Registered Number: 84638

Directors' Report and Accounts 2007

Allianz Insurance plc

(formerly Allianz Cornhill Insurance plc)

ALLIANZ INSURANCE PLC (formerly Allianz Cornhill Insurance plc)

Directors' Report

Directors:	C B Booth (Chairman) B Bovermann Baron Von Bechtolsheim D Kingston G R Stratford D A Torrance
Secretary:	C J Kiddle Morris
Registered Office:	57 Ladymead Guildford Surrey GU1 1DB
Registered No:	84638

The Directors present their report and the audited financial statements for the year ended December 31, 2007.

RESULTS AND DIVIDEND

The results for the year are set out in the Income Statement on page 6.

The Directors are not recommending the payment of a final ordinary dividend (2006: £nil). An interim ordinary dividend of £82.25m (2006: £135.15m) was paid on October 8, 2007.

Preferential dividends of £3.875m were paid to the holders of the 5% Non Cumulative Preference Shares on April 30, 2007 and October 31, 2007 respectively.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Allianz Insurance plc is a wholly owned subsidiary of Allianz Holdings plc its principal activity continues to be the transaction of all classes of general insurance business, principally in Great Britain. The Company is an FSA regulated insurer.

A review of the Company's trading activities and prospects is included in the Chief Executive's and the Business and Financial Reviews on pages 4 to 16 of the Allianz Holdings plc Annual Report and should be read in conjunction with this Report.

As part of a rebranding initiative the Company changed its name from Allianz Cornhill Insurance plc to Allianz Insurance plc on April 27, 2007

FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS

The Group's policies in respect of financial instruments and risk management are given in Note 31 to the Financial Statements on page 36.

Directors' Report

DIRECTORS AND THEIR INTERESTS

The names of the current directors are shown on page 1. The Board regrets to report the death of Mr C R Reeves on November 20, 2007 following a short illness. Mr D Kingston was appointed as a non executive director on January 29, 2008. All the other directors held office throughout the year. The Director retiring by rotation at this year's Annual General Meeting is Mr D A Torrance. Mr D Kingston having been appointed since the last Annual General Meeting retires and offers himself for re-appointment.

The Company has taken advantage of the repeal of the obligations under Section 324 and related sections of the 1985 Companies Act regarding disclosure of directors' and their families' interests in the shares of the Company as introduced under The Companies Act 2006 (Commencement No.2, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

CHARITABLE DONATIONS

During the year donations to charities have been made amounting to £146,095 (2006: £132,048).
No political donations were made.

SUPPLIERS

It is the policy of the Company to make known to and agree the terms of payment with its suppliers when entering into transactions with them and to keep to those terms. At December 31, 2007 the Company had an average of 10 days (2006: 18 days) outstanding trade creditors calculated in accordance with the relevant statutory regulations.

DIRECTORS RESPONSIBILITY TO THE AUDITORS

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

AUDITORS

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

By Order of the Board

G R Stratford
Director

March 11, 2008

Statement of Directors' responsibilities in respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the European Union and applicable laws.

The financial statements are required by law to present fairly the financial position and the performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985.

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Allianz Insurance plc

We have audited the financial statements of Allianz Insurance plc for the year ended December 31, 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, as set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditor's report to the members of Allianz Insurance plc

OPINION

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRS as adopted by the EU, of the state of the Company's affairs as at December 31, 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London
EC4Y 8BB

March 11, 2008

Income statement for the year ended December 31, 2007

Continuing operations	Notes	2007 £m	2006 £m
Gross earned premiums	3	1,518.9	1,640.1
Reinsurers' share of gross earned premiums	3	(216.3)	(420.3)
Net insurance revenue		1,302.6	1,219.8
Reinsurance commission		38.0	62.6
Investment income	4	109.5	127.8
Net realised gains	5	27.0	4.6
Net fair value gains	6	1.5	-
Other income	7	0.7	26.5
Other revenue		176.7	221.5
Total revenue		1,479.3	1,441.3
Gross insurance claims paid		(944.4)	(876.7)
Reinsurers' share of gross insurance claims paid		119.4	140.4
Gross change in insurance liabilities		63.5	(17.0)
Reinsurers' share of gross change in insurance liabilities		(70.1)	0.9
Net insurance claims		(831.6)	(752.4)
Finance cost – interest payable		(0.1)	(0.4)
Commission		(374.8)	(328.6)
Net fair value losses	6	-	(1.1)
Other operating and administrative expenses	8	(146.9)	(171.3)
Other expenses		(521.8)	(501.4)
Total claims and expenses		(1,353.4)	(1,253.8)
Profit before tax		125.9	187.5
Income tax (charge)/credit	10	(27.5)	14.0
Net profit for the year wholly attributable to the equity holders of the parent		98.4	201.5

The notes on pages 10 to 44 are an integral part of these financial statements.

ALLIANZ INSURANCE PLC (formerly Allianz Cornhill Insurance plc)

Balance Sheet as at December 31, 2007

	Notes	2007 £m	2006 £m
ASSETS			
Intangible assets	12	2.8	4.6
Investment in group undertakings	29	264.1	149.1
Loan to group undertaking		2.7	-
Property and equipment	13	28.3	32.4
Deferred acquisition costs	14	268.1	265.1
Deferred tax	16(a)	152.3	168.2
Reinsurance assets	17 & 24	624.2	781.0
Accrued income	18	30.0	28.1
Financial assets:			
Available for sale financial assets	20(a)	1,808.0	1,858.3
Loans	20(b)	5.2	4.0
Insurance receivables	21	408.2	502.9
Other receivables	22	130.7	283.1
Cash and cash equivalents	23	402.1	291.4
Total assets		4,126.7	4,368.2
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	28	172.8	172.8
Share premium		5.2	5.2
Revaluation reserve		74.7	82.0
Retained earnings		543.1	533.7
Total equity		795.8	793.7
LIABILITIES			
Reinsurers' share of deferred acquisition costs	14	44.1	51.6
Insurance contracts' liabilities	24	2,873.9	2,994.1
Financial liabilities			
Derivative liabilities	19	-	1.1
Insurance related payables	26	162.5	304.2
Tax payable	16(b)	124.8	111.3
Accruals and other payables	27	125.6	112.2
Total liabilities		3,330.9	3,574.5
Total liabilities and shareholders' equity		4,126.7	4,368.2

These financial statements were approved by the Board of Directors on March 11, 2008 and signed on its behalf by

D A Torrance
Director

The notes on pages 10 to 44 are an integral part of these financial statements.

ALLIANZ INSURANCE PLC (formerly Allianz Cornhill Insurance plc)

Cash flow statement for the year ended December 31, 2007

	Notes	2007 £m	2006 £m
Cash generated from operations			
Cash generated from operating activities	30	206.7	80.0
Interest received		106.7	104.7
Dividends received		5.7	28.1
Interest paid		(0.1)	(0.4)
Income tax recovered/(paid)	16(b)	5.2	(31.8)
Net cash inflow from operating activities		324.2	180.6
Cash flows from investing activities			
Acquisition of subsidiary		-	(24.5)
Increase in loan to group undertaking		(2.7)	-
Redemption of preference shares held in subsidiary undertaking		-	0.6
Investment in group undertaking		(115.1)	-
Capitalisation of property and equipment costs	13	(0.5)	(0.1)
Proceeds from sale of property and equipment		2.0	-
Intangible assets capitalised	12	(0.5)	(0.5)
(Increase)/decrease in loans to related parties		(1.2)	68.1
Net cash (outflow)/inflow from investing activities		(118.0)	43.6
Cash flows from financing activities			
Dividends paid during the year	11	(90.0)	(142.9)
Net cash outflow from financing activities		(90.0)	(142.9)
Net increase in cash and cash equivalents		116.2	81.3
Cash and cash equivalents at the beginning of the year	23	291.4	217.2
Effects of exchange rate changes on cash and cash equivalents		(5.5)	(7.1)
Cash and cash equivalents at the end of the year	23	402.1	291.4

The notes on pages 10 to 44 are an integral part of these financial statements.

Statement of changes in equity for the year ended December 31, 2007

	Note	Share capital £m	Share premium £m	Revaluation reserve £m	Retained earnings £m	Total £m
Balance as at January 1, 2006		172.8	5.2	97.6	475.1	750.7
Fair value losses on available for sale financial assets		-	-	(25.8)	-	(25.8)
Fair value gains on property	13	-	-	2.5	-	2.5
Tax on fair value losses		-	-	7.7	-	7.7
Net profit for the year		-	-	-	201.5	201.5
Total recognised (expense)/income for the year		-	-	(15.6)	201.5	185.9
Dividends paid during the year		-	-	-	(142.9)	(142.9)
Balance as at December 31, 2006		172.8	5.2	82.0	533.7	793.7
Fair value losses on available for sale financial assets		-	-	(7.0)	-	(7.0)
Fair value losses on property	13	-	-	(2.6)	-	(2.6)
Fair value gains on property transferred on disposal		-	-	(1.0)	1.0	-
Tax on fair value losses		-	-	3.3	-	3.3
Net profit for the year		-	-	-	98.4	98.4
Total recognised (expense)/income for the year		-	-	(7.3)	99.4	92.1
Dividends paid during the year	11	-	-	-	(90.0)	(90.0)
Balance as at December 31, 2007		172.8	5.2	74.7	543.1	795.8

The notes on pages 10 to 44 are an integral part of these financial statements.

Notes to the Financial Statements for the year ended December 31, 2007

1.1. Company and its operations

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

The registered office of the Company is 57 Ladymead, Guildford, Surrey, GU1 1DB, United Kingdom. The consolidated financial statements of Allianz Insurance plc for the year ended December 31, 2007 were authorised for issue in accordance with a resolution of the Directors on March 11, 2008.

1.2 Statement of compliance

The financial statements of Allianz Insurance plc have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

1.3 Basis of preparation

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

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

The financial statements are compiled on a going concern basis.

In preparing these financial statements, the Company has adopted IFRS – 7 Financial Instruments: Disclosures. The adoption of IFRS 7 impacted the disclosures made in the financial statements, but had no impact on the reported profit or the financial position of the Company.

The following accounting standards and or amendments to existing standards are effective from the following dates and have not been adopted early. Management do not believe that the application of these standards or amendments to existing standards will have a financial impact on the financial statements other than requiring additional disclosures.

IAS 1 – Amendment – Presentation of Financial Statements - A revised presentation – effective January 1, 2009

1.4 Summary of significant accounting policies

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

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

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

(a) Group accounts

The Company is exempt from preparing group accounts by virtue of the Companies Act 1985, as it is a subsidiary undertaking of an EU parent (see note 32). The accounts present information about the Company as an individual undertaking and not about the group.

Shareholdings in subsidiary undertakings are reported at cost.

(b) Property and equipment

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

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

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

(c) Intangible assets

The cost of acquiring renewal rights to books of business is amortised on a straight line basis over the expected life of the intangible asset. This useful life has been assessed as 10 years.

(d) Deferred acquisition costs

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

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

(e) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that income taxes relating to items recognised directly in equity are recognised in equity.

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

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

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

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

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

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

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

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

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

(i) Financial assets
The Company classifies its investments as either available for sale financial assets, or loans and receivables.

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

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

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

Loans and receivables are financial assets with fixed or determinable payments and are not quoted on an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

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

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

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

(j) Insurance receivables

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

(k) Revaluation reserve

The revaluation reserve relates to the changes in the fair value of available for sale financial assets and fair value gains on own use property and properties under construction.

(l) Cash and cash equivalents

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

(m) Product classification

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

(n) Insurance contracts' liabilities

Insurance contracts' liabilities

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

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

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

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

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

(p) Pension benefit obligation
As part of a group reorganisation during 2005, which included the transfer of its employees to a services company, pension benefits are now provided by that fellow group company. Prior to the reorganisation, the Company provided both defined benefit and defined contribution pension schemes for its employees.

The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all the employees for benefits in respect of employee service in the current and prior periods.

(q) Revenue recognition

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

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

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

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

(r) Claims

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

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

(s) Finance cost

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

(t) Foreign currency translation

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

(u) Off setting of financial instruments

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

(v) Current, non current disclosure

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

(w) Dividends

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

2. Use of estimates, assumptions and judgements

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

(a) Claims liability arising from insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty for some type of policies. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. Further details of the claims estimation process are described in note 25. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Claims provisions are not discounted for the time value of money except for claims being settled by periodic payments.

The carrying value at balance sheet date for these general insurance contracts is £2,873.9m (2006: £2,994.1m).

(b) Impairment of financial assets

Fair values are based on quoted market prices for the specific instrument, comparisons with other highly similar financial instruments, or the use of valuation models. Establishing valuations where there are no quoted market prices inherently involves the use of judgement and applying judgement in establishing reserves against indicated valuations for aged positions, deteriorating economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity, model risk itself and other factors.

Notes to the Financial Statements for the year ended December 31, 2007

3. Net insurance revenue

	Note	2007 £m	2006 £m
(a) Gross written premiums			
Direct insurance		1,468.7	1,467.1
Assumed reinsurance		1.3	85.2
Total general insurance contacts premium revenue	24	1,470.0	1,552.3
Gross change in unearned premium provision	24	48.9	87.8
Total gross earned premiums		1,518.9	1,640.1
(b) Reinsurers' share of gross written premiums			
Direct insurance		(126.8)	(275.1)
Assumed reinsurance		(5.4)	(76.5)
Total reinsurers' share of general insurance contracts premium revenue	24	(132.2)	(351.6)
Reinsurers' share of change in unearned premium provision	24	(84.1)	(68.7)
Total reinsurers' share of gross earned premiums		(216.3)	(420.3)
Total net insurance revenue		1,302.6	1,219.8

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

4. Investment income

	2007 £m	2006 £m
Available for sale financial assets		
Interest income	84.3	89.3
Dividend income	5.7	28.1
Impairment of available for sale financial assets – equity securities	-	(0.8)
Cash and cash equivalents interest income	19.5	11.2
Total investment income	109.5	127.8

5. Net realised gains recorded in the income statement

	2007 £m	2006 £m
Available for sale financial assets		
Realised gains		
Equity securities	35.3	7.9
Debt securities	0.1	1.2
Realised losses		
Equity securities	(5.2)	(0.9)
Debt securities	(0.9)	(2.7)
Total available for sale financial assets	29.3	5.5
Derivative assets and liabilities		
Realised gains	0.4	0.1
Realised losses	(2.7)	(1.0)
Total derivative assets and liabilities	(2.3)	(0.9)
Total net realised gains recorded in the income statement	27.0	4.6

6. Net fair value gains and losses recorded in the income statement

	2007 £m	2006 £m
Net gain/(loss) on derivative financial instruments	1.5	(1.1)
Total net fair value gains/(losses) recorded in the income statement	1.5	(1.1)

7. Other income

	2007 £m	2006 £m
Sale of renewal rights	-	20.3
Profit on disposal of subsidiary	-	5.5
Currency gains	-	0.7
Profit on disposal of own use properties	0.6	-
Other income	0.1	-
	0.7	26.5

Notes to the Financial Statements for the year ended December 31, 2007

8. Other operating and administrative expenses

	Note	2007 £m	2006 £m
Acquisition costs		77.4	90.3
Movement in deferred acquisition costs	14	(10.5)	(17.1)
Administration expenses		80.0	98.1
Total other operating and administrative expenses		146.9	171.3

9. Auditors' remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts for the year ended December 31, 2007 amounted to £0.3m (2006: £0.3m). Other services supplied pursuant to legislation was £0.1m (2006: £0.1m).

10. Income tax

(a) Current year tax charge	2007 £m	2006 £m
Current tax:		
United Kingdom corporation tax (credit)/charge @ 30% (2006 30%)	(5.5)	25.4
Prior year adjustment (1)	14.0	51.4
Total current tax	8.5	76.8
Deferred tax:		
Reversal of temporary differences	19.0	(90.8)
Total deferred tax	19.0	(90.8)
Total income tax charge/(credit)	27.5	(14.0)

The effective tax rate increased from (7.5)% in 2006 to 21.8% in 2007. The lower than normal tax charge in 2006 was due to the utilisation of tax losses claimed from fellow Allianz group undertakings.

10. Income tax (continued)

(b) Tax charged to equity	2007 £m	2006 £m
Current tax	(0.2)	5.3
Deferred tax	(3.1)	(13.0)
Total tax credit to equity	(3.3)	(7.7)

(c) Reconciliation of tax charge	2007 £m	2006 £m
Profit before tax	125.9	187.5
Tax at 30%	37.8	56.3
Tax effect of:		
Franked investment income	(1.7)	(2.4)
Disallowable expenses	(5.3)	3.1
Adjustment to tax charge in respect of prior years (1)	(13.0)	(54.1)
Changes in statutory tax rate	11.2	-
Group relief at non-statutory rate	(1.5)	(16.9)
Total tax charge/(credit) for the year	27.5	(14.0)

(d) Tax paid for cash flow purposes	2007 £m	2006 £m
Current tax payable at January 1	111.3	61.0
Amounts charged/(credited) to the income statement	27.5	(14.0)
Amounts credited to equity	(3.3)	(7.7)
Movement in the deferred tax (asset)/liability in the income statement	(19.0)	90.8
Movement in the deferred tax liability in equity	3.1	13.0
Tax recovered/(paid) during the year	5.2	(31.8)
Current tax payable at December 31	124.8	111.3

(1) A major proportion of the adjustment to prior year tax relates to additional group relief from Allianz group undertakings.

11. Dividends

	2007 £m	2006 £m
Dividends on ordinary shares:		
Interim dividends paid of 463.18p per share (2006: 761.08p)	82.2	135.1
Dividends on preference shares:		
Paid 5% non cumulative preference shares	7.8	7.8
	90.0	142.9

Notes to the Financial Statements for the year ended December 31, 2007

12. Intangible assets

	Total £m
Cost	
At January 1, 2006	22.1
Additions	0.5
At December 31, 2006	22.6
Additions	0.5
At December 31, 2007	23.1
Accumulated amortisation and impairment	
At January 1, 2006	15.8
Amortisation charge for the year	2.2
At December 31, 2006	18.0
Amortisation charge for the year	2.3
At December 31, 2007	20.3
Carrying amount	
At December 31, 2006	4.6
At December 31, 2007	2.8

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

13. Property and equipment

	Total £m
Cost or valuation	
At January 1, 2006	29.8
Additions	0.1
Fair value gains	2.5
At December 31, 2006	32.4
Additions	0.5
Disposals	(2.0)
Fair value losses	(2.6)
At December 31, 2007	28.3
Carrying amount	
At December 2006	32.4
At December 2007	28.3

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

Notes to the Financial Statements for the year ended December 31, 2007

14. Deferred acquisition costs

Gross	2007 £m	2006 £m
At January 1	265.1	276.9
Foreign exchange adjustment	1.2	(0.3)
	266.3	276.6
Costs deferred during the year	246.9	258.5
Amortisation charge for the year	(245.1)	(270.0)
At December 31	268.1	265.1

Reinsurance	2007 £m	2006 £m
At January 1	51.6	80.5
Foreign exchange adjustment	1.1	(0.3)
	52.7	80.2
Costs deferred during the year	44.1	51.6
Amortisation charge for the year	(52.7)	(80.2)
At December 31	44.1	51.6

Net	2007 £m	2006 £m
At January 1	213.5	196.4
Foreign exchange adjustment	0.1	-
	213.6	196.4
Costs deferred during the year	202.8	206.9
Amortisation charge for the year	(192.4)	(189.8)
At December 31	224.0	213.5

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

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

Notes to the Financial Statements for the year ended December 31, 2007

15. Leases

	2007 £m	2006 £m
The total of future minimum lease payments under non-cancellation operating leases are set out below		
No later than one year	1.6	2.3
Less than one year and not later than five years	5.9	8.6
Later than five years	4.0	6.3
	11.5	17.2

All operating lease rentals are paid by Allianz Management Services Limited.

	2007 £m	2006 £m
The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date	1.7	2.3

All sublease receipts were received by Allianz Management Services Limited.

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

16. Tax assets and liabilities

	2007 £m	2006 £m
Deferred tax asset	152.3	168.2
Total tax asset	152.3	168.2

	2007 £m	2006 £m
Tax payable	124.8	111.3
Total tax liability	124.8	111.3

(a) Deferred tax asset	2007 £m	2006 £m
At January 1	168.2	64.4
Claims equalisation reserve	(0.9)	(2.5)
Provisions and other temporary differences	0.1	0.5
Disclaimed technical reserves	(18.2)	98.8
Revaluation of investment securities	3.0	7.1
Revaluation of property and equipment	0.1	(0.1)
At December 31	152.3	168.2

	2007 £m	2006 £m
At January 1	168.2	64.4
Amounts (charged)/credited to the income statement	(19.0)	90.8
Amounts credited to equity	3.1	13.0
At December 31	152.3	168.2

The receivable is all non current.

(b) Tax payable	2007 £m	2006 £m
At January 1	111.3	61.0
Amounts charged to the income statement	8.5	76.8
Amounts (credited)/charged to equity	(0.2)	5.3
Tax recovered/(paid) during the year	5.2	(31.8)
At December 31	124.8	111.3

	2007 £m	2006 £m
Current tax payable	33.8	31.8
Non current tax payable	91.0	79.5

Notes to the Financial Statements for the year ended December 31, 2007

17. Reinsurance assets

	2007 £m	2006 £m
Reinsurers' share of insurance contracts liabilities	624.2	781.0
Total reinsurance assets	624.2	781.0

For the current and non-current split, refer to note 24.

18. Accrued income

	2007 £m	2006 £m
Dividends	0.5	0.7
Interest	29.5	27.4
Total accrued income	30.0	28.1

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

19. Derivative financial instruments

During the year the Company purchased exchange traded index options for the purpose of equity portfolio and risk capital protection. There were no open positions at the end of 2007.

The fair values of derivative financial instruments at December 31, are as follows:

	2007 Fair value asset £m	2007 Fair value liability £m	2006 Fair value asset £m	2006 Fair value liability £m
Derivative financial instruments	-	-	-	1.1
Total derivative financial instruments	-	-	-	1.1

All derivative financial instruments are current.

Notes to the Financial Statements for the year ended December 31, 2007

20. Financial assets

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

	2007 £m	2006 £m
Available for sale financial assets	1,808.0	1,858.3
Loans and receivables	5.2	4.0
Total financial assets	1,813.2	1,862.3

(a) Available for sale financial assets	2007 £m	2006 £m
At fair value		
Equity securities		
Listed	117.3	156.8
Unlisted	11.6	14.5
Total equity securities at fair value	128.9	171.3
Debt securities		
Listed	1,340.9	1,331.0
Total debt securities at fair value	1,340.9	1,331.0
Deposits with credit institutions	338.2	356.0
Total available for sale financial assets at fair value	1,808.0	1,858.3
At cost		
Equity securities		
Listed	35.1	49.1
Unlisted	4.5	5.5
Total equity securities at cost	39.6	54.6
Debt securities		
Listed	1,335.4	1,345.7
Total debt securities at amortised cost	1,335.4	1,345.7
Deposits with credit institutions	338.2	356.0
Total available for sale financial assets at cost	1,713.2	1,756.3

Included within the deposits with credit institutions is £16.1m (2006: £24.4m) which the Company has pledged as collateral relating to the future settlement of insurance contracts liabilities.

20. Financial assets (continued)

(b) Loans	2007 £m	2006 £m
Loans to related parties	-	0.4
Other loans	5.2	3.6
Total loans	5.2	4.0

	2007 £m	2006 £m
Current loans	2.1	2.0
Non current loans	3.1	2.0

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

21. Insurance receivables

	2007 £m	2006 £m
Due from policyholders	104.3	106.4
Due from reinsurers	50.8	103.7
Due from agents, brokers and intermediaries	253.1	292.8
Total insurance receivables	408.2	502.9

	2007 £m	2006 £m
Current insurance receivables	358.7	427.1
Non current insurance receivables	49.5	75.8

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

22. Other receivables

	2007 £m	2006 £m
Amounts due from related parties	98.7	252.2
Other	32.0	30.9
Total other receivables	130.7	283.1

	2007 £m	2006 £m
Current other receivables	117.0	269.8
Non current other receivables	13.7	13.3

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

23. Cash and cash equivalents

	2007 £m	2006 £m
Cash at bank	36.3	42.6
Short-term deposits (including demand and time deposits)	365.8	248.8
Total	402.1	291.4

Deposits are subject to an average interest rate 5.7% (2006: 5.2%) and have an average maturity of 34 days (2006: 23 days). The carrying amounts disclosed above reasonably approximate fair values at year end.

24. Insurance contracts' liabilities

	2007 Insurance Contracts' Liabilities £m	2007 Reinsurers' Share of Liabilities £m	2007 Net £m	2006 Insurance Contracts' Liabilities £m	2006 Reinsurers' Share of Liabilities £m	2006 Net £m
Provisions for claims reported by policyholders	1,604.6	(330.9)	1,273.7	1,516.4	(351.0)	1,165.4
Provisions for claims incurred but not reported	366.3	(146.1)	220.2	526.6	(199.3)	327.3
Total claims reported and IBNR	1,970.9	(477.0)	1,493.9	2,043.0	(550.3)	1,492.7
Provision for unearned premiums	903.0	(147.2)	755.8	951.1	(230.7)	720.4
Total general insurance contracts' liabilities	2,873.9	(624.2)	2,249.7	2,994.1	(781.0)	2,213.1
Current general insurance contracts' liabilities	1,296.1	(269.1)	1,027.0	1,297.5	(347.0)	950.5
Non current general insurance contracts' liabilities	1,577.8	(355.1)	1,222.7	1,696.6	(434.0)	1,262.6

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

	2007 Insurance Contracts' Liabilities £m	2007 Reinsurers' Share of Liabilities £m	2007 Net £m	2006 Insurance Contracts' Liabilities £m	2006 Reinsurers' Share of Liabilities £m	2006 Net £m
At January 1	2,043.0	(550.3)	1,492.7	2,050.8	(563.3)	1,487.5
Foreign exchange adjustment	(8.6)	3.3	(5.3)	(24.8)	13.9	(10.9)
	2,034.4	(547.0)	1,487.4	2,026.0	(549.4)	1,476.6
Claims incurred in the current accident year	1,126.5	(74.9)	1,051.6	1,030.9	(132.4)	898.5
Movement on claims incurred in prior accident years	(245.6)	25.5	(220.1)	(137.2)	(8.9)	(146.1)
Claims paid during the year	(944.4)	119.4	(825.0)	(876.7)	140.4	(736.3)
At December 31	1,970.9	(477.0)	(1,493.9)	2,043.0	(550.3)	1,492.7

Notes to the Financial Statements for the year ended December 31, 2007

24. Insurance contracts' liabilities (continued)

The provision for unearned premiums may be analysed as follows:

	2007 Insurance Contracts' Liabilities £m	2007 Reinsurers' Share of Liabilities £m	2007 Net £m	2006 Insurance Contracts' Liabilities £m	2006 Reinsurers' Share of Liabilities £m	2006 Net £m
At January 1	951.1	(230.7)	720.4	1,042.6	(302.9)	739.7
Foreign exchange adjustment	0.8	(0.6)	0.2	(3.7)	3.5	(0.2)
	951.9	(231.3)	720.6	1,038.9	(299.4)	739.5
Premiums written in the year	1,470.0	(132.2)	1,337.8	1,552.3	(351.6)	1,200.7
Premiums earned during the year	(1,518.9)	216.3	(1,302.6)	(1,640.1)	420.3	(1,219.8)
At December 31	903.0	(147.2)	755.8	951.1	(230.7)	720.4

25. Insurance contracts liabilities and reinsurance assets – terms, assumptions and sensitivities

The major classes of general insurance written by Allianz Insurance plc include motor, household, commercial, business interruption and liability. Risks under these policies usually cover a 12 month duration. The Company also writes several more specialist lines of business such as pet insurance, creditor business, extended warranties and mobile phone all risks. Risk durations under these policies can vary from 1 month up to 5 years.

Claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate costs of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the balance sheet date. These provisions are revised quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of (usually) high value personal injury claims by way of periodical payments established under the Courts Act 2003. As at the end of 2007 there were only 3 of these claims with total reserves of £2.9m (2006: £5.0m) gross and £1.2m (2006: £0.6m) net of reinsurance. The corresponding undiscounted amounts are £6.0m (2006: £9.4m) gross and £1.3.m (2006: £0.8m) net. These claims are all made against policies written by the Company.

The provision for claims reported by policyholders is generally determined on a case by case basis except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. Where applicable, prudent estimates are made for salvage and subrogation recoveries.

The provision for claims incurred but not reported (IBNR) is estimated by the application of a variety of actuarial and statistical projection techniques, the two most common being the chain ladder and Bornheutter-Ferguson methods. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are generally analysed separately from material damage provisions.

25. Insurance contracts liabilities and reinsurance assets – terms, assumptions and sensitivities (continued)

Chain ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus individual reported case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative data for each year that is not yet fully developed to produce an estimated ultimate amount for each year. Chain ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. They are less suitable in cases where an insurer does not have a developed history for the particular class of business.

The Bornheutter-Ferguson method uses a combination of a benchmark or market based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection, and especially for the most recent accident years.

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In addition, the choice involves a consideration of a number of other business factors, including historical rating changes, inflation, claims handling issues, business mix and market information. Ultimately reserving methods allow for a combination of mathematical techniques and judgement based upon experience and knowledge of the business.

There can be considerable uncertainty associated with the future outcome of the outstanding claims. Variability can come from a number of sources, including but not limited to:

- More IBNR claims reported than expected
- Current notified claims costing more to settle in future than expected due to higher inflation than expected, adverse legal rulings or adverse impact from future government legislation
- Claims handling costs being higher than expected

It is therefore prudent to hold reserves in excess of the mean of the distribution of possible outcomes, usually referred to as the best estimate. The reserves currently held are intended to give a high degree of confidence that there will be no adverse run-off impact on the results of subsequent financial periods.

The risk analysis work carried out as part of the Company's assessment of its capital needs and as part of reserving work includes an assessment of the possible variability of the outcome of the cost of settling outstanding claims. This was carried out using various actuarial and statistical techniques, and was based upon the Company's historical claims experience, using past volatility as a guide to the future and considering the interaction of the various classes of business. The most uncertain element of this analysis concerns the inter-relationship of the various lines of business used in the reserving process. Based on the analysis undertaken during 2007, and the year end reserving analysis, we estimate that at a percentile level of assurance, best estimate provisions could deteriorate (before the impact of taxation) by around £106m (2006:£95m) net of reinsurance. The overall impact on shareholders funds, after allowing for tax would be £74m (2006: £66m), assuming that the level of prudence then held in the reserves was unchanged. It is certainly possible that reserves could deteriorate by more than this, particularly if future experience differed markedly from the past (for example if a currently unknown form of latent disease were discovered that the portfolio had been exposed to).

25. Insurance contracts liabilities and reinsurance assets – terms, assumptions and sensitivities (continued)

Loss development triangle

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

		Accident Year							
Gross of insurance	Note	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006	2007 £m	Total £m
Accident year		1,122.0	1,093.4	1,019.7	1,126.2	1,164.3	1,030.9	1,126.5	
One year later		1,069.3	982.5	899.4	997.9	1,082.9	982.8		
Two years later		1,035.7	955.1	856.1	955.4	1,026.0			
Three years later		990.4	940.4	866.4	911.3				
Four years later		983.9	938.5	863.0					
Five years later		985.2	914.6						
Six years later		969.7							
Current estimate of cumulative claims		969.7	914.6	863.0	911.3	1,026.0	982.8	1,126.5	6,793.9
Cumulative payments to date		(905.2)	(855.9)	(714.8)	(708.4)	(760.5)	(636.4)	(486.7)	(5,067.9)
Reserve in respect of prior years									244.9
Total gross liability as per the balance sheet	24	64.5	58.7	148.2	202.9	265.5	346.4	639.8	1,970.9

Net of reinsurance	Note	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	Total £m
Accident year		725.5	759.8	855.7	912.5	993.5	898.5	1,051.6	
One year later		705.5	704.9	756.9	808.9	889.4	862.1		
Two years later		713.8	704.1	722.0	777.0	846.7			
Three years later		696.7	691.5	716.4	748.4				
Four years later		704.9	698.8	694.5					
Five years later		707.5	681.6						
Six years later		659.2							
Current estimate of cumulative claims		659.2	681.6	694.5	748.4	846.7	862.0	1,051.6	5,544.0
Cumulative payments to date		(632.7)	(649.1)	(623.3)	(623.3)	(659.2)	(588.0)	(481.3)	(4,256.9)
Reserve in respect of prior years									206.8
Total net liability as per the balance sheet	24	26.5	32.5	71.2	125.1	187.5	274.0	570.3	1,493.9

Whilst the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding as at the end of 2007 is adequate. However, due to the inherent uncertainties in the provisioning process, it can not be assured that such balances will ultimately prove to be sufficient.

26. Insurance related payables

	2007 £m	2006 £m
Arising out of direct insurance operations		
Third parties	77.0	105.9
	77.0	105.9
Deposits received from reinsurers		
Third parties	1.9	1.7
	1.9	1.7
Arising out of reinsurance operations		
Amounts due to related operations	34.6	120.6
Third parties	49.0	76.0
	83.6	196.6
Total insurance related payables	162.5	304.2

	2007 £m	2006 £m
Current insurance related payables	160.6	302.5
Non current insurance related payables	1.9	1.7

27. Accruals and other payables

	2007 £m	2006 £m
Amounts due to related parties	85.1	67.8
Accrued expenses	5.7	8.0
Social security and other taxes	14.5	14.8
Other	20.3	21.6
Total accruals and other payables	125.6	112.2

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

28. Share capital

	Authorised		Allotted, called up and fully paid	
	2007	2006	2007	2006
	£	£	£	£
Ordinary non-voting shares of £1 each fully paid	19,999,000	19,999,000	17,757,609	17,757,609
5% cumulative preference voting of £1 each fully paid	1,000	1,000	1,000	1,000
5% non cumulative preference of £1 each fully paid	180,000,000	180,000,000	155,000,000	155,000,000
	200,000,000	200,000,000	172,758,609	172,758,609

The 5% non cumulative preference shares are non-voting shares and carry a non cumulative dividend of 5% per annum payable on April 30 and October 31 each year. On a winding up of the Company, the nominal value of the non cumulative preference shares has priority over the repayment of any other shares in the Company.

The 5% cumulative preference shares are voting shares and carry a cumulative dividend of 5% per annum payable in December each year. On a winding up of the Company, repayment of the nominal value of the cumulative preference shares and any arrears of dividend has priority over the repayment of the ordinary shares.

The preference shares have been classified as equity as there is no present obligation to transfer financial assets to the holder of these shares.

29. Investment in group undertakings

The principal subsidiary undertakings of Allianz Insurance plc at December 31, 2007 are shown below.

Group undertakings	Country of Incorporation	Primary business operations	% Held
British Reserve Insurance Company Limited	England	General Insurance	100
DBI Insurance Company Limited	England	Pet Insurance	100
Pet Plan Limited	England	Pet Insurance Administration	100
Premierline Direct Limited	England	Insurance Intermediary	100
Trafalgar Insurance Public Limited Company	England	General Insurance	100

	2007	2006
	£m	£m
Balance at January 1,	149.1	130.9
Additions	115.0	25.6
Disposals	-	(6.8)
Redemption of preference shares	-	(0.6)
Balance at December 31,	264.1	149.1

During the year the Company increased its shareholdings in two subsidiaries, Allianz Investment Properties Limited and Allianz Equity Investments Limited by £40m and £75m respectively.

Notes to the Financial Statements for the year ended December 31, 2007

30. Cash generated from operating activities

	Notes	2007 £m	2006 £m
Net profit before tax		125.9	187.5
Investment income	4	(109.5)	(127.8)
Finance cost		0.1	0.4
Non cash items			
Amortisation of intangible assets	12	2.3	2.2
Write-off of cost of investment in subsidiaries dissolved	29	-	6.8
Amortisation of net deferred acquisition costs	14	192.4	189.8
Net acquisition costs deferred during the year	14	(202.8)	(206.9)
Net realised gain from sale of available for sale financial assets	5	(29.3)	(5.5)
Net realised loss from sale of derivative assets and liabilities	5	2.3	0.9
Purchase of available for sale financial assets		(908.0)	(1,197.8)
Proceeds from sale of available for sale financial assets		977.9	1,193.3
Purchase of derivative assets		(1.9)	(1.3)
Purchase of derivative liabilities		-	0.5
Proceeds from sale of derivative liabilities		-	-
Net fair value loss/(gain) on derivatives		(1.5)	1.1
Currency losses/(gains)		0.1	(0.7)
Changes in working capital			
Decrease in reinsurance assets	24	154.2	67.8
Increase in accrued income	18	(1.9)	(1.4)
Decrease/(increase) in insurance receivables	21	94.7	(3.5)
Decrease/(increase) in other receivables	22	152.4	(36.6)
Decrease in insurance contracts' liabilities	24	(112.4)	(70.8)
Decrease/(increase) in insurance related payables	26	(141.7)	46.8
Increase in accruals and other payables	27	13.4	35.2
Cash generated from operations		206.7	80.0

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

31. Risk management policies

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

Insurance risk

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

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

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

The Company limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition the Company uses both proportional and non proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather related claims. Maximum exposure is limited to £5m (2006: £5m) in respect of casualty losses arising mostly from motor and liability insurance and £4m (2006: £4m) in respect of property and business interruption claims after the erosion of a £8m (2006: £8m) aggregate deductible. The Company uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses. The exposure to a single catastrophe event is £30m (2006: £30m). Based upon the modelling work undertaken, the Company buys reinsurance protection for a single event up to a maximum claim of £500m (2006: £350m). In order to protect its risk capital from extreme events the Company also purchases catastrophe reinsurance for loss events in excess of £568m (2006: £432m) up to a limit of £1,276m (2006: £1,074m).

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

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

Notes to the Financial Statements for the year ended December 31, 2007

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

Claims Liabilities 2007	Gross £m	Reinsurers' Share £m	Net £m
Motor	637.0	(48.0)	589.0
Household	49.1	(7.7)	41.4
Property and business interruption	406.5	(176.5)	230.0
Liability	685.4	(199.5)	485.9
Speciality pecuniary	64.1	(8.3)	55.8
Other	128.8	(37.0)	91.8
Total	1,970.9	(477.0)	1,493.9

Claims Liabilities 2006	Gross £m	Reinsurers' Share £m	Net £m
Motor	635.9	(47.4)	588.5
Household	41.0	(0.2)	40.8
Property and business interruption	459.9	(237.5)	222.4
Liability	666.7	(196.9)	469.8
Speciality pecuniary	60.6	(11.6)	49.0
Other	178.9	(56.7)	122.2
Total	2,043.0	(550.3)	1,492.7

Note 25 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Company's estimation techniques for claims payments.

Financial risk

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

(a) Market risk

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

The Company manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders' funds. A substantial part of the Company's financial assets are invested in available for sale fixed interest securities. These are quoted on a recognised stock exchange and are readily tradable. The Company has no direct exposure to Collateralised Debt Obligations, off balance sheet vehicles or any form of hybrid security.

i) Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contracts liabilities. At December 31, 2007 the average duration of the fixed interest and cash and cash equivalent portfolios was 2.2 years (2006: 2.3 years) compared with the average duration of the insurance contracts liabilities which is estimated to be 2.2 years (2006: 2.1 years).

ii) Equity risk

As stated in accounting policy 1.4 (g), the portfolio is valued at the bid market price. The Equity market risk is the risk that the market price of the available for sale financial assets will fall in value as a result of adverse stock market movements. To manage this risk the Company limits its exposure to stock markets to a modest proportion of its total investment in any one stock being controlled by the application of strict investment controls. These controls limit the maximum exposure to any one stock or sector of the FTSE 100 index in order to minimise risk. The largest exposure to a single stock holding was £15.2m (2006: £22.0m).

iii) Currency risk

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

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

	2007 £m	2006 £m
US Dollars		
Assets	90.1	109.4
Liabilities	91.1	113.1
Euro		
Assets	10.4	35.7
Liabilities	11.9	37.7

iv) Sensitivity to market risk

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

	2007 Profit/(loss) £m	2007 Equity £m	2006 Profit/(loss) £m	2006 Equity £m
Interest rate risk				
+100 basis points shift in yield curves	-	(46.2)	-	(43.9)
-100 basis points shift in yield curves	-	33.5	-	31.7
Equity risk				
10% increase in equity prices	-	8.2	-	7.4
10% decrease in equity prices	-	(8.2)	-	(7.4)
Currency risk				
10% increase in US Dollar	(0.3)	(0.2)	(0.4)	(0.2)
10% decrease in US Dollar	0.3	0.2	0.4	0.2
10% increase in Euro	(0.1)	(0.1)	(0.2)	(0.1)
10% decrease in Euro	0.1	0.1	0.2	0.1

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

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

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

(b) Credit risk

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

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

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

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary reinsurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Company's major clients. Where there is a significant or potentially significant exposure to an individual captive additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2007 was £193.6m (2006: £249.0m).

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

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

2007	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
Reinsurance assets	5.1	422.0	116.3	1.2	-	47.2	32.3	624.1
Available for sale financial assets	1,216.7	330.9	215.8	20.5	2.4	-	21.7	1,808.0
Loans	-	-	-	-	-	-	5.2	5.2
Insurance receivables (1)	0.3	62.7	19.3	-	-	5.1	320.8	408.2
Cash and cash equivalents	36.3	197.1	168.7	-	-	-	-	402.1
Total £m	1,258.4	1,012.7	520.1	21.7	2.4	52.3	380.0	3,247.6
Percent	38.7	31.2	16.0	0.7	0.1	1.6	11.7	100

2006	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
Reinsurance assets	7.7	495.0	156.2	9.5	0.3	69.6	42.7	781.0
Available for sale financial assets	1,206.2	297.7	282.0	17.3	3.5	-	51.6	1,858.3
Loans	-	-	-	-	-	-	4.0	4.0
Insurance receivables (1)	0.5	99.3	38.3	17.5	0.1	20.3	326.9	502.9
Cash and cash equivalents	81.0	79.5	130.4	-	-	-	0.5	291.4
Total £m	1,295.4	971.5	606.9	44.3	3.9	89.9	425.7	3,437.6
Percent	37.7	28.3	17.7	1.3	0.1	2.6	12.3	100.0

1. Included in the not rated balance is £115.7m (2006: £106.4m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who whilst not independently rated are regulated by the Financial Services Authority.

The following table provides information on the carrying value of reinsurance assets and insurance receivables. The Company has no available for sale financial assets, loans and receivables or cash and cash equivalents that are impaired.

	Reinsurance assets 2007 £m	Insurance receivables 2007 £m	Reinsurance assets 2006 £m	Insurance receivables 2006 £m
Neither past due or impaired	618.7	361.9	771.4	451.5
Past due but not impaired	-	35.3	-	43.1
Individually impaired	5.4	11.0	9.6	8.3
Total	624.1	408.2	781.0	502.9

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

2007	Less than 90 days £m	90 -120 days £m	120-180 days £m	More than 180 days £m	Total £m
Policyholders	0.8	-	-	-	0.8
Brokers	22.8	0.2	0.7	1.2	24.9
Reinsurers	1.1	0.2	0.9	7.4	9.6
Total	24.7	0.4	1.6	8.6	35.3
2006					
Policyholders	0.5	-	-	-	0.5
Brokers	19.1	0.5	0.6	1.8	22.0
Reinsurers	5.2	5.4	0.2	9.8	20.6
Total	24.8	5.9	0.8	11.6	43.1

(c) Liquidity risk

Liquidity risk is the risk that cash might not be available to pay obligations when they fall due at a reasonable cost. The Company is exposed to daily calls on its available cash resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's available for sale financial assets, loans and receivables at December 31, 2007 amounted to £1,813.2m (2006: £1,862.3m) plus cash and cash equivalents of £402.1m (2006: £291.4m). Nearly all of these are readily realisable. As a result the Company's exposure to potential liquidity risk is extremely low and in the various risk capital models used by the Company no capital is allocated to this risk.

The following table shows information about the estimated timing of the net cashflows from the Company's insurance contracts liabilities. The analysis provided is by estimating timings of the amounts recognised in the balance sheet.

(c) Liquidity risk (continued)

Insurance liabilities	Carrying amount £m	Less than 1 year £m	1-2 years £m	2-5 years £m	5-10 years £m	More than 10 years £m
2007	1,970.9	784.3	398.7	549.2	169.6	69.1
2006	2,043.0	771.6	410.6	586.5	190.2	84.1

Operational risk

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

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

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

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

Capital Management

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

The level of capital required by the Company is determined using a combination of the Individual Capital Assessment process, internal Company capital modelling and external rating agency modelling. These processes involve undertaking a comprehensive assessment of the risks faced in the business and then quantifying the amount and composition of the capital the Company needs to hold to mitigate these risks to an agreed level of confidence.

The Company's ICA process uses a stochastic model, where distributions of possible outcomes are specified, giving the relative probability of occurrence of certain events.

The Company is supervised by the Financial Services Authority (FSA) which sets out certain minimum capital requirements. It is the Company's policy to hold the higher of its internal capital requirement, the capital specified by the FSA in the Individual Capital Guidance or the capital requirement to maintain an "A" rating with Standard and Poors plus a margin to absorb changes in both capital and capital requirements.

There have been no material changes in the Company's management of capital during the period.

The Company capital comprises total shareholders' equity excluding the level of dividends to ordinary shareholders and amounts to £795.8m (2006: £793.7m).

The Company has complied with all externally and internally imposed capital requirements throughout the period.

32. Ultimate parent undertaking

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

The ultimate parent undertaking, Allianz Societas Europaea, is incorporated in Germany and is the parent of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Copies of the group accounts are available on request from Allianz Societas Europaea, Königinstrasse 28, 80802, München, Germany.

Allianz Holdings plc is the parent undertaking of the smallest group of undertakings of which the Company is a member and for which group accounts are drawn up. Allianz Holdings plc is incorporated in England and Wales and group accounts are available from the Company Secretary, 57 Ladymead, Guildford, Surrey, GU1 1DB.

33. Contingencies and commitments

Legal proceedings and regulations

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

34. Directors' emoluments

All of the Directors are employed by Allianz Management Services Limited and the details of their remuneration can be found in the financial statements of Allianz Holdings plc.

35. Related party transactions

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

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

	2007 £m	2006 £m
Sale of		
Renewal rights	-	20.3
Insurance contracts to related parties	3.5	29.4
Subsidiary	-	5.4
Purchase of		
Administration and claims handling services	206.2	214.8
Dividends paid to the parent	88.3	140.0
Reinsurance contracts from related parties	85.3	194.5
Group tax relief from related parties	13.8	72.1

Reinsurance contracts are made at normal arms length transaction basis.

Notes to the Financial Statements for the year ended December 31, 2007

35. Related party transactions (continued)

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

	2007 £m	2006 £m
Due from related parties at December 31,		
Parent	59.7	58.9
Subsidiaries	11.7	184.1
Other related parties	47.6	36.5
Total	119.0	279.5
Due to related parties at December 31,		
Subsidiaries	48.1	16.5
Other related parties	71.6	171.9
Total	119.7	188.4
Loan to related parties at December 31,		
Subsidiaries	2.7	0.4
Other related parties	-	-
Total	2.7	0.4

The loan to related parties carried 5.9% interest annually. No provision for doubtful debts was made at year end.

(b) Investment in subsidiaries

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

No guarantees or collateral were provided to subsidiaries. The Company is not liable for any contingent liabilities arising on the side of the subsidiaries and will not settle any liabilities on behalf of them.