risk margin	R0680	23,674
Technical provisions - index-linked and unit-linked	R0690	0
TP calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	19,107
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	960,641
Deferred tax liabilities	R0780	
Derivatives	R0790	1,257
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	49,033
Reinsurance payables	R0830	
Payables (trade, not insurance)	R0840	62,940
Subordinated liabilities	R0850	0
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	235,518
Total liabilities	R0900	3,302,885
Excess of assets over liabilities	R1000	832,402

S.05.01.02 - 01

Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110				398,840	151,456		514,686	239,209		33,026		657,437					1,994,653
Gross - Proportional reinsurance accepted	R0120																	
Gross - Non-proportional reinsurance accepted	R0130																	
Reinsurers' share	R0140				171,886	65,308		245,264	109,020		13,913		263,059					868,450
Net	R0200				226,953	86,148		269,422	130,189		19,113		394,378					1,126,203
Premiums earned																		
Gross - Direct Business	R0210				403,148	153,107		492,162	235,315		44,717		627,747					1,956,195
Gross - Proportional reinsurance accepted	R0220																	
Gross - Non-proportional reinsurance accepted	R0230															223		223
Reinsurers' share	R0240				173,600	65,965		236,236	107,674		24,399		251,275			140		859,290
Net	R0300				229,548	87,142		255,925	127,640		20,318		376,472			83		1,097,129
Claims incurred																		
Gross - Direct Business	R0310				304,500	125,395		187,776	133,954		32,843		444,002					1,228,470
Gross - Proportional reinsurance accepted	R0320																	
Gross - Non-proportional reinsurance accepted	R0330															-8,763		-8,763
Reinsurers' share	R0340				129,437	50,158		77,432	55,477		18,949		177,623			-8,653		500,424
Net	R0400				175,062	75,237		110,344	78,478		13,895		266,379			-111		719,283
Changes in other technical provisions																		
Gross - Direct Business	R0410																	
Gross - Proportional reinsurance accepted	R0420																	
Gross - Non- proportional reinsurance accepted	R0430																	
Reinsurers'share	R0440																	
Net	R0500																	
Expenses incurred	R0550				73,635	27,800		134,128	55,882		4,185		31,460			1,236		328,327
Other expenses	R1200																	
Total expenses	R1300																	328,327

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Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									
Reinsurers' share	R1420									
Net	R1500									
Premiums earned										
Gross	R1510									
Reinsurers' share	R1520									
Net	R1600									
Claims incurred										
Gross	R1610						4,897			4,897
Reinsurers' share	R1620						3,088			3,088
Net	R1700						1,808			1,808
Changes in other technical provisions										
Gross	R1710									
Reinsurers' share	R1720									
Net	R1800									
Expenses incurred	R1900									
Other expenses	R2500									
Total expenses	R2600									

S.12.01.02 - 01

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010																
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030								137,362		137,362						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								103,801		103,801						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090								33,560		33,560						
Risk Margin	R0100								23,674		23,674						
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110																
Best estimate	R0120																
Risk margin	R0130																
Technical provisions - total	R0200								161,036		161,036						

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	0
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060	0	0	0	68,172	28,731	0	17,805	21,862	0	-12,375	0	-59,198	0	0	241	0	65,238
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140				51,216	22,464		29,698	24,011		17,603		106,672			226		251,890
Net Best Estimate of Premium Provisions	R0150	0	0	0	16,956	6,267	0	-11,893	-2,149	0	-29,977	0	-165,871	0	0	15	0	-186,652
Claims provisions																		
Gross	R0160	0	0	0	648,863	31,352	0	371,510	521,212	0	11,663	0	63,504	0	0	43,254	0	1,691,358
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240				289,620	13,328		228,301	214,667		418		25,001			32,926		804,261
Net Best Estimate of Claims Provisions	R0250	0	0	0	359,243	18,024	0	143,209	306,545	0	11,245	0	38,503	0	0	10,327	0	887,097
Total Best estimate - gross	R0260	0	0	0	717,035	60,083	0	389,315	543,074	0	-712	0	4,306	0	0	43,495	0	1,756,596
Total Best estimate - net	R0270	0	0	0	376,199	24,291	0	131,316	304,396	0	-18,732	0	-127,368	0	0	10,343	0	700,445
Risk margin	R0280	0	0	0	9,089	816	0	7,333	35,213	0	1,890	0	1,369	0	0	1,045	0	56,755
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290																	0
Best estimate	R0300																	0
Risk margin	R0310																	0
Technical provisions - total																		
Technical provisions - total	R0320	0	0	0	726,124	60,899	0	396,648	578,287	0	1,178	0	5,675	0	0	44,540	0	1,813,352
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330	0	0	0	340,836	35,792	0	257,999	238,678	0	18,021	0	131,673	0	0	33,152	0	1,056,151
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340	0	0	0	385,288	25,107	0	138,649	339,609	0	-16,842	0	-125,999	0	0	11,388	0	757,200

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Non-life Insurance Claims Information

Accident year / Underwriting year	Z0020	1

Gross Claims Paid (non-cumulative)

		Year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											8,168
N-9	R0160	647,992	223,559	53,529	49,371	39,562	14,697	4,480	7,546	639	4,455	
N-8	R0170	763,633	224,783	67,257	43,349	34,689	28,561	16,562	18,883	3,661		
N-7	R0180	832,923	303,024	76,697	43,550	43,888	27,930	12,747	10,991			
N-6	R0190	844,552	237,168	56,321	59,909	84,797	31,583	27,574				
N-5	R0200	786,078	246,512	71,878	60,270	48,923	35,632					
N-4	R0210	783,729	259,197	66,554	53,086	47,964						
N-3	R0220	740,964	252,497	77,625	51,269							
N-2	R0230	648,451	284,094	91,011								
N-1	R0240	597,322	217,094									
N	R0250	663,896										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	8,168	8,168
	R0160	4,455	1,045,829
	R0170	3,661	1,201,379
	R0180	10,991	1,351,749
	R0190	27,574	1,341,904
	R0200	35,632	1,249,294
	R0210	47,964	1,210,530
	R0220	51,269	1,122,355
	R0230	91,011	1,023,556
	R0240	217,094	814,416
	R0250	663,896	663,896
Total	R0260	1,161,715	15,611,239

Gross undiscounted Best Estimate Claims Provisions

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											160,825
N-9	R0160	479,825	239,001	132,454	72,843	45,101	23,064	19,180	21,513	16,918	9,275	
N-8	R0170	546,183	261,830	176,968	151,510	98,911	56,644	69,241	44,137	44,273		
N-7	R0180	599,047	239,470	148,324	88,635	47,470	47,597	43,237	33,104			
N-6	R0190	493,480	279,858	185,164	145,245	86,728	61,615	32,626				
N-5	R0200	514,602	253,846	160,966	132,699	105,326	58,047					
N-4	R0210	511,302	246,963	199,835	164,280	112,485						
N-3	R0220	518,553	279,319	213,542	183,856							
N-2	R0230	802,122	482,912	355,307								
N-1	R0240	508,768	326,273									
N	R0250	569,955										

		Year end (discounted data)
		C0360
	R0100	142,955
	R0160	8,432
	R0170	32,940
	R0180	21,230
	R0190	23,310
	R0200	49,333
	R0210	98,686
	R0220	161,137
	R0230	327,574
	R0240	292,579
	R0250	528,825
Total	R0260	1,687,001

S.19.01.21 - 02 **Underwriting**

Non-life Insurance Claims Information

Accident year / Underwriting year	Z0020	2

Gross Claims Paid (non-cumulative)

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											
N-9	R0160											
N-8	R0170											
N-7	R0180											
N-6	R0190											
N-5	R0200											
N-4	R0210											
N-3	R0220											
N-2	R0230											
N-1	R0240											
N	R0250											

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100		
	R0160		
	R0170		
	R0180		
	R0190		
	R0200		
	R0210		
	R0220		
	R0230		
	R0240		
	R0250		
Total	R0260		

Gross undiscounted Best Estimate Claims Provisions

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											
N-9	R0160											
N-8	R0170											
N-7	R0180											
N-6	R0190											
N-5	R0200											
N-4	R0210											
N-3	R0220											
N-2	R0230											
N-1	R0240											
N	R0250											

		Year end (discounted data)
		C0360
	R0100	
	R0160	
	R0170	
	R0180	
	R0190	
	R0200	
	R0210	
	R0220	
	R0230	
	R0240	
	R0250	
Total	R0260	

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Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	172,759	172,759		0	
Share premium account related to ordinary share capital	R0030	5,244	5,244		0	
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040	0				
Subordinated mutual member accounts	R0050	0				
Surplus funds	R0070	0				
Preference shares	R0090	0				
Share premium account related to preference shares	R0110	0				
Reconciliation reserve	R0130	601,328	601,328			
Subordinated liabilities	R0140	0				
An amount equal to the value of net deferred tax assets	R0160	53,070				53,070
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	0				
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230	0				
Total basic own funds after deductions	R0290	832,402	779,331	0	0	53,070
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300	0				
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310	0				
Unpaid and uncalled preference shares callable on demand	R0320	0				
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330	0				
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340	0				
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350	0				
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360	0				
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370	0				
Other ancillary own funds	R0390	0				
Total ancillary own funds	R0400	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	832,402	779,331	0	0	53,070
Total available own funds to meet the MCR	R0510	779,331	779,331	0	0	
Total eligible own funds to meet the SCR	R0540	832,402	779,331			53,070
Total eligible own funds to meet the MCR	R0550	779,331	779,331			
SCR	R0580	479,711				
MCR	R0600	194,555				
Ratio of Eligible own funds to SCR	R0620	1.74				
Ratio of Eligible own funds to MCR	R0640	4.01				

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Own funds

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	832,402
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	0
Other basic own fund items	R0730	231,073
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	601,328
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	120,792
Total Expected profits included in future premiums (EPIFP)	R0790	120,792

S.25.03.21

Solvency Capital Requirement (for undertakings on Full Internal Models)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10370I	Interest rate vola risk	0
10390I	Interest rate risk	135,816
10399I	Diversification within interest rate risk	0
10410I	Equity risk	17,474
10420I	Equity vola risk	0
10499I	Diversification within equity risk	0
10600I	Real estate risk	73,844
10700I	Credit spread risk	159,525
10900I	FX risk	1,806
11010I	Inflation risk (insurance business)	66,406
11010P	Inflation risk (pension scheme)	13,467
19900I	Diversification within market risk	-273,754
20100I	Type 1 counterparty default risk	25,917
20200I	Type 2 counterparty default risk	2,292
20310I	Other counterparty default risk - investment credit risk	36,948
20390I	Other counterparty default risk - other	0
29900I	Diversification within counterparty default risk	0
30200P	Longevity risk	29,737
50150I	Premium non-cat risk	130,100
50210I	Reserve risk	206,636
50310I	Non-life catastrophe risk: natural (aka Premium nat-cat risk)	108,885
50330I	Non-life catastrophe risk: man-made (aka Premium Terror risk)	15,752
50399I	Diversification within non-life catastrophe risk	0
50400I	Lapse risk	13,520
50590I	Cost risk	8,655
50599I	Diversification within business risks	-2,617
59900I	Diversification within non-life underwriting risk	-150,214
70100I	Operational risk	76,864
80300I	Loss absorbing capicity of deferred taxes	0
80491I	Internal Model Capital add-on: Multi-usage of buffers	0
80492I	Internal Model Capital add-on: Replications	0
80493I	Internal Model Capital add-on: Ring fenced funds	0
80494I	Internal Model Capital add-on: Others	0
80495I	Regulatory Add-ons	0
80496I	Residuals	0

		C0100
Total undiversified components	R0110	697,059
Diversification	R0060	-217,347
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	0
Solvency capital requirement excluding capital add-on	R0200	479,711
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	479,711
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

		C0109
Approach based on average tax rate	R0590	2

		C0130
Amount/estimate of LAC DT	R0640	0
Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	R0650	
Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	R0660	
Amount/estimate of LAC DT justified by carry back, current year	R0670	
Amount/estimate of LAC DT justified by carry back, future years	R0680	
Amount/estimate of Maximum LAC DT	R0690	

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Minimum Capital Requirement (Only life or only non-life insurance or reinsurance activity)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	193,851

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	0	0
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	376,199	226,953
Other motor insurance and proportional reinsurance	R0060	24,291	86,148
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	131,316	269,422
General liability insurance and proportional reinsurance	R0090	304,396	130,189
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	19,113
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	394,378
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	10,343	0
Non-proportional property reinsurance	R0170	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	705

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	33,560	
Total capital at risk for all life (re)insurance obligations	R0250		0

Overall MCR calculation

		C0070
Linear MCR	R0300	194,555
SCR	R0310	479,711
MCR cap	R0320	215,870
MCR floor	R0330	119,928
Combined MCR	R0340	194,555
Absolute floor of the MCR	R0350	3,445
Minimum Capital Requirement	R0400	194,555