

Registered Number: 84638

Directors' Report and Accounts 2010

**Allianz Insurance plc**

# ALLIANZ INSURANCE PLC

## Directors' Report

**Directors:** C B Booth (Chairman)  
B Bovermann  
Baron C A Von Bechtolsheim  
D Kingston  
M J Churchlow  
D A Torrance

**Secretary:** S J Hutchings

**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, 2010.

### RESULTS AND DIVIDEND

The results for the year are set out in the statement of comprehensive income on page 6.

The Directors are not recommending the payment of a final ordinary dividend (2009: £nil). An interim ordinary dividend of £80.90m (2009: £79.70m) was paid on December 15, 2010.

Preferential dividends of £3.875m were paid to the holders of the 5% Non Cumulative Preference Shares on April 30, 2010 and October 31, 2010 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.

### FINANCIAL INSTRUMENTS AND PRINCIPAL RISKS

The Group's policies in respect of financial instruments and risk management are given in Note 30 to the Financial Statements on page 36.

## **ALLIANZ INSURANCE PLC**

### **Directors' Report (continued)**

#### **DIRECTORS**

The names of the current directors are shown on page 1. All directors held office throughout the year save M J Churchlow who served from his appointment as a Director on January 28, 2011. G R Stratford resigned as a Director of the Company on September 29, 2010.

The Directors retiring by rotation at this year's Annual General Meeting are D Kingston and M J Churchlow who being willing offer themselves for re-election.

Qualifying third party indemnity provisions (as defined by Section 236 Companies Act 2006) for the benefit of the Directors were maintained throughout the year and remain in force as at the date of approving the Directors' report.

#### **CHARITABLE DONATIONS**

During the year, donations to charities have been made amounting to £221,301 (2009: £367,451). 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, 2010 the Company had an average of 4 days (2009: 5 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 the 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

S J Hutchings  
SECRETARY

March 10, 2011

## **Statement of Directors' responsibilities in respect of the Directors' Report and the Financial Statements**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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..

# **ALLIANZ INSURANCE PLC**

## **Independent auditors' report to the members of Allianz Insurance plc**

We have audited the financial statements of Allianz Insurance plc for the year ended December 31, 2010 set out on pages 6 to 44. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at December 31, 2010, and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matters prescribed by the Companies Act 2006**

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

## **ALLIANZ INSURANCE PLC**

### **Independent auditors' report to the members of Allianz Insurance plc**

#### **Matters on which we are required to report by exception**

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

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

**Rees Aronson (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor**

*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

March 10, 2011

# ALLIANZ INSURANCE PLC

## Statement of comprehensive income for the year ended December 31, 2010

	Notes	2010 £m	2009 £m
<b>Continuing operations</b>			
Gross earned premiums	3	1,592.3	1,502.8
Reinsurers' share of gross earned premiums	3	(132.6)	(140.9)
<b>Net insurance revenue</b>		<b>1,459.7</b>	<b>1,361.9</b>
Reinsurance commission		18.3	18.6
Investment income	4	82.9	90.0
Net realised gains	5	10.0	26.6
Other income	7	–	0.7
<b>Other revenue</b>		<b>111.2</b>	<b>135.9</b>
<b>Total revenue</b>		<b>1,570.9</b>	<b>1,497.8</b>
Gross insurance claims paid		(955.5)	(903.9)
Reinsurers' share of gross insurance claims paid		75.7	37.8
Gross change in insurance liabilities		50.6	147.4
Reinsurers' share of gross change in insurance liabilities		(52.5)	(61.8)
<b>Net insurance claims</b>		<b>(881.7)</b>	<b>(780.5)</b>
Commission		(371.2)	(401.8)
Net fair value losses	6	(1.2)	(5.0)
Other operating and administrative expenses	8	(219.8)	(167.5)
<b>Other expenses</b>		<b>(592.2)</b>	<b>(574.3)</b>
<b>Total claims and expenses</b>		<b>(1,473.9)</b>	<b>(1,354.8)</b>
<b>Profit before tax</b>		<b>97.0</b>	<b>143.0</b>
Income tax charge	10(a)	(25.7)	(42.3)
<b>Net profit for the year wholly attributable to the equity holders</b>		<b>71.3</b>	<b>100.7</b>
<b>Other comprehensive income</b>			
Net change in fair value of available for sale financial assets		(1.5)	(4.2)
Net change in fair value of available for sale financial assets transferred to profit or loss		(6.9)	(30.8)
Net change in fair value of property		(0.1)	–
		(8.5)	(35.0)
Tax on fair value movements		2.6	9.8
Other comprehensive income for the period, net tax		(5.9)	(25.2)
<b>Total comprehensive income for the period</b>		<b>65.4</b>	<b>75.5</b>

The notes on pages 10 to 43 are an integral part of these financial statements.

# ALLIANZ INSURANCE PLC

## Balance Sheet as at December 31, 2010

	Notes	2010 £m	2009 £m
<b>ASSETS</b>			
Intangible assets	12	0.5	0.7
Investment in group undertakings	28	239.6	239.6
Loan to group undertaking		342.4	344.2
Property and equipment	13	15.2	16.0
Deferred acquisition costs	14	244.1	265.5
Deferred tax	16(a)	98.6	129.3
Reinsurance assets	17 & 23	380.4	450.6
Accrued income	18	26.2	25.1
Financial assets:			
Available for sale financial assets	19(a)	1,715.5	1,740.1
Loans	19(b)	1.1	3.0
Insurance receivables	20	507.4	396.7
Other receivables	21	136.5	150.6
Cash and cash equivalents	22	80.8	83.7
<b>Total assets</b>		<b>3,788.3</b>	<b>3,845.1</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	27	172.8	172.8
Share premium		5.2	5.2
Fair value reserve		36.8	42.7
Retained earnings		570.1	587.4
<b>Total equity</b>		<b>784.9</b>	<b>808.1</b>
<b>LIABILITIES</b>			
Insurance contracts' liabilities	23	2,548.5	2,593.8
Reinsurers' share of deferred acquisition costs	14	27.5	31.8
Financial liabilities		0.4	–
Insurance related payables	25	129.0	143.0
Tax payable	16(b)	20.8	26.2
Accruals and other payables	26	277.2	242.2
<b>Total liabilities</b>		<b>3,003.4</b>	<b>3,037.0</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,788.3</b>	<b>3,845.1</b>

These financial statements were approved by the Board of Directors on March 10, 2011 and signed on its behalf by

D A Torrance  
Director

The notes on pages 10 to 43 are an integral part of these financial statements.



# ALLIANZ INSURANCE PLC

## Statement of cash flows for the year ended December 31, 2010

	Notes	2010 £m	2009 £m
<b>Cash generated from operations</b>			
Cash generated from operating activities	29	1.1	(34.3)
Interest received	4	82.5	88.0
Dividends received	4	0.4	2.0
Income tax recovered/(paid)	16(b)	2.2	(26.7)
<b>Net cash inflow from operating activities</b>		<b>86.2</b>	<b>29.0</b>
<b>Cash flows from investing activities</b>			
Decrease/(increase) in loan to group undertaking	34	1.8	(0.6)
Decrease in loans	19(b)	1.9	0.8
Proceeds from financial liabilities	5	1.6	–
<b>Net cash outflow from investing activities</b>		<b>5.3</b>	<b>0.2</b>
<b>Cash flows from financing activities</b>			
Dividends paid during the year	11	(88.6)	(87.5)
<b>Net cash outflow from financing activities</b>		<b>(88.6)</b>	<b>(87.5)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2.9</b>	<b>(58.3)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	22	<b>83.7</b>	<b>146.6</b>
Effects of exchange rate changes on cash and cash equivalents		(5.8)	(4.6)
<b>Cash and cash equivalents at the end of the year</b>	22	<b>80.8</b>	<b>83.7</b>

The notes on pages 10 to 43 are an integral part of these financial statements.

# ALLIANZ INSURANCE PLC

## Statement of changes in equity for the year ended December 31, 2010

	Note	Share capital £m	Share premium £m	Fair value reserve £m	Retained earnings £m	Total £m
<b>Balance as at January 1, 2009</b>		172.8	5.2	67.9	574.2	820.1
Fair value losses on available for sale financial assets		–	–	(4.2)	–	(4.2)
Net change in fair value of available for sale financial assets transferred to profit or loss		–	–	(30.8)	–	(30.8)
Tax on fair value movements	10(d)	–	–	9.8	–	9.8
Profit for the year		–	–	–	100.7	100.7
<b>Total recognised (expense)/income for the year</b>		–	–	(25.2)	100.7	75.5
Dividends paid during the year		–	–	–	(87.5)	(87.5)
<b>Balance as at December 31, 2009</b>		172.8	5.2	42.7	587.4	808.1
Net change in fair value of available for sale financial assets		–	–	(1.5)	–	(1.5)
Net change in fair value of available for sale financial assets transferred to profit or loss		–	–	(6.9)	–	(6.9)
Fair value losses on property		–	–	(0.1)	–	(0.1)
Tax on fair value movements	10(d)	–	–	2.6	–	2.6
Profit for the year		–	–	–	71.3	71.3
<b>Total recognised (expense)/income for the year</b>		–	–	(5.9)	71.3	65.4
Dividends paid during the year		–	–	–	(88.6)	(88.6)
<b>Balance as at December 31, 2010</b>		172.8	5.2	36.8	570.1	784.9

The notes on pages 10 to 43 are an integral part of these financial statements.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 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 financial statements of the Company for the year ended December 31, 2010 were authorised for issue in accordance with a resolution of the Directors on March 10, 2011.

### 1.2 Statement of compliance

The financial statements of the Company 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
- Own use properties

These financial statements are compiled on a going concern basis

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.

Revised IAS 24 'Related Party Disclosures' – effective January 1, 2011

Amendments to IFRIC 14 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' – Effective January 1, 2011

### 1.4 Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance 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 2006, as it is a subsidiary undertaking of an EU parent (see note 31). The accounts present information about the Company as an individual undertaking and not about the group.

Shareholdings in subsidiary undertakings are reported at cost.

**Notes to the Financial Statements for the year ended December 31, 2010**

**1.4 Summary of significant accounting policies (continued)**

**(b) Property and equipment**

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

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

**(c) Intangible assets**

The Company applies the cost model to account for intangible assets. 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 statement of comprehensive income.

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

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

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

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

**(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.

**Notes to the Financial Statements for the year ended December 31, 2010**

**1.4 Summary of significant accounting policies (continued)**

**(f) Reinsurance assets (continued)**

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 statement of comprehensive income. 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.

**Notes to the Financial Statements for the year ended December 31, 2010**

**1.4 Summary of significant accounting policies (continued)**

**(i) Financial assets (continued)**

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

**(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 statement of comprehensive income.

**(k) Fair value reserve**

The fair value 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 statement of comprehensive income 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.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 1.4 Summary of significant accounting policies (continued)

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

##### **Realised gains and losses recorded in the statement of comprehensive income**

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

#### **(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 statement of comprehensive income, 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.

**Notes to the Financial Statements for the year ended December 31, 2010**

**1.4 Summary of significant accounting policies (continued)**

**(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 24. 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 £2,549m (2009: £2,594m).

**(b) Fair value of financial assets**

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

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

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

**Investment in equity securities**

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

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

**Investment in debt securities**

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

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



# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 2. Use of estimates, assumptions and judgements (continued)

#### (c) *Deferred tax asset*

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

### 3. Net insurance revenue

	Note	2010 £m	2009 £m
<b>(a) Gross written premiums</b>			
Direct insurance		1,589.4	1,515.1
Assumed reinsurance		5.0	7.2
<b>Total general insurance contracts premium revenue</b>	23	1,594.4	1,522.3
<b>Gross change in unearned premium provision</b>	23	(2.1)	(19.5)
<b><i>Total gross earned premiums</i></b>		1,592.3	1,502.8
<b>(b) Reinsurers' share of gross written premiums</b>			
Direct insurance		(110.7)	(109.2)
Assumed reinsurance		(2.1)	(3.1)
<b>Total reinsurers' share of general insurance contracts premium revenue</b>	23	(112.8)	(112.3)
<b>Reinsurers' share of change in unearned premium provision</b>	23	(19.8)	(28.6)
<b><i>Total reinsurers' share of gross earned premiums</i></b>		(132.6)	(140.9)
<b>Total net insurance revenue</b>		1,459.7	1,361.9

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

### 4. Investment income

	2010 £m	2009 £m
Available for sale financial assets		
Interest income	80.0	84.6
Dividend income	0.4	2.0
Cash and cash equivalents interest income	2.5	3.4
<b>Total investment income</b>	82.9	90.0

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 5. Net realised gains recorded in the statement of comprehensive income

	2010 £m	2009 £m
<b>Available for sale financial assets</b>		
Realised gains		
Equity securities	1.3	32.2
Debt securities	9.3	6.3
Realised losses		
Equity securities	(1.2)	(6.3)
Debt securities	(1.0)	(5.6)
<b>Financial liabilities</b>		
Realised gains	1.6	–
<b>Total net realised gains recorded in the statement of comprehensive income</b>	<b>10.0</b>	<b>26.6</b>

### 6. Net fair value losses recorded in the statement of comprehensive income

	2010 £m	2009 £m
Net loss on own use properties	(0.8)	(5.0)
Net loss on financial liabilities	(0.4)	–
<b>Total net fair value losses recorded in the statement of comprehensive income</b>	<b>(1.2)</b>	<b>(5.0)</b>

### 7. Other income

	2010 £m	2009 £m
Currency gains	–	0.7
Other income	–	–
	–	0.7

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 8. Other operating and administrative expenses

	Note	2010 £m	2009 £m
Acquisition costs		85.6	57.2
Movement in deferred acquisition costs	14	17.1	(17.8)
Administration expenses		117.1	128.1
<b>Total other operating and administrative expenses</b>		<b>219.8</b>	<b>167.5</b>

### 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, 2010 amounted to £0.3m (2009: £0.3m). Other services supplied pursuant to legislation was £nil (2009: £0.1m).

### 10. Income tax

	2010 £m	2009 £m
<b>(a) Current year tax charge</b>		
<b>Current tax:</b>		
United Kingdom corporation tax charge @ 28% (2009: 28%)	2.6	16.5
Prior year adjustment	(7.6)	(6.8)
<b>Total current tax</b>	<b>(5.0)</b>	<b>9.7</b>
<b>Deferred tax:</b>		
Reversal of temporary differences	30.7	32.6
<b>Total deferred tax</b>	<b>30.7</b>	<b>32.6</b>
<b>Total income tax charge</b>	<b>25.7</b>	<b>42.3</b>

With effect from April 1, 2011 the standard rate of corporation tax will be reduced to 27% from 28%, the applicable corporation tax rate for the year 2011 will be 27.25%.

	2010 £m	2009 £m
<b>(b) Tax charged to equity</b>		
Current tax	(2.6)	(10.1)
Deferred tax	–	0.3
<b>Total tax credit to equity</b>	<b>(2.6)</b>	<b>(9.8)</b>

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 10. Income tax (continued)

	2010 £m	2009 £m
<b>(c) Reconciliation of tax charge</b>		
<b>Profit before tax</b>	97.0	143.0
<b>Tax at 28% (2009: 28%)</b>	27.2	40.0
<b>Tax effect of:</b>		
Franked investment income	(0.6)	(0.2)
Disallowable (income)/expenses	(2.7)	7.5
Adjustment to tax charge in respect of prior years	(1.3)	(3.6)
Changes in statutory tax rate	3.1	–
Group relief at non-statutory rate	–	(1.4)
<b>Total tax charge for the year</b>	25.7	42.3

	2010 £m	2009 £m
<b>(d) Tax paid for cash flow purposes</b>		
<b>Current tax payable at January 1</b>	26.2	53.3
Amounts charged to the statement of comprehensive income	25.7	42.3
Amounts credited to equity	(2.6)	(9.8)
Movement in the deferred tax (asset)/liability in the statement of comprehensive income	(30.7)	(32.6)
Movement in the deferred tax liability in equity	–	(0.3)
Tax recovered/(paid) during the year	2.2	(26.7)
<b>Current tax payable at December 31</b>	20.8	26.2

### 11. Dividends

	2010 £m	2009 £m
<b>Dividends on ordinary shares:</b>		
Interim dividends paid 455.06p per share (2009: 448.82p)	80.8	79.7
<b>Dividends on preference shares:</b>		
Paid 5% non cumulative preference shares	7.8	7.8
	88.6	87.5

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 12. Intangible assets

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

The Company has considered whether there are any indications of impairment of the intangible assets at the balance sheet date. No indications of impairment were identified.

	Total £m
<b>Cost</b>	
<b>At January 1, 2009</b>	23.1
Additions	–
<b>At December 31, 2009</b>	23.1
Additions	–
<b>At December 31, 2010</b>	23.1
<b><i>Accumulated amortisation and impairment</i></b>	
<b>At January 1, 2009</b>	22.2
Amortisation charge for the year	0.2
<b>At December 31, 2009</b>	22.4
Amortisation charge for the year	0.2
<b>At December 31, 2010</b>	22.6
<b><i>Carrying amount</i></b>	
<b>At December 31, 2009</b>	0.7
<b>At December 31, 2010</b>	0.5

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 13. Property

	Total £m
<b><i>Cost or valuation</i></b>	
<b>At January 1, 2009</b>	21.0
Fair value losses in the statement of comprehensive income	(5.0)
<b>At December 31, 2009</b>	16.0
Fair value losses in the statement of comprehensive income	(0.8)
<b>At December 31, 2010</b>	15.2
<b><i>Carrying amount</i></b>	
<b>At December 2009</b>	16.0
<b>At December 2010</b>	15.2

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).

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 14. Deferred acquisition costs

<b>Gross</b>	2010 £m	2009 £m
<b>At January 1</b>	265.5	262.7
Foreign exchange adjustment	(0.1)	0.3
	265.4	263.0
Costs deferred during the year	409.4	373.9
Amortisation charge for the year	(430.7)	(371.4)
<b>At December 31</b>	244.1	265.5

<b>Reinsurance</b>	2010 £m	2009 £m
<b>At January 1</b>	31.8	47.0
Foreign exchange adjustment	(0.1)	0.1
	31.7	47.1
Costs deferred during the year	14.1	2.3
Amortisation charge for the year	(18.3)	(17.6)
<b>At December 31</b>	27.5	31.8

<b>Net</b>	2010 £m	2009 £m
<b>At January 1</b>	233.7	215.7
Foreign exchange adjustment	–	0.2
	233.7	215.9
Costs deferred during the year	395.3	371.6
Amortisation charge for the year	(412.4)	(353.8)
<b>At December 31</b>	216.6	233.7

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

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

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 15. Leases

	2010 £m	2009 £m
The total of future minimum lease payments under non-cancellation operating leases are set out below		
No later than one year	2.0	1.5
Later than one year and not later than five years	6.2	5.6
Later than five years	0.7	1.5
	8.9	8.6

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

	2010 £m	2009 £m
The total of future minimum sublease payments expected to be received under non-cancellable subleases at the balance sheet date	1.2	1.6

All sublease receipts were received by Allianz Management Services Limited.

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



# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 16. Tax assets and liabilities

	2010 £m	2009 £m
Deferred tax asset	98.6	129.3
<b>Total tax asset</b>	<b>98.6</b>	<b>129.3</b>
Tax payable	20.8	26.2
<b>Total tax liability</b>	<b>20.8</b>	<b>26.2</b>

(a) Deferred tax asset	2010 £m	2009 £m
<b>At January 1</b>	<b>129.3</b>	<b>162.2</b>
Claims equalisation reserve	(2.4)	(4.6)
Provisions and other temporary differences	0.2	0.2
Tax losses carried forward	(8.7)	(72.3)
Disallowed technical reserves	(11.2)	45.9
Prior year adjustment	(8.5)	(3.2)
Revaluation of investment securities	(0.1)	(0.3)
Revaluation of property and equipment	–	1.4
<b>At December 31</b>	<b>98.6</b>	<b>129.3</b>

	2010 £m	2009 £m
<b>At January 1</b>	<b>129.3</b>	<b>162.2</b>
Amounts charged to the statement of comprehensive income	(30.7)	(32.6)
Amounts charged to equity	–	(0.3)
<b>At December 31</b>	<b>98.6</b>	<b>129.3</b>

The receivable is all non current.

(b) Tax payable	2010 £m	2009 £m
<b>At January 1</b>	<b>26.2</b>	<b>53.3</b>
Amounts (credited)/charged to the statement of comprehensive income	(5.0)	9.7
Amounts credited to equity	(2.6)	(10.1)
Tax paid during the year	2.2	(26.7)
<b>At December 31</b>	<b>20.8</b>	<b>26.2</b>

	2010 £m	2009 £m
Current tax payable	5.8	15.4
Non current tax payable	20.0	10.8

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 17. Reinsurance assets

	2010 £m	2009 £m
Reinsurers' share of insurance contracts liabilities	380.4	450.6
<b>Total reinsurance assets</b>	<b>380.4</b>	<b>450.6</b>

For the current and non-current split, refer to note 23.

### 18. Accrued income

	2010 £m	2009 £m
Dividends	0.1	–
Interest	26.1	25.1
<b>Total accrued income</b>	<b>26.2</b>	<b>25.1</b>

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.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 19. Financial assets

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

	2010 £m	2009 £m
Available for sale financial assets	1,715.5	1,740.1
Loans and receivables	1.1	3.0
<b>Total financial assets</b>	<b>1,716.6</b>	<b>1,743.1</b>
	2010 £m	2009 £m
<b>(a) Available for sale financial assets</b>		
<b>At fair value</b>		
Equity securities		
Listed	11.6	10.9
Unlisted	43.6	–
<b>Total equity securities at fair value</b>	<b>55.2</b>	<b>10.9</b>
Debt securities		
Listed	1,644.6	1,712.3
<b>Total debt securities at fair value</b>	<b>1,644.6</b>	<b>1,712.3</b>
Deposits with credit institutions	15.7	16.9
<b>Total available for sale financial assets at fair value</b>	<b>1,715.5</b>	<b>1,740.1</b>
<b>At cost</b>		
Equity securities		
Listed	4.1	4.1
Unlisted	42.8	–
<b>Total equity securities at cost</b>	<b>46.9</b>	<b>4.1</b>
Debt securities		
Listed	1,602.2	1,659.9
<b>Total debt securities at amortised cost</b>	<b>1,602.2</b>	<b>1,659.9</b>
Deposits with credit institutions	15.7	16.9
<b>Total available for sale financial assets at cost</b>	<b>1,664.8</b>	<b>1,680.9</b>

Included within the deposits with credit institutions is £15.7m (2009: £16.9m) which the Company has pledged as collateral relating to the future settlement of insurance contracts liabilities.

During the year, the Company acquired a small non-controlling interest in a fellow Allianz SE subsidiary company. The holding is included within the unlisted total above, is not readily realisable and has been valued in accordance with the equity method as prescribed by IAS 28.

**ALLIANZ INSURANCE PLC**

**Notes to the Financial Statements for the year ended December 31, 2010**

**19. Financial assets (continued)**

<b>(b) Loans</b>	2010 £m	2009 £m
Other loans	1.1	3.0
<b>Total loans</b>	<b>1.1</b>	<b>3.0</b>

  

	2010 £m	2009 £m
Current loans	0.7	1.6
Non current loans	0.4	1.4

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

**20. Insurance receivables**

	2010 £m	2009 £m
Due from policyholders	198.4	91.9
Due from reinsurers *	21.4	20.6
Due from agents, brokers and intermediaries	287.6	284.2
<b>Total insurance receivables</b>	<b>507.4</b>	<b>396.7</b>

\* Included in amounts due from reinsurers are balances due from related parties of £4.7m (2009: £4.6m).

	2010 £m	2009 £m
Current insurance receivables	456.0	339.4
Non current insurance receivables	51.4	57.3

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

**21. Other receivables**

	2010 £m	2009 £m
Amounts due from related parties	100.9	111.1
Other	35.6	39.5
<b>Total other receivables</b>	<b>136.5</b>	<b>150.6</b>

	2010 £m	2009 £m
Current other receivables	123.9	135.9
Non current other receivables	12.6	14.7

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

22. Cash and cash equivalents

	2010 £m	2009 £m
Cash at bank	19.4	22.7
Short-term deposits (including demand and time deposits)	61.4	61.0
<b>Total</b>	<b>80.8</b>	<b>83.7</b>

Deposits are subject to an average interest rate 0.5% (2009: 0.4%) and have an average maturity of 1 day (2009: 1 days). The carrying amounts disclosed above reasonably approximate fair values at year end.

23. Insurance contracts' liabilities

	2010			2009		
	Insurance Contracts' Liabilities £m	Reinsurers' Share of Liabilities £m	Net £m	Insurance Contracts' Liabilities £m	Reinsurers' Share of Liabilities £m	Net £m
Provisions for claims reported by policyholders	1,466.4	(198.3)	1,268.1	1,470.9	(252.3)	1,218.6
Provisions for claims incurred but not reported	172.2	(97.6)	74.6	214.9	(93.9)	121.0
<b>Total claims reported and IBNR</b>	<b>1,638.6</b>	<b>(295.9)</b>	<b>1,342.7</b>	<b>1,685.8</b>	<b>(346.2)</b>	<b>1,339.6</b>
Provision for unearned premiums	909.9	(84.5)	825.4	908.0	(104.4)	803.6
<b>Total general insurance contracts' liabilities</b>	<b>2,548.5</b>	<b>(380.4)</b>	<b>2,168.1</b>	<b>2,593.8</b>	<b>(450.6)</b>	<b>2,143.2</b>
Current general insurance contracts' liabilities	1,096.5	(156.6)	939.9	1,109.9	(181.5)	928.4
Non current general insurance contracts' liabilities	1,452.0	(223.8)	1,228.2	1,483.9	(269.1)	1,214.8

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

	2010			2009		
	Insurance Contracts' Liabilities £m	Reinsurers' Share of Liabilities £m	Net £m	Insurance Contracts' Liabilities £m	Reinsurers' Share of Liabilities £m	Net £m
<b>At January 1</b>	<b>1,685.8</b>	<b>(346.2)</b>	<b>1,339.6</b>	<b>1,842.8</b>	<b>(412.9)</b>	<b>1,429.9</b>
Foreign exchange adjustment	3.4	(2.2)	1.2	(9.5)	4.9	(4.6)
	1,689.2	(348.4)	1,340.8	1,833.3	(408.0)	1,425.3
Claims incurred in the current accident year	1,057.1	(29.7)	1,027.4	985.1	(33.4)	951.7
Movement on claims incurred in prior accident years	(152.2)	6.5	(145.7)	(228.7)	57.4	(171.3)
Claims paid during the year	(955.5)	75.7	(879.8)	(903.9)	37.8	(866.1)
<b>At December 31</b>	<b>1,638.6</b>	<b>(295.9)</b>	<b>1,342.7</b>	<b>1,685.8</b>	<b>(346.2)</b>	<b>1,339.6</b>

**23. Insurance contracts' liabilities (continued)**

The provision for unearned premiums may be analysed as follows:

	Insurance Contracts' Liabilities £m	2010 Reinsurers' Share of Liabilities £m	Net £m	Insurance Contracts' Liabilities £m	2009 Reinsurers' Share of Liabilities £m	Net £m
<b>At January 1</b>	908.0	(104.4)	803.6	888.3	(133.0)	755.3
Foreign exchange adjustment	(0.2)	0.1	(0.1)	0.2	–	0.2
	907.8	(104.3)	803.5	888.5	(133.0)	755.5
Premiums written in the year	1,594.4	(112.8)	1,481.6	1,522.3	(112.3)	1,410.0
Premiums earned during the year	(1,592.3)	132.6	(1,459.7)	(1,502.8)	140.9	(1,361.9)
<b>At December 31</b>	909.9	(84.5)	825.4	908.0	(104.4)	803.6

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

The major classes of general insurance written by the Group include motor, household, commercial property, business interruption and liability. Risks under these policies usually cover a 12 month duration. The 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.

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

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

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of periodic payments established under the Courts Act 2003. As at the end of 2009 there were seven of these claims outstanding. During 2010, eight further settlements on this basis were agreed. Total reserves are £34.0m (2009: £12.1m) gross and £12.0m (2009: £1.9m) net of reinsurance. The corresponding undiscounted amounts are £67.6m (2009: £9.1m) gross and £16.0m (2009: £3.4m) net.

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

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

The ultimate cost of outstanding claims is estimated using a range of standard actuarial claims projection techniques, such as the Chain Ladder method. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are generally analysed separately from damage provisions.

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

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

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

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

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

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

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

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

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

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

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

Assumptions on claim reporting patterns are derived in the main from those historically observed, as described above. External claim handling costs are included in the cost of claims, while an assumption on the cost of internal claims handling has been made for each line of business. We have made an assumption that a currently unknown disease would cost a broadly similar amount to the known conditions connected with asbestos and industrial deafness.

Changes in assumptions from the prior period have caused a £100m gross decrease in insurance provisions. The net effect after reinsurance is £103m. The major reasons for this change are:

- Some savings achieved when some existing claims were settled.
- Changes in assumptions relating to future development patterns following changes in the claims handling organisation and processes over the past few years.
- Reduction in additional provisions held by management in addition to actuarial best estimates as claims mature.

Notes to the Financial Statements for the year ended December 31, 2010

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

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

**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.

Gross of insurance	Note	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £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	1,037.8	997.8	1,058.0	
One year later		1,069.3	982.5	899.4	997.9	1,082.9	982.8	1,112.1	1,001.1	998.1		
Two years later		1,035.7	955.1	856.1	955.4	1,026.0	921.1	1,056.6	968.9			
Three years later		990.4	940.4	866.4	911.3	993.2	886.5	1,046.1				
Four years later		983.9	938.5	863.0	889.1	958.2	880.2					
Five years later		985.2	914.6	849.4	873.3	945.5						
Six years later		969.7	906.9	842.1	868.3							
Seven years later		973.8	905.9	831.5								
Eight years later		967.1	907.8									
Nine years later		965.1										
Current estimate of cumulative claims		965.1	907.8	831.5	868.3	945.5	880.2	1,046.1	968.9	998.1	1,058.0	9,469.5
Cumulative payments to date		(916.5)	(874.0)	(773.2)	(794.3)	(874.8)	(807.0)	(905.9)	(807.2)	(720.9)	(540.8)	(8,014.6)
Reserve in respect of prior years												183.6
<b>Total gross liability as per the balance sheet</b>	23	48.6	33.8	58.3	74.0	70.7	73.2	140.2	161.7	277.2	517.2	1,638.5

Net of reinsurance	Note	2001 £m	2002 £m	2003 £m	2004 £m	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m	2010 £m	Total £m
Accident year		725.5	759.8	855.7	912.5	993.5	898.5	1,051.6	996.6	968.4	1,037.6	
One year later		705.5	704.9	756.9	808.9	889.4	862.1	1,038.4	961.0	953.3		
Two years later		713.8	704.1	722.0	777.0	846.7	815.2	1,002.9	937.1			
Three years later		696.7	691.5	716.4	748.4	812.7	793.9	994.4				
Four years later		704.9	698.8	694.5	728.5	790.5	785.2					
Five years later		707.5	681.6	678.7	717.3	785.6						
Six years later		659.2	672.3	674.0	711.5							
Seven years later		656.8	669.8	669.2								
Eight years later		655.0	669.4									
Nine years later		654.9										
Current estimate of cumulative claims		654.9	669.4	669.2	711.5	785.6	785.2	994.4	937.1	953.3	1,037.6	8,198.2
Cumulative payments to date		(640.3)	(658.0)	(647.7)	(679.8)	(735.6)	(729.9)	(869.7)	(782.7)	(711.7)	(538.0)	(6,993.4)
Reserve in respect of prior years												137.8
<b>Total net liability as per the balance sheet</b>	23	14.6	11.4	21.5	31.7	50.0	55.3	124.7	154.5	241.6	499.6	1,342.6



# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

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

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 2010 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.

### 25. Insurance related payables

	2010 £m	2009 £m
<b>Arising out of direct insurance operations</b>		
Third parties	87.2	96.3
	87.2	96.3
<b>Deposits received from reinsurers</b>		
Third parties	0.2	0.2
	0.2	0.2
<b>Arising out of reinsurance operations</b>		
Amounts due to related operations	3.8	2.3
Third parties	37.8	44.2
	41.6	46.5
<b>Total insurance related payables</b>	<b>129.0</b>	<b>143.0</b>
	2010 £m	2009 £m
Current insurance related payables	128.8	142.8
Non current insurance related payables	0.2	0.2

### 26. Accruals and other payables

	2010 £m	2009 £m
Amounts due to related parties	182.8	123.4
Accrued expenses	3.3	4.1
Social security and other taxes	15.2	12.3
Other	75.9	102.4
<b>Total accruals and other payables</b>	<b>277.2</b>	<b>242.2</b>

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

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 27. Share capital

	Allotted, called up and fully paid	
	2010 £	2009 £
Ordinary non-voting shares of £1 each fully paid	17,757,609	17,757,609
5% cumulative preference voting of £1 each fully paid	1,000	1,000
5% non cumulative preference of £1 each fully paid	155,000,000	155,000,000
	<b>172,758,609</b>	<b>172,758,609</b>

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.

### 28. Investment in group undertakings

The principal subsidiary undertakings of the Company at December 31, 2010 are shown below.

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

	2010 £m	2009 £m
<b>Balance at January 1,</b>	239.6	264.1
Disposal	–	(24.5)
<b>Balance at December 31,</b>	<b>239.6</b>	<b>239.6</b>

The disposal in 2009 relates to the winding up of subsidiary companies Ajax Holdings Limited and The Ajax Insurance Association Limited.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 29. Cash generated from operating activities

	Notes	2010 £m	2009 £m
<b>Profit before tax</b>		97.0	143.0
Investment income	4	(82.9)	(90.0)
<i>Non cash items</i>			
Amortisation of intangible assets	12	0.2	0.2
Amortisation of AFS financial assets		15.9	8.2
Amortisation of net deferred acquisition costs	14	412.4	353.8
Net acquisition costs deferred during the year	14	(395.3)	(371.6)
Realised loss from disposal of subsidiary		–	24.5
Impairment of AFS financial assets		–	1.8
Net realised gain from sale of available for sale financial assets	5	(8.4)	(26.6)
Net realised gain from financial liability		(1.6)	–
Net fair value losses on financial liabilities		0.4	–
Net fair value losses on own use properties		0.8	5.0
Purchase of available for sale financial assets		(700.3)	(891.7)
Proceeds from sale of available for sale financial assets		709.6	767.0
Currency losses		6.2	0.7
<i>Changes in working capital</i>			
Decrease in reinsurance assets	23	72.3	87.3
Increase in accrued income	18	(1.1)	(1.1)
(Increase)/decrease in insurance receivables	20	(110.7)	2.9
Decrease in other receivables	21	14.1	9.5
Decrease in insurance contracts' liabilities	23	(48.5)	(124.8)
Decrease in insurance related payables	25	(14.0)	(6.2)
Increase in accruals and other payables	26	35.0	73.8
<b>Cash generated from operations</b>		1.1	(34.3)

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.

**30. 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 (2009: £5m) in respect of casualty losses arising mostly from motor and liability insurance and £4m (2009: £4m) in respect of property and business interruption claims after the erosion of a £8m (2009: £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 (2009: £30m). Based upon the modelling work undertaken, the Company buys reinsurance protection for a single event up to a maximum claim of £530m (2009: £650m). In order to protect its risk capital from extreme events the Company also purchases catastrophe reinsurance for loss events in excess of £530m (2009: £683m) up to a limit of £1,018m (2009: £1,459m).

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.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 30. Risk management policies (continued)

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 2010	Gross £m	Reinsurers'	
		Share £m	Net £m
Motor	584.7	(77.4)	507.3
Household	28.7	(0.6)	28.1
Property and business interruption	309.2	(95.2)	214.0
Liability	525.0	(82.8)	442.2
Speciality pecuniary	72.6	(4.0)	68.6
Other	118.4	(35.9)	82.5
<b>Total</b>	<b>1,638.6</b>	<b>(295.9)</b>	<b>1,342.7</b>

Claims Liabilities 2009	Gross £m	Reinsurers'	
		Share £m	Net £m
Motor	591.6	(63.9)	527.7
Household	29.4	(1.0)	28.4
Property and business interruption	296.8	(109.5)	187.3
Liability	562.7	(119.6)	443.1
Speciality pecuniary	68.6	(4.8)	63.8
Other	136.7	(47.4)	89.3
<b>Total</b>	<b>1,685.8</b>	<b>(346.2)</b>	<b>1,339.6</b>

Note 24 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.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 30. Risk management policies (continued)

#### (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, 2010 the average duration of the fixed interest and cash and cash equivalent portfolios was 2.4 years (2009: 2.3 years) compared with the average duration of the insurance contracts liabilities which is estimated to be 2.1 years (2009: 2.4 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 £2.7m (2009: £2.8m).

#### iii) Currency risk

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

The Company has a policy of broadly matching currency liabilities with assets denominated in the same currency in order to minimise currency risk. Rebalancing of net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values. At December 31, 2010 the Company held Euro 110m of foreign exchange forward contracts to minimise the impact of comprehensive income arising from exposure to the Euro. At December 31, the largest currency exposures were:

	2010 £m	2009 £m
<b>US Dollars</b>		
Assets	74.6	72.6
Liabilities	72.2	64.1
<b>Euro</b>		
Assets	141.6	26.9
Liabilities	23.7	26.6

**Notes to the Financial Statements for the year ended December 31, 2010**

**30. Risk management policies (continued)**

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.

A

	2010 Profit/(loss) £m	2010 Equity £m	2009 Profit/(loss) £m	2009 Equity £m
<b>Interest rate risk</b>				
+100 basis points shift in yield curves	–	(27.7)	–	(23.4)
-100 basis points shift in yield curves	–	29.2	–	21.0
<b>Equity risk</b>				
10% increase in equity prices	–	4.0	–	0.8
10% decrease in equity prices	–	(4.0)	–	(0.8)
<b>Currency risk</b>				
10% increase in US Dollar	0.2	0.2	0.9	0.6
10% decrease in US Dollar	(0.2)	(0.2)	(0.9)	(0.6)
10% increase in Euro	2.4	1.7	–	–
10% decrease in Euro	(2.4)	(1.7)	–	–

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.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 30. Risk management policies (continued)

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, 2010 was £115.7m (2009: £96.5m).

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.

	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
<b>2010</b>								
Reinsurance assets	0.6	217.4	105.0	0.5	–	2.3	54.6	380.4
Available for sale financial assets	1,355.6	135.1	166.7	56.5	–	–	1.6	1,715.5
Loans	–	–	–	–	–	–	1.1	1.1
Insurance receivables (1)	0.1	132.2	63.7	11.3	7.6	0.3	292.2	507.4
Cash and cash equivalents	44.0	29.6	7.1	–	–	–	0.1	80.8
<b>Total £m</b>	<b>1,400.3</b>	<b>514.3</b>	<b>342.5</b>	<b>68.3</b>	<b>7.6</b>	<b>2.6</b>	<b>349.6</b>	<b>2,685.2</b>
Percent	52.1	19.2	12.8	2.5	0.3	0.1	13.0	100.0
<b>2009</b>								
Reinsurance assets	5.6	179.1	126.4	0.4	–	5.4	133.7	450.6
Available for sale financial assets	1,424.1	151.9	126.6	33.6	–	–	3.9	1,740.1
Loans	–	–	–	–	–	–	3.0	3.0
Insurance receivables (1)	0.3	77.8	78.9	42.6	–	–	198.0	397.6
Cash and cash equivalents	4.3	35.9	43.5	–	–	–	–	83.7
<b>Total £m</b>	<b>1,434.3</b>	<b>444.7</b>	<b>375.4</b>	<b>76.6</b>	<b>–</b>	<b>5.4</b>	<b>338.6</b>	<b>2,675.0</b>
Percent	53.6	16.6	14.0	2.9	–	0.2	12.7	100.0

1. Included in the not rated balance is £198.4m (2009: £90.2m) 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.



# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 30. Risk management policies (continued)

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 2010 £m	Insurance receivables 2010 £m	Reinsurance assets 2009 £m	Insurance receivables 2009 £m
Neither past due or impaired	363.4	468.3	435.0	342.2
Past due but not impaired	–	34.3	–	43.9
Individually impaired	17.0	4.8	15.6	10.6
<b>Total</b>	<b>380.4</b>	<b>507.4</b>	<b>450.6</b>	<b>396.7</b>

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.

	Less than 90 days £m	90 -120 days £m	120-180 days £m	More than 180 days £m	Total £m
<b>2010</b>					
Policyholders	0.1	–	–	–	0.1
Brokers	16.8	2.1	7.8	4.3	31.0
Reinsurers	0.4	–	–	2.8	3.2
<b>Total</b>	<b>17.3</b>	<b>2.1</b>	<b>7.8</b>	<b>7.1</b>	<b>34.3</b>
<b>2009</b>					
Policyholders	0.2	–	–	–	0.2
Brokers	24.0	6.1	6.7	4.7	41.5
Reinsurers	0.5	0.2	0.2	1.3	2.2
<b>Total</b>	<b>24.7</b>	<b>6.3</b>	<b>6.9</b>	<b>6.0</b>	<b>43.9</b>

#### Fair value hierarchy

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

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

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

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

	Fair value of as December 31, 2010			
	£m	Level 1 £m	Level 2 £m	Level 3 £m
<b>Available for sale financial assets</b>				
Equity securities	55.2	55.2	–	–
Government and government agency bonds	1,017.4	1,017.4	–	–
Corporate bonds	627.2	180.3	446.9	–
Deposits with credit institutions	15.7	15.7	–	–
<b>Total</b>	<b>1,715.5</b>	<b>1,268.6</b>	<b>446.9</b>	<b>–</b>

**30. Risk management policies (continued)**

**(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, 2010 amounted to £1,716.6m (2009: £1,743.1m) plus cash and cash equivalents of £80.8m (2009: £83.7m). 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.

<b>Insurance liabilities</b>	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
2010	1,638.6	705.0	375.0	404.3	127.4	26.9
2009	1,685.8	721.4	366.8	441.8	130.9	24.9

**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.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 30. Risk management policies (continued)

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 £779.9m (2009: £808.1m).

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

### 31. 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.

### 32. Contingencies and commitments

#### Legal proceedings and regulations

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

### 33. 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 its parent undertaking Allianz Holdings plc.

### 34. 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:

	2010 £m	2009 £m
<b>Sale of</b>		
Insurance contracts to related parties	–	(0.2)
<b>Purchase of</b>		
Administration and claims handling services	226.2	288.4
Dividends paid to the parent	86.9	85.7
Reinsurance contracts from related parties	60.3	54.3
Group tax relief from related parties	1.3	4.1

Reinsurance contracts are made at normal arms length transaction basis.

# ALLIANZ INSURANCE PLC

## Notes to the Financial Statements for the year ended December 31, 2010

### 34. Related party transactions (continued)

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

	2010 £m	2009 £m
<b>Due from related parties at December 31,</b>		
Parent	30.5	47.9
Subsidiaries	30.6	8.1
Other related parties	39.8	55.1
<b>Total</b>	<b>100.9</b>	<b>111.1</b>
<b>Due to related parties at December 31,</b>		
Subsidiaries	150.7	71.8
Other related parties	32.1	51.6
<b>Total</b>	<b>182.8</b>	<b>123.4</b>
<b>Loan to related parties at December 31,</b>		
Subsidiaries	2.4	4.2
Parent	340.0	340.0
<b>Total</b>	<b>342.4</b>	<b>344.2</b>

The loan to the Parent carries 5.375% annually.

The loan to subsidiaries carried 2.7% 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.