Registered Number: 84638

Annual Report and Financial Statements 2019

Allianz Insurance plc

Directors:	R O Hudson (Chairman)	
	C W T Dinesen	
	J M Dye	
	R M Murison	
	D A Torrance	
	D J Larnder	
	N C Peiris	(appointed 07.02.19)
	F K Dyson	(appointed 11.04.19)
	S Treloar	(appointed 01.01.20)
Secretary:	T A Beicken	(appointed 08.11.19)
	S J Hutchings	(resigned 08.11.19)
Registered Office:	57 Ladymead, Guildford, Surrey, GU1 1DB	
Registered No:	84638	

Strategic Report

The Directors present their Strategic Report for the year ended December 31, 2019.

Principal activities

Allianz Insurance plc (“Allianz” or “the Company”) is one of the top five general insurers in the United Kingdom (“UK”) measured by gross written premium. The Company offers a wide range of products and has a presence in most general insurance markets. However, it concentrates resources on markets and products which will deliver the best return for shareholders. The Company distributes its products almost entirely in UK.

The Company is organised as one trading division distributing commercial products under a number of brands, supported by its service divisions - Technical, Claims, Operations, Finance, HR and IT. An analysis of the 2019 results and the prospects for 2020 are set out below.

The Company has a quota share of 40% with an Allianz SE Group reinsurance company. This has the benefit of improving its solvency position. Further, it keeps the profits generated by the UK business entirely within the wider Allianz SE Group. The UK management remains responsible for optimising the results of the business prior to this quota share. For this reason, and to facilitate comparisons with prior years, the numbers quoted in this commentary are before quota share, unless stated otherwise.

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

Business review

The impact of the Coronavirus disease (‘COVID-19’) is noted in principal risks and uncertainties below.

The Group’s overall performance and investment has been widely recognised both within and beyond the insurance industry and a number of awards have been won in recent years. 2019 was an outstanding year for Allianz at the British Insurance Awards where we won four of the major awards: General Insurer of the Year, Commercial Lines Insurer of the Year, Business Sustainability Initiative of the Year and Transformational Deal of the Year. Allianz also excelled at the Insurance Times Awards where we achieved Commercial Lines Insurer of the Year, Fleet Product of the Year, and Jon Dye was awarded CEO of the Year. Globally, Allianz was also recognised as the number one insurance brand in the 2019 Interbrand Best Global Brand Rankings. This recognition is a fantastic reflection of all the hard work that’s been going on around our business and the strength of Allianz globally.

On December 31, 2019, having secured regulatory approval the Group completed the acquisition of the remaining 51% of the Liverpool Victoria General Insurance Group Limited (LV= GI). The business transfers which formed part of the original deal have now completed with the Company’s personal home and motor business moving to LV= GI and LV= GI’s commercial business moving to the Company.

Within Commercial lines, benign weather conditions and improved performance in relation to prior years partially offset large losses and claims inflation running ahead of price increases.

Strategic Report (continued)

Business review (continued)

In Personal lines, our Animal Health business continued to deliver profitable growth. The Motor account produced a profit as a result of prior year claims releases as the business runs off while the Household business, which is also in run-off, saw poor claims experience and returned a loss.

Gross written premiums reduced to £1,990.7m from £2,038.1m in 2018, a 2.3% decrease. Commercial lines grew by 9.3% driven by rate strength and the inflow of the LV= GI business transfers. Personal lines shrank by 18.3%, largely driven by the transfer of motor and household insurance to LV= GI, as well as the termination of poor performing business which more than offset the 6.4% increase seen in Animal Health.

Intermediary commissions increased marginally reflecting ongoing consolidation in the Broker Market and a slight shift in overall business mix. Premium rate increases have been below claims inflation and further rate strength is needed across all Commercial lines of business.

Profit before tax increased from £54.4m to £69.3m and included £82.0m of dividends received. The 2019 performance was however impacted by £38.7m Payment Protection Insurance ("PPI") redress payments. The 2018 result included an Ogden related release of £26.0m driven by the revision of the actuarial best estimate to 0%. The Ogden rate change to -0.25% announced in July 2019 had a minimal adverse impact to claims reserves.

The Company looks to leverage the skills, expertise and scale of the wider Allianz Group. In particular, we're heavily committed to the Allianz SE Group's Renewal Agenda, which focuses on five important themes: customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. The business strategy "Simplicity Wins - Renewal Agenda 2.0" was presented at the Capital Markets Day on November 30, 2018. It builds on the successfully implemented Renewal Agenda 1.0 and incorporates an ambition of simplicity for its operating entities through its key strategic objectives of Outperform, Transform and Rebalance. Outperform focuses on making ourselves even more productive and benchmarking our capabilities against best-in-class to continually improve our customer experience while Transform focuses on reducing complexity and becoming more digital and Rebalance encourages focus on new growth opportunities. We are already strong in these aspects of our business and the recent acquisition of LV= GI and Legal & General Insurance Limited's general insurance business ("L&G GI") in the UK represents a leading example of Rebalance. We will continue to utilise these themes locally to drive our business forward.

Key performance indicators

The key financial performance indicators monitored by the Company are:

	2019	2018
Gross written premium (£m)	1,990.7	2,038.1
Net written premium (£m)	1,874.9	1,912.1
Underwriting results (£m)	46.1	70.4
Profit before tax (£m)	69.3	54.4
Claims ratio	66.4%	64.8%
Expense ratio	31.1%	31.6%
Combined ratio	97.5%	96.4%

- Underwriting results are quoted before the impact of quota share reinsurance and are the sum of premiums earned less incurred claims and expenses. The underwriting result can be reconciled to the profit before tax reported in the statement of comprehensive income on page 20 as follows:

	£m	£m
Underwriting result	46.1	70.4
Impact of quota share	(18.4)	(28.8)
Investment income net of finance costs	81.7	41.8
Net realised gains	7.3	4.3
Other operating and administrative expenses	(47.4)	(33.3)
Profit before tax	69.3	54.4

- Claims ratio is defined as incurred claims as a percentage of earned premiums.
- Expense ratio is defined as incurred expenses and commission as a percentage of earned premiums.
- Combined ratio is defined as incurred claims, expenses and commission as a percentage of earned premiums.

Strategic Report (continued)

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

Net Promoter Score performance - Commercial:
- Achievement: Above Market in 2019.
- Target: Achieve Loyalty Leader by 2020.

Net Promoter Score performance – Pet
- Achievement: Achieved Loyalty Leader in 2019.
- Target: Maintain sole Loyalty Leader in 2020.

Net Promoter Score ("NPS") is an important indicator of our customer service which captures customer and brokers' willingness to recommend us and is benchmarked against our competitors. We ask our customers, and those of our competitors', for honest and anonymous feedback and then benchmark the results.

Data Protection

- Achievement: Completion of preparation work to deliver appropriate structures and procedures to assume statutory data protection responsibility for LV= GI and L&G GI, upon change in control.
- Target: Continue to implement data management principles as noted in the Allianz Standard for Information and Document Management, ongoing management of third party contracts and strengthening the privacy by design culture.

Principal risks and uncertainties

The principal risks facing the Company are outlined in the risk management note on page 50.

On March 11, 2020 the World Health Organisation confirmed that the outbreak of COVID-19 is a global pandemic and is a new and significant source of uncertainty for the Company in 2020. Preventative actions are being taken by the UK government such as restricting the public on non-essential travel, working from home, closure of businesses, postponing events and public gatherings. This has had an immediate impact to the domestic and global economies and financial markets, creating uncertainty for people and businesses. Consequently, insurance companies like Allianz are assessing the impact of COVID-19 on general insurance products as explained below.

The Company is closely monitoring the situation as it develops to maintain its service to customers and manage both operational and economic risk. There is close alignment and interaction to ensure the Company is operating in accordance with government advice and benefiting from the wider Allianz Group response.

Our values will drive our decision making as the Company works through this challenging time, with a focus on putting our people first and prioritising existing and emerging customer needs.

The Company is responding to the COVID-19 situation using well established business resilience and crisis management procedures. A crisis team meets daily ensuring that clear communication and quick decision making is enabled. The key risks this crisis presents are both operational and financial. These risks are being actively monitored and managed on a daily basis. Regular communications are taking place involving the directors of the Company to keep all staff informed throughout the period of uncertainty. The risks have largely come to the fore from late February onwards as new information has emerged and the government response has developed.

The operational risks from COVID-19 are largely being addressed by increasing homeworking capability and reducing non-priority activity. Work has been prioritised to support claims payments and existing customers. Our offices remain open for a small number of key workers who are unable to work from home.

Financial risks which are being assessed and responded to include adverse movements in investments held, in particular the increase in spreads on the corporate bond portfolio. In respect of underwriting risk we anticipate an increase in business interruption claims which will be offset by fewer claims on motor, liability and pet insurance products as a consequence of the government instruction for people to stay at home. Reinsurance arrangements in place provide further mitigation.

The Company is regularly assessing the disruption from risks posed by the COVID-19 pandemic to businesses insured by the Company. The operational and financial impacts on the solvency position are being closely monitored in light of these emerging risks. The Company's existing Risk Management framework is designed to cope with stresses and is responding to the current crisis. The impact as noted above is in some cases positive and in others causes a strain.

Strategic Report (continued)

Principal risks and uncertainties (continued)

We continue to assess the level of solvency against the Company risk appetite and have defined a number of contingency actions we would take in the event that the solvency position becomes under stress and needs addressing.

The Company expects to continue to meet its solvency and capital requirements as required by regulation. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

Future Outlook

Premium income at a gross level is expected to increase modestly in 2020 with the underlying growth in the Commercial and Animal Health business. The quota share reinsurance will remain at 40% for 2020, which will continue to reduce net premium income in return for a reduction in the capital required. There remains a risk that both growth and profitability may be tempered by the continuation of the current difficult market and by the impact of the economy on our customers. However, profitability is expected to improve further through 2020 as rate increases are applied and the benefits of the continuing investment in productivity initiatives and Technical Excellence are realised. The Company remains very vigilant with respect to claims fraud. By definition, insurance is an uncertain business and profitability in 2020 could also be influenced by a higher than expected level of major claims or weather events.

We move into 2020 in a strong position despite the ongoing competitive market conditions in the UK and the challenges presented in light of Brexit and the uncertainties surrounding the COVID-19 pandemic noted. The completion of the transfers of business between Allianz and LV=GI, the establishment of shared services to support these businesses and the completion of the LV= GI and L&G GI deals have created a tremendously strong platform from which we can grow profitably.

There remains surplus capacity in the insurance market and our customers are rightly as price-conscious as ever, so we expect market conditions to remain extremely competitive. Nevertheless, the Group is well equipped through its customer relationships, strong service delivery, wide range of products, robust financial position and a knowledgeable and dedicated workforce to meet these challenges and continue to be successful in 2020.

Brexit

The UK formally left the European Union (“EU”) on January 31, 2020. There will now be a period of transition until December 31, 2020 where the UK and EU continue to negotiate, there remains a risk that a trade deal is not reached. This scenario could lead to inflationary pressure driven by exchange rate movements and labour shortages. As a result, the outcome of Brexit remains uncertain and management continue to monitor the potential impacts on the business. With operations based in the UK and minimal risk exposure outside the UK, management feel that the Company is well placed to respond to any potential outcome.

Going Concern

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

There is undeniably significant uncertainty surrounding the impact of COVID-19 on the business. However, an assessment by line of business indicates that solvency can be maintained above regulatory requirements and there is liquidity to support operations.

Business continuity activity to move to home working has been effected at speed and without material customer detriment. Key activities have been maintained, e.g., frontline service, payments and IT systems. The Company continues to work closely with its suppliers to understand and manage the impact of COVID-19 on our supply chain.

The COVID-19 development has led to significant reductions in market values in the early part of 2020 and heightened volatility. Stock markets have fallen sharply, and the Bank of England and government have taken unprecedented steps in response with base rates reduced to a historic low of 0.1% and broad financial support measures have been introduced to try to support the economy. It is anticipated that the UK will enter a period of recession in 2020 due to this economic shock.

Strategic Report (continued)

Going Concern (continued)

Management are regularly assessing the impact on the financial, liquidity and solvency position with actions in place to respond where appropriate. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

The Board will continue to monitor the situation closely and take appropriate action as necessary.

Section 172(1) Companies Act 2006 Statement

The Allianz Board of Directors have acted in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have had regard to the matters set out in section 172(1) of the Companies Act 2006 (the "Act").

From the perspective of the board, as a result of the Group's governance structure (whereby the Company's board is embedded within the Allianz Holdings plc Board and its management board (the principal executive board committee)), the matters that it is responsible for considering under section 172(1) of the Act have been considered to an appropriate extent by the Allianz Holdings plc Board and its committees in relation to the Group and the Company. The Company's board meets quarterly and holds other ad hoc meetings where appropriate.

Stakeholders, their interests and the manner in which the Company engages with them, are integral to how the Company conducts business. When strategic and operational decisions are considered by the board, the broader impacts on stakeholders are taken into account and this approach is embedded within the Group governance structure. The Company has reported against The Wates Corporate Governance Principles for Large Private Companies which explains how the board makes decisions for the long term success of the Company and its stakeholders. That Corporate Governance Report can be found on pages 8 to 12. Details of the Company's engagement activities in relation to its stakeholders are detailed below:

Employees
The Company does not employ any staff. During the year, Allianz Management Services Limited ("AMS"), a company within the Group, provided administration services and staff to the Company and to other Group companies. AMS has a high level of resources and expertise which benefit the Company. Various methods of employee engagement are used by AMS and the Group, such as town halls, staff newsletters and the annual Allianz Engagement Survey ("AES"), which is a valuable employee feedback platform and an indicator of Allianz's corporate culture. Employee engagement is a high priority at Allianz as our people are expected to perform with commitment and integrity delivering excellent outcomes for our customers. Allianz monitors employee engagement and company culture through the Inclusive Meritocracy Index which covers aspects of leadership, performance, collaboration, trust and respect. The slightly revised and more comprehensive Work Well Index plus covers aspects of the quality of the work environment, practices and opportunities.

Customers
Customer centricity is fundamental to the Company's growth and development and is key to the Allianz SE Group-wide "Simplicity Wins – Renewal Agenda 2.0" business strategy which the Company has adopted. This strategy incorporates an ambition of simplicity designed to provide an even better service to customers, reducing complexity and making the Company even more productive. Customer centricity also enables the Company to understand its customers better through listening to and focussing on their needs. The Company is also constantly reviewing its product offerings in consultation with its customers to ensure it is meeting the changing needs of its customers. For instance, customer consultation has resulted in a new cyber product which was developed in partnership with Allianz Global Corporate and Specialty and aimed primarily at mid-corporate customers. In respect of the Company's broader customer service offering, a new Risk Management website was launched featuring new business support tools.

Suppliers
Proposed material supplier contracts, either strategic or by reason of size and significance to the Company, are considered by the board following initial meetings and negotiations by procurement and commercial teams and direct engagement with senior management. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures certain standards are met in relation to ethics, labour and the environment. During the year, a Supplier Relationship Management team was set up in procurement specifically to assist teams across the Group with the management of supplier relationships. By virtue of the aforementioned embedding of the board into the Allianz Holdings plc Board, the management board assumes day to day responsibility for implementing procedures to effect material contracts and for their ongoing monitoring and performance assessment.

Strategic Report (continued)

Section 172 Companies Act 2006 Statement (continued)

Suppliers (continued)
As a consequence, the Company's board will therefore give due consideration to intended supplier arrangements, their suitability and ability to meet the Company's requirements and the ease with which a productive and mutually-beneficial working relationship can be established and maintained with each supplier.

Regulators
Guidance, policy statements, Dear CEO letters, reports and other forms of publication issued by the Company's regulators from time to time are examined and discussed by the board and taken into account when considering matters for approval. These deliberations are appropriately minuted. The board's non-executive directors have direct contact and dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which will then be brought into discussions of the board. Other engagement methods with regulators include regular meetings and responding to regulatory market reviews. The Group prides itself on maintaining a candid and transparent relationship with all of its regulators.

In relation to its Regulatory requirements, the board also reviewed and approved its relevant Solvency II Reports.

Community and the Environment
An Environmental, Social, Governance strategy is being introduced with the aim of the Company achieving the status of a responsible insurer, committed corporate citizen and a trusted company. Further details of the Company's initiatives are set out in the Corporate Governance Report on pages 8 to 12 of this Annual Report.

Board decision-making
The board is currently reviewing its processes to ensure that a formal analysis is carried out of how material decisions that it is required to approve will impact the Company's key stakeholders groups.

This analysis is in support of the board's duties pursuant to section 172 of the Companies Act 2006 and will ensure that all potential impacts on stakeholders continue to be considered before board approval is requested.

During the year the Directors took the following principal decisions:

Payment of dividend
As described on page 7, an interim dividend was paid during the year to the Company's shareholder, Allianz Holdings plc. Following consideration of the effect of the dividend on the shareholder and the Group and also on the future performance of the Company and the Group, the dividend amount was considered appropriate and therefore in the interests of relevant stakeholders.

2019 Business Plan
In approving the 2019 business plan, the Directors had regard to the future outlook for the Company and how it would affect all stakeholders.

By order of the Board

F K Dyson
Director

April 7, 2020

Directors' Report

The Directors present their report and the audited financial statements for the year ended December 31, 2019.

Stakeholder Engagement statement
Details of how the board has fulfilled its duties to engage with its stakeholders under The Companies (Miscellaneous Reporting) Regulations 2018 is contained in the Section 172(1) Companies Act 2006 statement on pages 5 to 6 of the Strategic Report.

Directors
The Directors of the Company who were in office during the year are shown on page 1.

Results and Dividends
The results for the year are set out in the Statement of Comprehensive Income on page 20.

An interim dividend of £175.0m was paid during the year ended December 31, 2019 (2018: £175.0m).

Future outlook
The future outlook for the Company is outlined in the Strategic Report on page 4.

Financial Instruments
The Company's policies in respect of financial instruments are given in Note 29 to the Financial Statements.

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

One.Finance
In 2016, the Allianz SE Group launched a project "One.Finance". Included in the objectives is compliance with the forthcoming standards IFRS 9 Financial instruments and IFRS 17 Insurance contracts. The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The Group have established parallel work streams in the UK supporting the overall Allianz SE Group project.

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

Auditor
PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor, a resolution proposing the re-appointment of PricewaterhouseCoopers LLP will be submitted at the Annual General Meeting.

Directors' Report (continued)

Corporate Governance Report

For the year ended December 31, 2019 Allianz applied the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles") (which was published by the Financial Reporting Council in December 2018) to its business, and in accordance with The Companies (Miscellaneous Reporting) Regulations 2018 this report sets out how the Wates Principles were applied.

The Company is a wholly owned subsidiary of Allianz Holdings plc and leverages the governance structure of the Group.

Principle One – Purpose and Leadership

Purpose
Allianz strives constantly to be a responsible business, a committed corporate citizen and a sustainable insurer. Customer centricity is of paramount importance; customers are at the heart of what we do and their needs instruct directly our business and the products and services we design and sell.

The board seeks to apply these principles to its decision-making process and actively promotes them to the wider business and other stakeholders. Allianz seeks to be a strong voice within the industry, to highlight issues and drive through positive change, with our CEO Jon Dye being appointed as Chair of the Association of British Insurers in July 2019.

Values and Culture
Allianz aims to offer peace of mind through its products and services so its customers know that, in moments that matter, we will deliver our promise.

Allianz's values are embedded within its culture and the policies it upholds. The board leads by example with a strong emphasis on integrity and honesty. Behaviours are reinforced through both the Allianz SE Group and Group policies applied throughout the business. Assessment of compliance to these policies is undertaken by way of internal audits throughout the year.

Allianz takes extremely seriously the identification and prevention of fraud, whether at the application or claims stage of a customer's journey. This has a direct benefit to both Allianz's other customers and the insurance industry generally.

When Allianz procures products and services from third parties, it looks to do so in a sustainable manner and with an unwavering commitment to transparency within any supply chain. With respect to Allianz's own products and services, they must always be clearly explained and honestly marketed.

Allianz's environmental, social and governance strategy is being embedded within the business. Under this strategy Allianz strives to be a responsible insurer, responsible investor, committed corporate citizen and a trusted company.

Allianz knows that by acting responsibly it can provide products and services that meet its customers' needs, reduce operating costs by being environmentally efficient and work in partnerships to address the challenges that its communities face.

Strategy
Allianz's strategy is developed by the board and implemented by our CEO Jon Dye and the Allianz Holdings plc management board. The recent acquisitions of LV=GI and L&G GI by the Group evidence clearly its ambition to be a key participant in the UK general insurance market. These acquisitions will enable the business to draw on the expertise of those companies to develop innovative, market-leading customer focussed products and services.

Directors' Report (continued)

Corporate Governance Report (continued)

Principle Two – Board Composition

Composition, Size and Structure
For the year ended December 31, 2019, the board comprised an independent non-executive Chairman, five non-executive Directors (including one shareholder nominated Director appointed on February 7, 2019) and two executive Directors (including one appointed on April 11, 2019). On December 31, 2019, the Group acquired LV=GI and L&G GI, following which the composition of the board was reviewed and it was agreed to appoint a further executive Director, Steve Treloar with effect from January 1, 2020. This revised composition is considered appropriate for the size and nature of the business going forward, particularly taking into account aforementioned acquisitions and provides the appropriate combination of skills, experience and knowledge required for the board to carry out its responsibilities.

Chairman and Chief Executive Officer
The roles of Chairman and Chief Executive Officer are separate and clearly defined. The non-executive Chairman is responsible for the effectiveness of the board, including facilitating objective debate to ensure effective decision-making. The Chief Executive Officer is responsible for executing the strategy of the Group together with implementing decisions of the board and its committees and leading the management board.

Balance and Diversity
The board is committed to increasing diversity across the business and the Group operates a diversity policy to encourage a more diverse and inclusive environment at all levels of the business. In relation to the board, as at December 31, 2019, two of the eight members (25%) of the board were female.

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

New appointments to the board are recommended by the Nominations Committee after consideration of the board's composition in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations.

Board Committees
The board is embedded within the board of its parent company, Allianz Holdings plc, as the Directors are common to both boards, and so it leverages the governance structure of the Group. The Allianz Holdings plc Board delegates certain activities to the management board (its principal executive committee), the Audit Committee, the Board Risk Committee, the Compensation Committee, the Nomination Committee and the Finance & Investment Committee. All of these committees (save for the management board and the Finance & Investment Committee) are chaired by a non-executive Director who provide constructive challenge and influence across the work carried out by those committees.

Effectiveness
There are annual board self-assessment reviews and three year board effectiveness reviews. During the year the board undertook an external board effectiveness review. The evaluation took the form of confidential one-to-one discussions and questionnaires which considered the effectiveness of the board and individual Directors.

The responses were collated and provided to the board. As a result of the evaluation, the board is satisfied that its structure, balance of skills and operation continues to be satisfactory and appropriate for the Company.

The Directors are provided with a comprehensive and tailored induction on joining the board and regularly meet with senior managers across the business. External advisors are invited to provide detailed updates and training on various topics as required in order to support ongoing professional development of the Directors. Non-executive Directors have access to the Company Secretary and can take independent professional advice at the Company's expense. During the year, the Directors were provided with training which included training on the following subjects:

- IFRS 17 – Insurance contracts
- IFRS 9 – Financial instruments
- Cyber Risk in the Boardroom
- Climate Change

Directors' Report (continued)

Corporate Governance Report (continued)

Principle Three – Director Responsibilities

Accountability
The board operates under a corporate governance framework that provides the required structure to enable prudent yet entrepreneurial management. Both Allianz SE Group and Group policies, including those concerned with Solvency II requirements, are applied to the operation of the board and its function, as well as to the wider business. Group policies, in particular the Governance and Control Policy, are reviewed and approved annually to ensure continued relevance and effectiveness.

Individually each board Director is required to perform their role in accordance with prescribed role profiles and competency requirements. Annual board self-assessment helps to ensure the board members remain "fit and proper" to undertake their duties (both fiduciary and regulatory) and responsibilities to the Company.

Directors' conflicts of interest are considered and/or/ declared by board members at each meeting. Where required, a member will excuse themselves from a particular agenda item to ensure the interests of Allianz are not compromised.

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

There are formal and robust internal processes to ensure that the systems and controls in place are operating effectively, and that the board receives accurate, regular and timely information about the performance of the business.

Information provided to the board includes financial information, review of actual performance against plan, strategy updates and market developments. Reports on matters such as investment performance, the customer including cultural indicators, risk and conflicts of interest. The key financial information is generated by the Company's own systems and is audited on an annual basis by PricewaterhouseCoopers LLP.

The internal audit function prepares an annual risk-based plan of audits, derived from an audit universe, defined and revised annually, covering the complete system of governance. This includes the controls surrounding the processes for collecting and reporting data. The annual plan is approved by the Allianz Holdings plc Audit Committee with quarterly reporting on progress to the Audit Committee and the Allianz Holdings plc Board.

Principle Four – Opportunity and Risk

Opportunity
The Group's approved 2025 strategy was released in 2019, focusing on securing the future of both the group's customers and employees. Strategic opportunities are routinely considered with the following examples of new initiatives throughout 2019:

- A three year deal with Toyota from the start of 2020 means Allianz company car drivers will benefit from a fleet of hybrid vehicles. As well as mileage and warranty benefits for those drivers, this change will lead to a marked reduction in CO2 emissions by the business.

- A Chief Data Officer was appointed in 2019, with the focus of helping Allianz become a more data-driven organisation by bringing its data teams together, setting a clear and simple data strategy and looking to increase value from the data it has. Improving data skills will also help to increase Allianz's technical trading capabilities. Excellence in Technical was recently launched which includes new Data, Pricing and Portfolio Management Faculties along with the Underwriting Faculty.

- Protecting the personal data we are entrusted with is central to everything we do and vital to ensure we retain the trust and confidence of our customers and business partners. Through the Allianz Privacy Standard, we have developed a robust framework that helps us to deliver compliant data protection processes and procedures across our business.

Directors' Report (continued)

Corporate Governance Report (continued)

- In 2019 we launched the new Cyber Select product that is specifically designed to suit the needs of a wide range of mid-corporate businesses. This new product is traded locally via our experts within the branch network, clients can choose their level of cover based on their company size and business need. In partnership with a panel of experts we offer a variety of pre-breach and post-incident services

- The automation of 50 repetitive, time-consuming processes, totalling more than 1 million transactions to date. These are adding value across the business and enabling it to focus on more technical and creative activities.

Risk
At Allianz, our enterprise risk management framework forms the overarching framework for management to deal with the various risks the company may encounter, as well as their tracking and monitoring. This also ensures that Allianz has processes in place by which it assesses the risks that it is exposed to, both on a current and forward-looking basis.

The board's responsibilities include strategy, strategic asset allocation, internal control and the overall operation of the company. Within the Group governance structure oversight of risk management is delegated to the Chief Risk Officer ("CRO") and the Allianz Holdings plc Board Risk Committee ("BRiCo"). The BRiCo is responsible for oversight of risks both current and emerging that the Group faces. The CRO is supported by the Risk Department – a team of qualitative and quantitative experts. However, managers in the business units are responsible for managing risk in their own areas.

To ensure Allianz is always prepared in a rapidly changing environment, it has a number of key risk management processes and policies that are implemented throughout the Group. These processes rely on a clear governance structure to enable effective risk management and culture.

Responsibilities
The board terms of reference specify that, the board is responsible for:

- Establishment and maintenance of the system of internal control
- Approval of new appointments to FCA/PRA Controlled Functions

The Group's internal control framework is articulated in its approved governance and control policy.

The board is able to make informed and robust decisions due to the risk management systems described in the risk policy, which are communicated with the BRiCo through the quarterly own risk and solvency assessment updates.

The board is responsible for setting and reviewing the Company's risk appetite. Allianz has a written statement confirming the degree of uncertainty (or risk) that the Company is willing to accept in the pursuit of its goals. Allianz has a conservative and controlled risk appetite that is aligned to achieving corporate objectives and meeting regulatory requirements and requirements of our parent company.

In relation to the objectives in the annual corporate plan, Allianz aims to ensure that no event or combination of events is possible that will cause a variance in result which is not consistent with the stated risk appetite.

The BRiCo is responsible for oversight of risks, both current and emerging, that the Group faces. Mitigation activities are agreed by the BRiCo and issues, such as reputational risk events, are escalated and acted upon as appropriate. Risks are monitored by the Risk Department via the risk management systems in place.

Allianz has established clear communication channels. Internally, risks are discussed and escalated to relevant Group committees including BRiCo. Externally our risk profile is outlined in the annual report and solvency and financial condition report.

Directors' Report (continued)

Corporate Governance Report (continued)

Principle Five – Remuneration

Delegating Remuneration Decisions
The Group's Compensation Committee is chaired by an independent non-executive Director, and has a majority of members who are non-executive Directors. The Compensation Committee is responsible for compensation strategy and applying it to senior executive positions in order to attract and retain quality people to enable the delivery of the Company's strategy.

Setting Remuneration
Compensation is set with reference to the Group's remuneration policy (which contains malus arrangements) and to the Allianz compensation framework set up by Allianz SE's Group Compensation Committee. The Compensation Committee determines total remuneration in relation to Directors (executive and non-executive) and senior executives. The Compensation Committee seeks external input from specialist advisors, (on, for example, market trends and benchmarking). The Compensation Committee also takes into account relevant UK regulatory guidance on remuneration. Senior executives who sit on subsidiary boards are remunerated at holding company level and are not remunerated separately for their subsidiary board positions. The Directors' remuneration is disclosed in Note 11.

Principle Six – Stakeholder Relationships and Engagement

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

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

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

Our suppliers are required to operate within shared principles and ethical standards and to adhere to Allianz's corporate social responsibility requirements. These standards and requirements are regularly monitored and a failure to adhere to them can result in the arrangement being terminated.

One measure the Company uses to determine how well its strategy is being implemented and positive customer outcomes are being achieved is through customer feedback and surveys. Further information concerning the Top Down Net Promoter Score can be found in the Strategic Report.

Allianz is an active participant in Insurance industry initiatives and forums, as it has a genuine desire to effect positive change. In July 2019, Jon Dye was appointed as Chair of the Association of British Insurers, the leading trade association for insurers.

By order of the Board

F K Dyson
Director, Allianz Insurance plc
Company Number: 84638

April 7, 2020

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the financial statements, the Directors are required to:

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

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are 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.

By order of the Board

F K Dyson
Director

April 7, 2020

Independent auditors' report to the members of Allianz Insurance plc

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements 2019 (the "Annual Report"), which comprise: the balance sheet as at December 31, 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

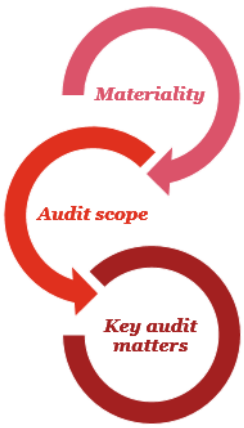
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 9 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £18.6 million (2018: £19.5 million), based on the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.
- We performed a full scope audit of the complete financial information of the Company in accordance with our materiality and risk assessment. In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.
- Valuation of Insurance contract liabilities
- Impact of COVID-19 subsequent event

Independent auditors' report to the members of Allianz Insurance plc

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and The Prudential Regulation Authority's Regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Board of Directors, management, internal audit, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's internal controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud report and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Testing significant accounting estimates and judgements such as insurance contract liabilities as included in the key audit matter section below;
- Reviewing relevant meeting minutes including those of the Risk Committee and Audit Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by certain senior management, and;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Valuation of Insurance contract liabilities Insurance contract liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2019, whether reported or not, together with the related claims handling costs. The valuation of these insurance contract liabilities is a significant accounting estimate in the financial statements and involves a	In performing our audit over insurance contract liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included: • Developing independent point estimates for classes considered to be higher risk,

Independent auditors' report to the members of Allianz Insurance plc

Key audit matter	*How our audit addressed the key audit matter*
significant degree of judgement. Key areas of focus this year were: • The underlying volatility attached to estimates for the larger classes of business, such as commercial and personal motor and commercial liability business, where small changes in assumptions can lead to large changes in the level of estimate held and the combined operating ratio. • The risk of inappropriate assumptions being used in determining current year estimates for the Company. Given that limited data is available there is greater reliance on expert judgement in their estimation. • The risk of inappropriate assumptions to determine estimates in UK bodily injury claims, following the reduction in the Ogden discount rate. • The risk that estimates in respect of large losses especially large motor accounts exposed to Periodical Payment Orders ("PPOs") are inappropriate. There is significant judgement involved in the estimation of such losses, particularly as they are often estimated based on limited data. Refer to note 1 for the accounting policies of the insurance contract liabilities and notes 25 and 26 for disclosure of the related judgements and estimates.	particularly focussing on the largest and most uncertain estimates, as at 30 September 2019 and performing roll-forward testing to 31 December 2019. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated insurance contract liabilities represent a reasonable estimate. • For the other classes of business, we tested the methodologies and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates based on the Company's facts and circumstances, or performed key performance indicator testing. In performing the above, we have also considered and tested the following: • The underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence. • The directors' assessment of estimation uncertainty (disclosed in note 26). • Considered whether any of our audit procedures gave rise to an indication of management bias. Based on the work performed and evidence obtained, we were satisfied with the insurance contract liabilities booked.
Impact of COVID-19 subsequent event As disclosed in note 34, 2020 has begun with the outbreak of a new strain of Coronavirus (COVID-19) in China, resulting in a global pandemic causing significant economic disruption. The situation as at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019 and it is, therefore, a non-adjusting event. Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. Subsequent to the year end management have performed procedures to assess the financial and operational impacts of COVID-19 which include: Financial • Solvency scenario analysis to ensure sufficient capital surplus is maintained to meet liabilities, even under stress scenarios and having robust plans in place for certain management actions if the Company falls outside its approved risk appetite; • Examined the Company's dividend payment	We assessed management's approach to the impact of COVID-19 on the Company and the financial statements by performing the following procedures: • Obtained management's going concern assessment including the impact of COVID-19. • Evaluated management's solvency scenario analysis and challenged management's key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we considered the governance over the production of this information and its consistency with other available information and our understanding of the business. • Obtained and evaluated management's assessments of the potential impact on claims levels for individual classes of business and agreed to supporting information and analyses; • Obtained and reviewed relevant reinsurance contracts (including Excess of Loss agreements and the quota share agreement with Allianz Re). • Discussed with management their communications with the regulators. • Read board papers on COVID-19 and discussed

Independent auditors' report to the members of Allianz Insurance plc

Key audit matter	*How our audit addressed the key audit matter*
capacity in light of the solvency scenario analysis; and • Considered capital contingency options in response to anticipated macro-economic deterioration. Operational • Operational analysis for key business functions in terms of potential cost impact and time horizon; • Frequent monitoring of the Company's solvency coverage ratio through regular meetings of the Crisis Management team; and • Frequent communications with the Prudential Regulation Authority. Management have concluded the Company will continue to meet its capital requirements and operate through this pandemic and the Company continues to be a going concern. However, as the situation is rapidly evolving it is not possible to quantify the potential financial impact of the pandemic on the Company.	the solvency scenario analysis with those charged with governance. • Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the Company based on our audit and the other procedures listed here. • Assessed the capital contingency options management have identified and further plans they have, if they are required, due to further deterioration of the wider UK and Global economy. Based on the work performed and the evidence obtained, we consider the financial statements being prepared on a going concern basis and the disclosure of the impact of COVID-19 in financial statements to be appropriate.

How we tailored the audit scope

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

Materiality

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

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

Overall materiality	£18.6 million (2018: £19.5 million).
How we determined it	The amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract. In determining our materiality, we excluded the effect of the Company's internal quota share reinsurance arrangement with another Allianz SE group Company to ensure materiality is calculated on a basis consistent with how those charged with governance view the performance of the business.
Rationale for benchmark applied	We consider COR is a key profit related benchmark used by the directors and is central to the directors' communication to the public on the performance of this business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £931,231 (2018: £975,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of Allianz Insurance plc

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements set out on page 13, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditors' report to the members of Allianz Insurance plc

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 9 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2018 to 31 December 2019.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 April 2020

Statement of Comprehensive Income

For the year ended December 31, 2019

	Note	2019 £m	2018 £m
Gross earned premiums	3	1,981.1	2,084.6
Reinsurers' share of gross earned premiums	3	(863.5)	(912.0)
Net insurance revenue	3	1,117.6	1,172.6
Reinsurance commission		125.5	139.1
Investment income	4	136.6	60.9
Net realised gains	6	7.3	4.3
Other revenue		269.4	204.3
Total revenue		1,387.0	1,376.9
Gross insurance claims paid	25	(1,299.5)	(1,342.2)
Reinsurers' share of gross insurance claims paid	25	540.9	563.8
Gross change in insurance liabilities		14.9	71.8
Reinsurers' share of gross change in insurance liabilities		1.3	(48.3)
Net insurance claims		(742.4)	(754.9)
Commission		(306.3)	(335.7)
Finance costs	5	(54.9)	(19.1)
Other operating and administrative expenses	7	(214.1)	(212.8)
Other expenses		(575.3)	(567.6)
Total claims and expenses		(1,317.7)	(1,322.5)
Profit before tax		69.3	54.4
Income tax expense	10(a)	(3.1)	(9.1)
Profit for the year wholly attributable to the equity holders		66.2	45.3
Other comprehensive income/(loss)			
Items that may be reclassified to profit and loss			
Net change in fair value of available for sale financial assets		39.9	(36.8)
Net change in fair value of available for sale financial assets transferred to profit or loss		(0.7)	(20.6)
Items that will not be reclassified to profit and loss			
Foreign currency translation differences		(8.3)	1.2
Prior year reinsurance recovery		-	5.1
Tax on fair value movements	10(b)	(6.7)	9.8
Tax on prior year reinsurance recovery		-	(1.0)
Other comprehensive income/(loss) for the year, net of tax		24.2	(42.3)
Total comprehensive income attributable to the equity holders		90.4	3.0

The accounting policies and notes on pages 24 to 61 are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended December 31, 2019

	Share capital £m	*Share premium £m*	*Fair value reserve £m*	*Retained earnings £m*	*Total £m*
Balance as at January 1, 2018	172.8	5.2	67.1	947.4	1,192.5
Prior year reinsurance recovery	-	-	-	5.1	5.1
Net change in fair value of available for sale financial assets	-	-	(36.8)	-	(36.8)
Net change in fair value of available for sale financial assets transferred to profit or loss	-	-	(20.6)	-	(20.6)
Foreign currency translation adjustment	-	-	-	1.2	1.2
Tax on prior year reinsurance recovery	-	-	-	(1.0)	(1.0)
Tax on fair value movements	-	-	9.8	-	9.8
Dividends paid	-	-	-	(175.0)	(175.0)
Net profit for the year	-	-	-	45.3	45.3
Total recognised income and expense for the year	-	-	(47.6)	(124.4)	(172.0)
Balance as at December 31, 2018	172.8	5.2	19.5	823.0	1,020.5
Net change in fair value of available for sale financial assets	-	-	39.9	-	39.9
Net change in fair value of available for sale financial assets transferred to profit or loss	-	-	(0.7)	-	(0.7)
Foreign currency translation adjustment	-	-	-	(8.3)	(8.3)
Tax on fair value movements	-	-	(6.7)	-	(6.7)
Dividends paid	-	-	-	(175.0)	(175.0)
Net profit for the year	-	-	-	66.2	66.2
Total recognised income and expense for the year	-	-	32.5	(117.1)	(84.6)
Balance as at December 31, 2019	172.8	5.2	52.0	705.9	935.9

The accounting policies and notes on pages 24 to 61 are an integral part of these financial statements.

Balance Sheet

As at December 31, 2019

			Restated[2]
		2019	*2018*
Assets	*Note*	*£m*	*£m*
Intangible assets	14	41.9	48.4
Investment in group undertakings	13	270.2	287.2
Property and equipment	15	15.9	16.2
Deferred acquisition costs	16	177.3	189.4
Deferred tax assets	10(e)	9.0	2.6
Reinsurance assets	18 & 25	1,259.4	1,253.3
Financial assets:			
Available for sale financial assets [1]	20	2,151.9	2,266.7
Derivatives	20	1.1	-
Loans to related parties	20	162.0	20.0
Other loans and receivables	20	36.2	36.9
Insurance receivables[2]	21	807.0	767.6
Other receivables	22	79.2	323.1
Accrued income	19	22.2	23.3
Cash and cash equivalents	23	6.7	10.3
Total assets		5,040.0	5,245.0
Equity and liabilities			
Equity attributable to equity holders of the parent			
Share capital	24	172.8	172.8
Share premium		5.2	5.2
Fair value reserve		52.0	19.5
Retained earnings		705.9	823.0
Total equity		935.9	1,020.5
Liabilities			
Insurance contract liabilities	25	2,713.6	2,715.8
Reinsurers' share of deferred acquisition costs	16	70.1	75.0
Insurance related payables[2]	27	1,028.8	1,032.0
Current tax liabilities	10(d)	6.1	8.3
Deferred tax liabilities	10(e)	10.6	-
Accruals and other payables	28	274.9	393.4
Total liabilities		4,104.1	4,224.5
Total equity and liabilities		5,040.0	5,245.0

(1) Within available for sale financial assets there are £194.0m (2018: £102.4m) of lent securities. See note 20(a)
(2) Further information on the prior year restatement is included in Note 21

The accounting policies and notes on pages 24 to 61 are an integral part of these financial statements.

These financial statements on pages 20 to 61 were approved by the Board of Directors on April 7, 2020 and signed on its behalf by:

F K Dyson
Director

Statement of Cash Flows

For the year ended December 31, 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Cash generated from/(utilised in) operations	32	93.7	(119.4)
Dividend received	4	82.0	-
Net interest (paid)/received		(0.3)	41.8
Income tax paid	10(c)	(7.6)	(4.2)
Net cash inflow/(outflow) from operating activities		167.8	(81.8)
Cash flows from investing activities			
Increase in loan to group undertakings	20(b)	(142.0)	-
Decrease in loans	20(b)	-	29.9
Decrease in deposits with credit institutions	20(b)	0.7	-
Increase in derivatives	20(c)	(1.1)	-
Purchase of available for sale financial assets		(629.8)	(797.3)
Proceeds from early redemption fees		-	0.3
Proceeds from sale of available for sale financial assets		775.9	1,047.2
Purchase of property, plant and equipment	15	0.3	(0.3)
Net cash inflow from investing activities		4.0	279.8
Cash flows from financing activities			
Dividends paid during the year	12	(175.0)	(175.0)
Payment of lease liabilities		(0.4)	-
Net cash outflow from financing activities		(175.4)	(175.0)
Net (decrease)/increase in cash and cash equivalents		(3.6)	23.0
Cash and cash equivalents at the beginning of the year	23	10.3	(12.7)
Cash and cash equivalents at the end of the year	23	6.7	10.3

The accounting policies and notes on pages 24 to 61 are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended December 31, 2019

1. ACCOUNTING POLICIES

1.1 Company and its operations

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

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") and interpretations issued by the IFRS Interpretations Committee and with the Companies Act 2006 as applicable to companies reporting under IFRS.

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

The functional and presentational currency is British Pounds.

Going concern

These financial statements are compiled on a going concern basis. For more information on the going concern assessment please refer to the Directors' Report on page 7.

New standards and interpretations adopted by the Company

A number of new standards and interpretations adopted by the EU are mandatorily effective from January 1, 2019. The following has been adopted within this set of financial statements:

- IFRS 16: Leases (EU effective date January 1, 2019) replaces IAS 17 Leases. IFRS 16 was issued in January 2016, resulting in almost all leases being recognised on the Balance Sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rental are recognised. The only exceptions are short-term and low-value leases.

  The Company's lease portfolio is in real estate. The Company has chosen to adopt the modified retrospective approach with option 2 in accordance with IFRS 16 C5(b) upon transition and has applied all available transitional practical expedients. The right-of-use assets are measured at the amount of the lease liability on adoption and the Company has not restated comparative amounts for the year prior to first adoption.

  The following changes in accounting policies apply from January 1, 2019:
  - The short term exemption will be used for any leases with a term of less than twelve months.
  - The low value exemption will be used for any leases with an underlying asset value of less than £5,000.
  - The practical expedient allowing aggregation of the lease and non-lease components has not been adopted.

  Key judgements and estimates used in applying IFRS 16 Leases from January 1, 2019:
  - The lease term has been determined based on the non-cancellable term of the lease, taking into consideration the options included in the lease. Judgement has been used in determining whether an option is "reasonably certain" to be exercised. Management applied a likelihood percentage to each of the lease options with any likelihood above 75% being deemed "reasonably certain". Factors taken into consideration when concluding on the likelihood percentage include termination penalties, the use of the leased property by the Company and the strategic plan of the Company.
  - The Company has been unable to determine the interest rate implicit in its leases. An incremental borrowing rate has been calculated per portfolio of leases with reasonably similar characteristics.

Notes to the Financial Statements

For the year ended December 31, 2019

1. ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

New standards and interpretations adopted by the Company (continued)

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on January 1, 2019 is 1.5%.

Impact of IFRS 16 on transition date January 1, 2019:

	IAS 17	IFRS 16 on transition
	£m	£m
Right of use asset	-	3.4
Lease liability	-	(3.1)
Dilapidation asset	0.3	(0.3)

Reconciliation of operating lease commitment disclosure per note 17 and the opening lease liability balance:

	£m
Operating lease commitment per note 17	3.7
Impact of:	
Discounting the above amounts	(0.6)
Lease liability recognised at January 1, 2019	3.1

The company has not restated the lease liability comparative information.

New standards and interpretations not yet adopted by the Company

New standards and interpretations adopted by the EU which are not mandatorily effective have not been applied in preparing these financial statements. The Company does not plan to adopt these standards early; instead it will apply the standards from the effective date as determined by the date of EU endorsement.

- IFRS 17 Insurance Contacts – The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017, which it is expected will replace IFRS 4 'Insurance Contracts' at the latest for annual reporting periods beginning on or after January 1, 2023. The Company has commenced its initial impact assessment under the "One.Finance" project led by Allianz SE and is currently going through required changes to finance systems and processes which is expected to be completed by 2021 to ensure reporting compliance with the standard.

- IFRS 9 Financial Instruments – IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and changes the classification and measurement of financial assets, based on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses. The Company, based on the impact assessment performed under One.Finance, will take advantage of the exemption available as its activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after January 1, 2018) until January 1, 2023, which will coincide with the expected implementation of IFRS 17.

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

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

Notes to the Financial Statements

For the year ended December 31, 2019

1. ACCOUNTING POLICIES (continued)

1.3 Basis of preparation (continued)

New standards and interpretations adopted by the Company (continued)

The following table provides an overview of the fair values as of December 31, 2019 and the amounts of change in the fair values during the year separately for financial assets that meet the SPPI criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding, or that is managed and whose performance is evaluated on a fair value basis) and all other financial assets:

Financial assets under IFRS 9 classification rules:

As of December 31, 2019	Financial assets that meet the SPPI criterion		All other financial assets	
	Fair Value	Fair Value change during the year	Fair Value	Fair Value change during the year
	£m	*£m*	*£m*	*£m*
Cash and cash-equivalents	6.7	-	-	-
Debt securities				
Government and government agency bonds	476.1	5.1	0.5	-
Corporate bonds	1,279.1	27.2	294.2	2.9
Managed Funds	-	-	102.0	5.0
Total	1,761.9	32.3	396.7	7.9

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

As of December 31, 2019	Cash and cash equivalents	Government and government agency bonds	Corporate bonds
	£m	*£m*	*£m*
Investment grade			
AAA	-	110.0	328.6
AA	-	333.2	130.0
A	6.7	2.4	309.0
BBB	-	9.7	498.1
BB	-	9.4	12.1
B	-	11.4	1.3
Total	6.7	476.1	1,279.1

1.4 Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance contract liabilities, the ascertainment of fair values of financial assets and liabilities and probability of deferred tax assets being realised. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex 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 30). The accounts present information about the Company as an individual undertaking and not about the group.

Notes to the Financial Statements

For the year ended December 31, 2019

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(a) Group accounts (continued)

Shareholdings in subsidiary undertakings are reported at cost.

(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 of 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 8 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 based on the incidence of risk of the underlying insurance contract. 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 premiums written 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, 2019

1. ACCOUNTING POLICIES (continued)

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 Statement of Comprehensive Income.

(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

Derivatives are classified as Held for Trading (HFT) unless they have been designated as hedges. All derivatives are held at fair value. Fair values are obtained from quoted prices prevailing in active markets where available. Otherwise, valuation techniques including discounted cash flow analysis and option pricing are used to value the instruments. Gains and losses arising from HFT derivatives are recognised in investment return or investment charges in the profit and loss account and primarily comprise forward contracts.

(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

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and are not quoted on an active market. Loans and receivables are 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, 2019

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

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

Impairments
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) 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.

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

(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 dependent on both the probability of an insured event and the magnitude of its potential effect.

(n) 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.

(o) Insurance contract liabilities
Insurance contract liabilities
Insurance contract 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 along the duration of the insurance contracts and amortised based on the incidence of risk of the underlying insurance contract. The change in the provision for unearned premium is taken to the Statement of Comprehensive Income in order that revenue is recognised over the period of risk.

Notes to the Financial Statements

For the year ended December 31, 2019

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(o) Insurance contract liabilities (continued)

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.

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

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

(r) Leases
The Company has applied IFRS 16 using the cumulative catch-up approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Company as a Lessee

Policy Applicable from January 1, 2019 (IFRS 16)

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made or incentives received at or before the commencement date, plus initial direct costs incurred and an estimate of costs to dismantle, remove and restore the underlying asset and the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the asset's useful life or end of the lease term, in line with the Company's policy for Property, Plant and Equipment. The Company applies IAS 36 Impairment of Assets to determine whether the right-of-use asset is impaired.

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments and increasing the carrying amount to reflect interest on the lease liability. The carrying amount will also be adjusted to reflect any reassessment or lease modifications specified in the standard.

The lease term is determined as the non-cancellable period of a lease, together with options to extend or terminate which the Company deems as reasonably certain.

The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The lease payments are recognised as an expense on a straight-line basis over the lease term.

Notes to the Financial Statements

For the year ended December 31, 2019

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(r) Leases (continued)

Policy Applicable before January 1, 2019 (IAS 17)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee were classified as operating leases prior to the implementation of IFRS 16. Payments made under operating leases (net of any invoices received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease. Comparative information in these accounts is stated under this policy.

(s) Revenue recognition

Premium income
Premiums written are net of premium taxes and other levies. These are recognised on policy inception and earned on a pro rata basis or, for risks where a pro rata basis is inappropriate, a basis consistent with the risk profile over the term of the related policy coverage.
Estimates of premiums written as at the Balance Sheet date but not yet processed are assessed based on estimates from underwriting or past experience and are included in premiums written and earned.

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

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

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.

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

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

(u) Finance cost
Interest payable is recorded in the period in which it is incurred.

(v) Foreign currency translation
The Company's presentational currency is British Pounds. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are retranslated at the functional currency rate of exchange ruling at the 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.

Notes to the Financial Statements

For the year ended December 31, 2019

1. ACCOUNTING POLICIES (continued)

1.4 Summary of significant accounting policies (continued)

(w) Offsetting 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 offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

(x) Current, non-current disclosure

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

(y) Dividends

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

2. USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

Valuation of general insurance contract liabilities

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

Standard actuarial claims projection techniques are used to estimate outstanding claims, such as the Chain Ladder method. Claims provisions are analysed separately by line of business, and further, bodily injury provisions are generally analysed separately from damage provisions. In addition, for motor classes, we analyse third party liability damage separately from own damage claims.

Such methods extrapolate the development of paid and incurred claims, recoveries from third parties, average cost per claim and ultimate claim numbers for each accident year, based upon the observed development of earlier years and expected loss ratios. The main assumption underlying these techniques is that past claims development experience can be used to project ultimate claims costs. In the case of Period Payment Orders (“PPO’s”), the annuity type structure of the claim payments mean that these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Allowance for one off occurrences or changes in legislation, policy conditions or portfolio mix, is also made in arriving at the estimated ultimate cost of claims, in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years.

Significant accounting estimate – Insurance contract liabilities

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

Notes to the Financial Statements

For the year ended December 31, 2019

2. USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

Significant accounting estimate – Insurance contract liabilities (continued)
There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately be paid for such claims. Over the last decade there has been an increasing prevalence of PPO settlements, which have an annuity-type structure i.e. they are typically paid annually over the claimant's life with mortality, inflation and investment returns being the key risks. Courts may decide that a claim should be settled on a PPO basis, but in the majority of cases the claimant will request a PPO settlement. A further complexity of PPO claims is that due to the annuity-type structure of the claim payments, these have to be projected over a longer-term period and reserved for on a discounted basis accordingly. Therefore, the estimation of ultimate claims cost involves projecting mortality rates, discount rates and benefit indexation rates, which is unlike all other general insurance liabilities.

Significant judgement applied to estimate
While management believes the insurance contract liabilities carried at year end are adequate, the application of statistical techniques requires significant judgement.

The estimation of these claims is based on historical experience projected forward. Where possible, multiple techniques are adopted to provide a best estimate of the required level of provisions. This assists in developing greater understanding of the trends inherent in the data being projected. Estimates of losses and loss expenses are reached after a review of several commonly accepted actuarial projection methodologies, as well as more bespoke methods and a number of different bases to determine these provisions. These include methods based upon the following:

- The development of previously paid claims, where payments to date are extrapolated for each prior year;
- Estimates based upon a projection of claims numbers and average cost;
- Incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- Expected loss ratios.

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

The carrying value at Balance Sheet date for these general insurance contracts is £2,713.6m (2018: £2,715.8m).

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

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

- Corporate bonds
- Own use property

Corporate bonds.
As no market prices are available a discounted cash flow model is used to determine the fair value of the fixed income financial instrument. Judgement is applied in determining the inputs to the model such as the reference spread for the discount rate and the deal specific spread. Further details concerning the valuation techniques can be found in Note 29.

Own use property.
The vacant possession value has been considered in order to estimate the fair value of the own use properties. Judgement is applied in determining the significant unobservable inputs, these being rental growth, voids, market rent, rent free periods and letting fees. Further details concerning the valuation techniques can be found in note 29.

Notes to the Financial Statements

For the year ended December 31, 2019

3. NET INSURANCE REVENUE

	Note	2019 £m	2018 £m
(a) Gross written premiums			
Direct insurance[1]		1,989.8	2,036.1
Assumed reinsurance		0.9	2.0
Total gross written premiums	25	1,990.7	2,038.1
Gross change in unearned premium provision	25	(9.6)	46.5
Total gross earned premiums		1,981.1	2,084.6
(b) Reinsurers' share of gross written premiums			
Direct insurance		(865.4)	(890.1)
Assumed reinsurance		(0.4)	(0.8)
Total reinsurers' share of gross written premiums	25	(865.8)	(890.9)
Reinsurers' share of change in unearned premium provision	25	2.3	(21.1)
Total reinsurers' share of gross earned premiums		(863.5)	(912.0)
Total net insurance revenue		1,117.6	1,172.6

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

(1) The Company has incurred some costs for Payment Protection Insurance ("PPI") redress, for further details, please refer to note 5.

4. INVESTMENT INCOME

	2019 £m	2018 £m
Interest income	54.6	60.9
Dividend received	82.0	-
Total investment income	136.6	60.9

5. FINANCE COSTS

	2019 £m	2018 £m
Impairment of equity investment	-	(5.1)
Impairment of investment in subsidiaries[1]	(17.0)	-
Ceded investment income[2]	(12.8)	(9.3)
PPI redress[3]	(25.1)	(4.7)
Total finance costs	(54.9)	(19.1)

Notes to the Financial Statements

For the year ended December 31, 2019

5. FINANCE COSTS (continued)

(1) During the year, the Company received a dividend of £82.0m from Pet Plan Limited ("Pet Plan"). As a result of paying this dividend, the carrying amount of the investment in the subsidiary exceeded its estimated recoverable amount and subsequently the carrying amount was reduced. The recoverable amount of Pet Plan was determined to be its fair value less costs to sell, estimated using net asset value. The fair value measurement is categorised as Level 3 in the fair value hierarchy based on the inputs and methods used in determining the value of Pet Plan's net assets. The result of the impairment test is summarised in the table below:

Investment in subsidiary – Pet Plan Limited	*£m*
Carrying amount	32.1
Recoverable amount	(15.1)
Impairment loss recognised	17.0

An impairment loss of £17.0m was recognised and has been reported under finance costs in the Statement of Comprehensive Income.

(2) This amount relates to interest charged on the outstanding quota share balance.

(3) PPI redress was reported as interest payable in 2018. The cost of providing redress reflects actual redress paid and the best estimate of the quantum of further claims notified by the deadline of August 29, 2019, based on uphold rates and average values for mis-selling and unfair commission redress (the latter of which is paid directly by the agent). Total gross written premiums include £9.2m (2018: £1.2m) of premium refunded to policyholders in respect of mis-selling of PPI by the selling agent. Legal proceedings have been issued to seek recovery of costs from the agent.

6. NET REALISED GAINS

	2019	*2018*
	£m	*£m*
Put option		
Realised losses	-	(0.6)
Available for sale financial assets		
Realised gains - debt securities	8.9	13.7
Realised losses - debt securities	(1.6)	(9.1)
Loans - early redemption fee	-	0.3
Total net realised gains recorded in the Statement of Comprehensive Income	7.3	4.3

7. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

	2019	*2018*
	£m	*£m*
Acquisition costs	81.5	86.6
Movement in deferred acquisition costs	7.3	12.4
Unwind of discount on PPO claims reserve	0.9	0.9
Restructuring charges	21.4	7.1
Administration expenses	96.5	99.3
Amortisation of renewal rights	6.5	6.5
Total other operating and administrative expenses	214.1	212.8

Notes to the Financial Statements

For the year ended December 31, 2019

8. EMPLOYEE RELATED COSTS

The Company has no employees and as such incurs no employee related costs.

9. AUDITOR'S REMUNERATION

The total remuneration payable by the company excluding VAT, to its auditors in respect of the audit of these financial statements, is shown below. The Company's audit fees are borne by AMS. Other services supplied pursuant to legislation were £nil (2018: £nil).

	2019	*2018*
	£m	*£m*
Fees payable to the Company's auditors and its associates	0.4	0.4
Audit-related assurance services	0.1	0.1

10. INCOME TAX

(a) Income tax recognised in profit or loss

	2019	*2018*
	£m	*£m*
Current tax:		
In respect of the current year	2.3	6.4
In respect of prior years	3.2	13.8
Total current tax	5.5	20.2
Deferred tax:		
In respect of the current year	(0.6)	4.3
In respect of prior years	(3.2)	(15.3)
Adjustments to deferred tax attributable to changes in tax rates and laws	1.4	(0.1)
Total deferred tax	(2.4)	(11.1)
Total income tax expense recognised in the current year	3.1	9.1

The income tax expense for the year can be reconciled to the accounting profit as follows:

	2019	*2018*
	£m	*£m*
Profit before tax	69.3	54.4
Income tax expense calculated at 19.0% (2018: 19.0%)	13.2	10.4
Effect of expenses not deductible for tax purposes	1.2	1.2
Effect of prior year adjustment	-	(1.5)
Effect of income that is exempt from taxation	(0.2)	(0.7)
Effect of dividend received from subsidiary	(15.5)	-
Effect of impairment on investment in associated enterprises	3.2	-
Effect of changes in statutory tax rate	1.4	(0.1)
Effect of imputed transfer pricing adjustments	(0.2)	(0.2)
Income tax expense recognised in profit or loss	3.1	9.1

Notes to the Financial Statements

For the year ended December 31, 2019

10. INCOME TAX (continued)

The tax rate used for the 2019 and 2018 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax will be 19% for 2020. Deferred tax on temporary timing differences which are expected to unwind after April 1, 2020 have been recognised at 17%, the rate which was substantially enacted in law as at December 31, 2019. The 17% rate has since been repealed from law in the March Budget resulting in the tax rate for 2020 onwards remaining at 19%. Management have assessed the impact and concluded that it is not significant.

(b) Income tax recognised in other comprehensive income

	2019	*2018*
	£m	*£m*
Current tax	-	(13.7)
Deferred tax	6.7	3.9
Total income tax recognised in other comprehensive income	6.7	9.8

(c) Tax paid for cash flow purposes

	2019	*2018*
	£m	*£m*
Current tax payable at January 1	8.3	5.1
Amounts charged to the income statement	3.1	9.1
Amounts credited to other comprehensive income	-	(13.7)
Movements in deferred tax asset in the statement of comprehensive income	2.4	11.1
Tax paid during the year	(7.6)	(4.2)
Other movements	(0.1)	0.9
Current tax payable at December 31	6.1	8.3

(d) Current tax liabilities

	2019	*2018*
	£m	*£m*
Current tax liabilities	6.1	8.3

(e) Deferred tax balances

(i) Deferred tax assets

	2019	*2018*
	£m	*£m*
The balance comprises temporary differences attributable to:		
Tax losses	12.4	13.4
Unrealised losses on bonds	0.7	2.1
	13.1	15.5
Other		
Properties	1.3	1.3
Provisions	1.3	0.7
Capital allowances	0.1	0.1
Bonds transitional relief	0.7	1.5
	3.4	3.6
Total deferred tax assets	16.5	19.1
Set-off of deferred tax liabilities pursuant to set-off provisions	(7.5)	(16.5)
Net deferred tax assets	9.0	2.6

Notes to the Financial Statements

For the year ended December 31, 2019

10. INCOME TAX (continued)

Movements	Tax losses	Unrealised losses on bonds	Other	Total
	£m	£m	£m	£m
At January 1, 2018	7.4	-	2.3	9.7
Credited				
- to profit or loss	6.0	-	1.3	7.3
- to other comprehensive income	-	2.1	-	2.1
At December 31, 2018	13.4	2.1	3.6	19.1

Movements	Tax losses	Unrealised losses on bonds	Other	Total
	£m	£m	£m	£m
At January 1, 2019	13.4	2.1	3.6	19.1
Charged				
- to profit or loss	(1.0)	-	(0.2)	(1.2)
- to other comprehensive income	-	(1.4)	-	(1.4)
At December 31, 2019	12.4	0.7	3.4	16.5

(ii) Deferred tax liabilities

	2019	*2018*
	£m	*£m*
The balance comprises temporary differences attributable to:		
Claims equalisation reserve	6.8	10.5
Unrealised gains on bonds	11.3	6.0
Total deferred tax liabilities	18.1	16.5
Set-off of deferred tax liabilities pursuant to set-off provisions	(7.5)	(16.5)
Net deferred tax liabilities	10.6	-

Movements	Claims equalisation reserve	Unrealised gains on bonds	Total
	£m	£m	£m
At January 1, 2018	14.2	-	14.2
(Credited)/charged			
- to profit or loss	(3.7)	-	(3.7)
- to other comprehensive income	-	6.0	6.0
At December 31, 2018	10.5	6.0	16.5
Adjustments			0.0
At January 1, 2019	10.5	6.0	16.5

Notes to the Financial Statements

For the year ended December 31, 2019

10. INCOME TAX (continued)

Movements	Claims equalisation reserve	Unrealised gains on bonds	Total
	£m	£m	£m
At January 1, 2019	10.5	6.0	16.5
(Credited)/charged			
- to profit or loss	(3.7)	-	(3.7)
- to other comprehensive income	-	5.3	5.3
At December 31, 2019	6.8	11.3	18.1

	2019	2018
	£m	£m
Deferred tax asset	9.0	2.6
Deferred tax liability	(10.6)	-
Current deferred tax asset	0.2	10.5
Current deferred tax liability	-	-
	0.2	10.5
Non-current deferred tax asset	8.8	-
Non-current deferred tax liability	(10.6)	(7.9)
	(1.8)	(7.9)

11. DIRECTORS' EMOLUMENTS

	2019	*2018*
	£	*£*
Emoluments[1]	3,221,656	2,332,440
The amounts in respect of the highest paid Director are as follows:		
Emoluments	1,850,737	1,077,239

(1) Emoluments include £459,451 (2018: £631,021) of payments received following the exercise of Restricted Stock Units.

The highest paid Director and one other Director were eligible for discretionary awards under the Mid Term Bonus element of the Allianz SE Group's Allianz Sustained Performance Plan ("ASPP") for the 3 year period ended December 31, 2021. (2018: For the 3 year period ended December 31, 2019).

There are no Directors accruing retirement benefits under a defined benefit scheme nor who are members of the Allianz Retirement Savings Plan (a Group Personal Pension defined contribution retirement scheme).

One Director waived their right to receive emoluments. (2018: Two Directors waived their right to receive emoluments).

Directors' emoluments are paid by Allianz Management Services Limited, a fellow Allianz Holdings plc subsidiary, on behalf of the Group. The Company receives a recharge in respect of these.

12. DIVIDENDS

An interim dividend of £175m was paid during the year ended December 31, 2019 (2018: £175m). The Directors are not recommending the payment of a final dividend for the year ended December 31, 2019.

Notes to the Financial Statements

For the year ended December 31, 2019

13. INVESTMENT IN GROUP UNDERTAKINGS

The subsidiary undertakings of the Company at December 31, 2019 are shown below. The registered office for all undertakings is 57 Ladymead, Guildford, Surrey, GU1 1DB.

Group undertakings	Country of Incorporation	Primary business operations	% Held
British Reserve Insurance Company Limited	England	General Insurance	100
Pet Plan Limited[1]	England	Insurance Intermediary	100
Trafalgar Insurance Limited	England	General Insurance	100
Allianz Properties Limited	England	Investing in Real Estate	100
Allianz Equity Investments Limited	England	Investing In Equity Shares	100
Allianz Pension Fund Trustees Limited	England	Pension Fund Trustee	100

(1) Following the payment of a dividend in 2019, the carrying value of the investment in the subsidiary exceeded its estimated recoverable amount. The carrying amount has been reduced. Further details are disclosed in Note 5.

14. INTANGIBLE ASSETS

The carrying amount relates to the renewal rights for the Commercial business acquired from LV General Insurance Group.

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
Cost	
At January 1, 2018	78.0
At December 31, 2018	78.0
At December 31, 2019	78.0
Accumulated amortisation and impairment	
At January 1, 2018	23.1
Amortisation charge for the year	6.5
At December 31, 2018	29.6
Amortisation charge for the year	6.5
At December 31, 2019	36.1
Carrying amount	
At December 31, 2018	48.4
At December 31, 2019	41.9

Notes to the Financial Statements

For the year ended December 31, 2019

15. PROPERTY AND EQUIPMENT

	Property	*Dilapidations*	*Total*
	£m	*£m*	*£m*
At January 1, 2018	15.9	-	15.9
Additions	-	0.3	0.3
At December 31, 2018	15.9	0.3	16.2
Adjustment on transition to IFRS 16	3.4	-	3.4
Depreciation	(0.7)	-	(0.7)
Disposals	(2.7)	(0.3)	(3.0)
At December 31, 2019	15.9	-	15.9
Carrying amount:			
At December 31, 2018	15.9	0.3	16.2
At December 31, 2019	15.9	-	15.9

Property is stated at fair value, had the property been carried under the cost model the carrying amount would have been £23.5m (2018: £23.5m). 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).

16. DEFERRED ACQUISITION COSTS

	2019	*2018*
Gross	*£m*	*£m*
At January 1	189.4	210.9
Costs deferred during the year	400.6	424.7
Amortisation charge for the year	(412.7)	(446.2)
At December 31	177.3	189.4

	2019	*2018*
Reinsurance	*£m*	*£m*
At January 1	75.0	84.1
Costs deferred during the year	238.6	256.5
Amortisation charge for the year	(243.5)	(265.6)
At December 31	70.1	75.0

	2019	*2018*
Net	*£m*	*£m*
At January 1	114.4	126.8
Costs deferred during the year	162.0	168.2
Amortisation charge for the year	(169.2)	(180.6)
At December 31	107.2	114.4

Acquisition costs comprise the commission and management expenses of acquiring insurance policies written during the year. Acquisition costs which relate to a subsequent financial year are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date.

Notes to the Financial Statements

For the year ended December 31, 2019

17. LEASES

Lease agreements where the Company is lessee

The Company has entered into a commercial lease on a property located in Great Britain. There are no individually significant lease arrangements or purchase options attached to this property.

Right-of-use Asset

The movements for the year in the value of the right-of-use asset classified under property, plant and equipment can be analysed as follows:

	2019
	£m
Right-of-use asset as at January, 1	-
Adjustment on transition to IFRS 16	3.4
Depreciation	(0.7)
Disposals	(2.7)
Right-of-use asset as at December, 31	-

As at December 31, 2019 the right of use assets net book value was £nil, as a lease break was exercised during the year.

Amounts recognised in profit or loss	*2019*
	£m
Variable lease payments not included in measurement of lease liabilities	0.1

Amounts recognised in cash flow	*2019*
	£m
Total cash outflow for leases	0.4

Operating lease arrangements
Lease agreements where the Company is lessee
Disclosure required by IAS 17 due to the change in accounting policy from January 1, 2019. The disclosure under IAS 17 has been provided during the transition year.

As at December 31, 2018, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fell due as follows:

	2018
	£m
Not later than one year	0.5
After one year but not more than five years	1.8
After five years	1.4
	3.7

18. REINSURANCE ASSETS

	2019	*2018*
	£m	*£m*
Reinsurers' share of insurance contract liabilities	1,259.4	1,253.3
Total reinsurance assets	1,259.4	1,253.3

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

Notes to the Financial Statements

For the year ended December 31, 2019

19. ACCRUED INCOME

	2019	*2018*
	£m	*£m*
Interest	22.2	23.3
Total accrued income	22.2	23.3

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

20. FINANCIAL ASSETS

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

	2019	*2018*
	£m	*£m*
Available for sale financial assets	2,151.9	2,266.7
Loans to related parties	162.0	20.0
Other loans and receivables	36.2	36.9
Derivatives	1.1	-
Total financial assets	2,351.2	2,323.6

(a) Available for sale financial assets	*2019* *£m*	*2018* *£m*
At fair value		
Managed funds	102.0	84.9
Debt securities	2,049.9	2,181.8
Total available for sale financial assets at fair value	2,151.9	2,266.7
At cost		
Managed funds	97.1	84.9
Debt securities	1,992.2	2,158.7
Total available for sale financial assets at cost	2,089.3	2,243.6

The fair value of the loans made by the Company is £186.4m (2018: £49.6m). Other carrying amounts disclosed above reasonably approximate fair values at year end.

The Company has entered into securities lending whereby blocks of securities are loaned to third parties. The amounts of collateral required to be held above the fair value of the loaned securities is dictated by the agreements and depends on the quality of the collateral provided and calculated on a daily basis. The loaned securities are not removed from the Company's Balance Sheet; they continue to be recognised within the appropriate investment classification.

At December 31, 2019, the Company had lent £194.0m (2018: £102.4m) and held collateral under such agreements of £214.4m (2018: £102.2m).

(b) Loans	*2019*	*2018*
	£m	*£m*
Loans to related parties[1]	162.0	20.0
Other loans	29.9	29.9
Deposits with credit institutions[2]	6.3	7.0
Total loans	198.2	56.9

Notes to the Financial Statements

For the year ended December 31, 2019

20. FINANCIAL ASSETS (continued)

	2019	*2018*
	£m	*£m*
Current loans	16.2	-
Non-current loans	182.0	56.9

(c) Derivatives

	2019	*2018*
	£m	*£m*
Total derivatives	1.1	-

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

(1) Amounts repayable by related party, AMS, are to be repaid over 10 years, up to and including September 30, 2029 and carry interest at the Bank of England base rate +0.25%. The interest is receivable quarterly and charged on the outstanding loan balance.

A guarantee from Allianz SE was put into place to support the Company's regulatory solvency position. This only applies to the £162.0m loan in 2019. The principle terms of the guarantee are as follows:

- Guarantee fee: Allianz Insurance will pay Allianz SE an amount of 0.68% of the amount of the outstanding loan facility per annum and in return, Allianz SE will guarantee that it will pay the £162.0m in the event that AMS cannot meet obligations as they fall due.
- Automatic extension: The guarantee will extend automatically every year for another year (subject to payment of the guarantee fee by Allianz Insurance) until September 30, 2029, unless it is cancelled by Allianz SE after giving 3 months prior notice.

(2) Included within the deposits with credit institutions is £6.3m (2018: £7.0m) which the Company has pledged as collateral relating to the future settlement of insurance contract liabilities.

21. INSURANCE RECEIVABLES

		Restated[2]
	2019	*2018*
	£m	*£m*
Due from policyholders	466.8	418.9
Due from reinsurers[1]	11.4	8.3
Due from agents, brokers and intermediaries	328.8	340.4
Total insurance receivables	807.0	767.6

(1) Included in amounts due from reinsurers are balances due from related parties of £9.5m (2018: £7.7m).

(2) The Company underwrites "after the event" ("ATE") legal expenses business which insures the policyholder when they have already decided to take or defend a legal action and provide cover against paying the other side's costs. Unusually, an ATE premium is paid at the successful conclusion of the claim and not before. Due to the nature of this business, the Company recognises that not all cases that are opened will ultimately be pursued through to completion. As a result, the company recognises an "abandonment provision". Previously, this provision was reported within "insurance related payables" but given that the amount will never be payable, this has now been reported within "insurance receivables". The prior year comparative amounts have been restated by £25.7m reported in Note 21 'Due from agents, brokers and intermediaries' which has been restated from £366.1m to £340.4m and in Note 27 'Arising out of direct insurance operations – third parties ' which has been restated from £96.8m to £71.1m, with no impact on retained earnings.

Notes to the Financial Statements

For the year ended December 31, 2019

21. INSURANCE RECEIVABLES (continued)

	2019	*2018*
	£m	*£m*
Current insurance receivables	745.9	714.3
Non-current insurance receivables	61.1	53.3

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

22. OTHER RECEIVABLES

	2019	*2018*
	£m	*£m*
Amounts due from related parties	18.7	278.6
Other	60.5	44.5
Total other receivables	79.2	323.1

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

23. CASH AND CASH EQUIVALENTS

	2019	*2018*
	£m	*£m*
Cash at bank and overdrafts	6.6	10.2
Short-term deposits (including demand and time deposits)	0.1	0.1
Total	6.7	10.3

Deposits are subject to an average interest rate of 1.0% (2018:0.7%) and have an average maturity of 1 day (2018: 1 day). The carrying amounts disclosed above are reasonably approximate to fair value at year-end.

24. SHARE CAPITAL

	2019	*2018*
	£	*£*
Ordinary shares of £1 each fully paid	172,758,609	172,758,609

25. INSURANCE CONTRACT LIABILITIES

	2019			**2018**		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Provisions for claims reported by policyholders	1,718.4	(797.8)	920.6	1,768.7	(815.3)	953.4
Provisions for claims incurred but not reported	(29.0)	(13.0)	(42.0)	(67.4)	8.3	(59.1)
Total claims reported and IBNR	1,689.4	(810.8)	878.6	1,701.3	(807.0)	894.3
Provision for unearned premiums	1,024.2	(448.6)	575.6	1,014.5	(446.3)	568.2
Total general insurance contract liabilities	2,713.6	(1,259.4)	1,454.2	2,715.8	(1,253.3)	1,462.5
Current general insurance contract liabilities	1,508.4	(646.2)	862.2	1,366.0	(594.7)	771.3
Non-current general insurance contract liabilities	1,205.2	(613.2)	592.0	1,349.8	(658.6)	691.2

Notes to the Financial Statements

For the year ended December 31, 2019

25. INSURANCE CONTRACT LIABILITIES (continued)

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

	2019			2018		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At January 1	1,701.3	(807.0)	894.3	1,768.7	(852.5)	916.2
Foreign exchange adjustment	(0.6)	0.2	(0.4)	1.0	(0.2)	0.8
Unwind of discount	3.6	(2.7)	0.9	3.4	(2.6)	0.8
	1,704.3	(809.5)	894.8	1,773.1	(855.3)	917.8
Claims incurred in the current accident year	1,341.7	(561.5)	780.2	1,418.0	(597.0)	821.0
Movement on claims incurred in prior accident years	(57.1)	19.3	(37.8)	(147.6)	81.5	(66.1)
Claims paid during the year	(1,299.5)	540.9	(758.6)	(1,342.2)	563.8	(778.4)
At December 31	1,689.4	(810.8)	878.6	1,701.3	(807.0)	894.3

The provision for unearned premiums can be analysed as follows:

	2019			2018		
	Insurance contract liabilities	*Reinsurers' share of liabilities*	*Net*	*Insurance contract liabilities*	*Reinsurers' share of liabilities*	*Net*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
At January 1	1,014.5	(446.3)	568.2	1,061.0	(467.4)	593.6
Foreign exchange adjustment	0.1	0.0	0.1	-	-	-
	1,014.6	(446.3)	568.3	1,061.0	(467.4)	593.6
Premiums written in the year	1,990.7	(865.8)	1,124.9	2,038.1	(890.9)	1,147.2
Premiums earned during the year	(1,981.1)	863.5	(1,117.6)	(2,084.6)	912.0	(1,172.6)
At December 31	1,024.2	(448.6)	575.6	1,014.5	(446.3)	568.2

26. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

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

Following the joint venture established with LV General Insurance Group ("LVGIG") at the end of 2017, the renewal rights of the majority of the personal motor and home business previously underwritten by the Company were transferred to the LVGIG entity, while the renewal rights of the commercial business previously written by LVGIG were transferred to the Company. These transfers took place during 2018.

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

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

Notes to the Financial Statements

For the year ended December 31, 2019

26. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of periodical payments (PPOs) established under the Courts Act 2003. During 2019, one new settlement was agreed on this basis, making the total number of outstanding PPOs 40. Total PPO reserves are £130.5m (2018 £128.5m) gross and £35.3m (2018 £34.6m) net of reinsurance. The corresponding undiscounted amounts are £302.2m (2018 £302.6m) gross and £70.4m (2018 £70.1m) net.

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

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

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

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

- changes in internal claim handling processes,
- changes in the mix of insurance contracts written,
- 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,
- differences in the complexity of claims,
- the severity of individual claims,
- differences in the period between the occurrence and the reporting of claims.

The Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. Until early 2017, a net discount rate of 2.5% was applied to future care costs and loss of earnings.

On 27 February 2017, the Lord Chancellor announced a new discount rate of -0.75%. In December 2018, the Civil Liability Bill introduced changes to the mechanism used to set the Ogden discount rate from being based on the return achieved on a "very low" risk investment strategy to that from a "low" risk investment strategy. The Civil Liability Bill also stated that the rate would be reviewed in 90 days and then every 5 years. At 2018 Q4, we changed our best estimate view of the discount rate from -0.75% to 0%. In July 2019, the Lord Chancellor announced a new discount rate of -0.25%, and following this we changed our best estimate reserving discount rate basis to -0.25% in 2019 Q3.

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

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

Notes to the Financial Statements

For the year ended December 31, 2019

26. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

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

- claim reporting patterns being different from those expected
- claim handling costs being different from those expected
- the emergence of currently unknown latent diseases.

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

Prior period insurance provisions have decreased by £53.4m gross, driven by reductions on the liability accounts. The net effect after reinsurance is a £36.9m decrease.

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

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. The tables show the cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at each 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 Balance Sheet date.

Gross of insurance	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Accident year	1,004.9	1,046.2	1,159.3	1,139.5	1,285.5	1,540.6	1,495.8	1,428.8	1,418.0	1,341.7	
One year later	1,046.2	1,051.9	1,144.0	1,168.1	1,316.5	1,507.2	1,462.9	1,383.2	1,373.4	-	
Two years later	1,017.6	1,046.9	1,115.1	1,130.5	1,318.0	1,461.8	1,425.9	1,353.7	-	-	
Three years later	1,014.1	1,047.4	1,113.0	1,124.1	1,326.7	1,442.1	1,437.6	-	-	-	
Four years later	1,019.8	1,028.2	1,124.8	1,124.6	1,310.0	1,435.9	-	-	-	-	
Five years later	1,023.6	1,021.3	1,120.0	1,118.4	1,304.0	-	-	-	-	-	
Six years later	1,021.6	1,017.4	1,115.1	1,119.9	-	-	-	-	-	-	
Seven years later	1,011.7	1,013.9	1,113.8	-	-	-	-	-	-	-	
Eight years later	1,009.0	1,013.7	-	-	-	-	-	-	-	-	
Nine years later	1,007.5	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	1,007.5	1,013.7	1,113.8	1,119.9	1,304.0	1,435.9	1,437.6	1,353.7	1,373.4	1,341.7	12,501.2
Cumulative payments to date	985.76	995.30	1,094.18	1,089.31	1226.97	1,361.53	1,267.10	1,168.26	1,102.15	783.40	11,074.0
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	262.2
Total gross liability as per the balance sheet	21.7	18.4	19.6	30.6	77.0	74.4	170.5	185.4	271.3	558.3	1,689.4

Notes to the Financial Statements

For the year ended December 31, 2019

26. INSURANCE CONTRACT LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (continued)

Net of insurance	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Accident year	984.7	1,038.4	1,132.0	1,111.8	1,256.6	1,192.5	857.9	826.8	821.0	780.2	
One year later	1,019.5	1,026.7	1,119.3	1,138.1	1,171.9	1,176.9	838.8	801.4	803.2	-	
Two years later	1,002.0	1,026.1	1,099.5	1,055.5	1,164.3	1,160.7	824.0	784.9	-	-	
Three years later	998.4	1,026.6	1,065.9	1,053.2	1,171.7	1,149.6	823.4	-	-	-	
Four years later	999.7	991.1	1,070.9	1,055.7	1,166.1	1,144.3	-	-	-	-	
Five years later	989.5	987.6	1,070.7	1,051.1	1,161.9	-	-	-	-	-	
Six years later	988.1	988.4	1,067.2	1,050.9	-	-	-	-	-	-	
Seven years later	984.7	986.4	1,066.2	-	-	-	-	-	-	-	
Eight years later	983.1	986.3	-	-	-	-	-	-	-	-	
Nine years later	982.1	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative claims	982.1	986.3	1,066.2	1,050.9	1,161.9	1,144.3	823.4	784.9	803.2	780.2	9,583.4
Cumulative payments to date	973.6	978.0	1,056.4	1,037.6	1,122.9	1,100.7	742.5	676.8	645.6	454.9	8,789.0
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	84.2
	8.5	8.3	9.8	13.3	39.0	43.6	80.9	108.1	157.6	325.3	878.6

27. INSURANCE RELATED PAYABLES

	2019	*Restated[1] 2018*
	£m	*£m*
Arising out of direct insurance operations		
Third parties	68.6	71.1
	68.6	71.1
Deposits received from reinsurers		
Amounts due to related parties	898.3	898.4
Third parties	0.1	0.1
	898.4	898.5
Arising out of reinsurance operations		
Amounts due to related operations	20.5	18.9
Third parties	41.3	43.5
	61.8	62.4
Total insurance related payables	1,028.8	1,032.0
Current insurance related payables	1,028.7	1,031.9
Non-current insurance related payables	0.1	0.1

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

(1) Refer to Note 21

Notes to the Financial Statements

For the year ended December 31, 2019

28. ACCRUALS AND OTHER PAYABLES

	2019	*2018*
	£m	*£m*
Amounts due to related parties	165.0	313.4
Accrued expenses	2.3	1.1
Tax payables	67.8	48.5
PPI redress[1]	7.7	-
Other	32.1	30.4
Total accruals and other payables	274.9	393.4

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

(1) Please refer to Note 5.

29. 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 UK.

Insurance risk

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

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

The price charged by the Company for an insurance contract is generally determined using actuarial techniques which take into account past experience, anticipated loss ratios, claims frequency, expected claims inflation, reinsurance costs and other relevant influences such as the Company's required return on capital. For some products, 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 for each line of business (motor, liability, property and business interruption claims) is limited according to risk appetite, capital requirements and the return on capital. The Company uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses. Based upon the modelling work undertaken, the Company buys reinsurance protection for a 1-in-250-year single event. In order to protect its risk capital from extreme events the Company also purchases catastrophe reinsurance for a modelled 1-in-500-year loss event.

Since 2016, the Company placed a 40% quota share treaty with the ultimate parent Company's reinsurance Company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime.

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

Insurance risk (continued)

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

As detailed below under financial risk policies (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.

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:

	2019			2018		
	Gross	*Reinsurers' Share*	*Net*	*Gross*	*Reinsurers' Share*	*Net*
Claims Liabilities	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Motor	767.4	(393.9)	373.5	753.1	(378.4)	374.7
Household	27.1	(10.8)	16.3	58.3	(23.4)	34.9
Property and business interruption	271.9	(129.1)	142.8	220.6	(110.7)	109.9
Liability	492.6	(224.0)	268.6	518.0	(236.2)	281.8
Speciality pecuniary	112.7	(51.3)	61.4	130.5	(54.8)	75.7
Other	17.7	(1.7)	16.0	20.8	(3.5)	17.3
Total	1,689.4	(810.8)	878.6	1,701.3	(807.0)	894.3

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

Financial risk

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

(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 investment in group undertakings, available for sale financial assets and receivables.

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

i) Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contract liabilities. At December 31, 2019 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.7 years (2018: 3.4 years) compared with the average duration of the insurance contract liabilities which is estimated to be 5.1 years (2018: 5.1 years).

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

ii) Currency risk

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

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

	2019	*2018*
	£m	*£m*
US Dollars		
Assets	75.2	27.1
Liabilities	23.8	26.1
Euro		
Assets	16.0	154.9
Liabilities	10.2	11.1

iii) 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.

	2019		**2018**	
	Profit/(loss)	*Equity*	*Profit/(loss)*	*Equity*
	£m	*£m*	*£m*	*£m*
Interest rate risk				
+100 basis points shift in yield curves	-	(56.5)	-	(73.8)
-100 basis points shift in yield curves	-	59.2	-	78.3
Equity risk				
10% increase in equity prices	-	8.5	-	7.0
10% decrease in equity prices	(5.3)	(4.1)	(8.5)	-
Currency rate risk				
10% increase in Euro	-	0.6	-	14.4
10% decrease in Euro	-	(0.6)	-	(14.4)
10% increase in USD	-	5.1	-	0.1
10% decrease in USD	-	(5.1)	-	(0.1)

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

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

iii) Sensitivity to market risk (continued)

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

	Profit or loss		**Equity**	
2019	*Gross*	*Net*	*Gross*	*Net*
	£m	*£m*	*£m*	*£m*
Expense ratio				
1% increase in current year	(5.8)	(3.5)	(4.7)	(2.8)
1% decrease in current year	5.8	3.5	4.7	2.8
Loss ratio				
1% increase in current year	(12.8)	(7.4)	(10.4)	(6.0)
1% increase in all of the last 3 years	(38.7)	(22.6)	(31.4)	(18.3)
1% decrease in current year	12.8	7.4	10.4	6.0
1% decrease in all of the last 3 years	38.7	22.6	31.4	18.3

	Profit or loss		**Equity**	
2018	*Gross*	*Net*	*Gross*	*Net*
	£m	*£m*	*£m*	*£m*
Expense ratio				
1% increase in current year	(6.3)	(3.7)	(5.1)	(3.0)
1% decrease in current year	6.3	3.7	5.1	3.0
Loss ratio				
1% increase in current year	(13.5)	(7.8)	(10.9)	(6.3)
1% increase in all of the last 3 years	(40.2)	(23.2)	(32.6)	(32.6)
1% decrease in current year	13.5	7.8	10.9	6.3
1% decrease in all of the last 3 years	40.2	23.3	32.6	32.6

The sensitivity analysis 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 analysis does 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 available for sale financial assets, cash and cash equivalents, reinsurance assets, loans and receivables, insurance receivables and other receivables.

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

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

(b) Credit risk (continued)

The Company deems the risk associated with its cash and cash equivalents to be low as the cash balances are held with financial institutions with an AA and A+ credit ratings and are immediately available. The Company deems the risk associated with its other receivables to be low. The amount due from group undertakings is due from Allianz SE and as such is 'AA' rated. Despite the remaining other receivables being unrated, the Company deems the associated risk to be low because these amounts are due from many separate counterparties and all receivables are due within 1 year. The Company is also exposed to credit risk through its loan to a fellow subsidiary of Allianz Holdings plc. This loan is guaranteed by Allianz SE which is "AA" rated. The Company has also invested in an infrastructure loan with another "AA" rated counterparty. Details relating to the repayment of these loans are contained in note 20. The Company deems the credit risk associated with the loans to be low.

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, 2019 was £673.3m (2018: £680.6m).

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	*AA*	*A*	*BBB*	*BB*	*B*	*Other not rated*	*Total*
2019	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Reinsurance assets	-	1,208.1	3.7	-	-	-	47.6	1,259.4
Available for sale financial assets	585.1	500.9	356.3	569.1	25.9	12.6	102.0	2,151.9
Loans	-	6.3	191.9	-	-	-	-	198.2
Insurance receivables[1]	-	126.3	79.0	2.1	-	-	599.6	807.0
Total £m	585.1	1,841.6	630.9	571.2	25.9	12.6	749.2	4,416.5
Percent	13.2	41.7	14.3	12.9	0.6	0.3	17.0	100.0

	AAA	*AA*	*A*	*BBB*	*BB*	*B*	*Other not rated*	*Total*
2018	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*	*£m*
Reinsurance assets	-	1,160.9	8.8	-	-	-	83.6	1,253.3
Available for sale financial assets	566.8	658.0	390.0	560.7	6.3	-	84.9	2,266.7
Loans	-	27.0	29.9	-	-	-	-	56.9
Insurance receivables[1]	-	83.4	130.6	24.7	-	-	554.6	793.3
Total £m	566.8	1,929.3	559.3	585.4	6.3	-	723.1	4,370.2
Percent	13.0	44.2	12.8	13.4	0.1	-	16.5	100.0

(1) Included in the not rated balance is £466.8m (2018: £418.9m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who whilst not independently rated are regulated by the Financial Conduct Authority.

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

(b) Credit risk (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.

	2019		2018	
	Reinsurance assets	*Insurance receivables*	*Reinsurance assets*	*Insurance receivables*
	£m	*£m*	*£m*	*£m*
Neither past due or impaired	1,256.6	773.7	1,253.2	618.1
Past due but not impaired	-	33.1	-	148.1
Individually impaired	2.8	0.2	0.1	1.4
Total	1,259.4	807.0	1,253.3	767.6

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	*90 -120 days*	*120-180 days*	*More than 180 days*	*Total*
2019	*£m*	*£m*	*£m*	*£m*	*£m*
Policyholders	0.7	-	-	0.1	0.8
Brokers	21.8	4.1	2.6	2.9	31.4
Reinsurers	0.4	0.4	-	0.1	0.9
Total	22.9	4.5	2.6	3.1	33.1
2018					
Policyholders	0.7	-	-	-	0.7
Brokers	57.9	34.1	27.9	25.4	145.3
Reinsurers	0.2	0.2	0.3	1.4	2.1
Total	58.8	34.3	28.2	26.8	148.1

Fair value hierarchy

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

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

Level 2: valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates.

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

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

Fair value hierarchy (continued)

	Total	*Level 1*	*Level 2*	*Level 3*
Fair value as of December 31, 2019	*£m*	*£m*	*£m*	*£m*
Own use properties	15.9	-	-	15.9
Available for sale financial assets				
Government and government agency bonds	476.5	136.8	339.7	-
Corporate bonds	1,573.4	14.8	1,543.4	15.2
Managed funds	102.0	-	102.0	-
Total	2,167.8	151.6	1,985.1	31.1

	Total	*Level 1*	*Level 2*	*Level 3*
Fair value as of December 31, 2018	*£m*	*£m*	*£m*	*£m*
Own use properties	15.9	-	-	15.9
Available for sale financial assets				
Government and government agency bonds	536.3	224.9	311.4	-
Corporate bonds	1,645.5	16.7	1,615.4	13.4
Managed funds	84.9	84.9	-	-
Total	2,282.6	326.5	1,926.8	29.3

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

	Fair value as of January 1	Additions	Unrealised gains/ (losses)	Fair value as of December 31
	£m	£m	£m	£m
2019				
Own use properties	15.9	-	-	15.9
Corporate bonds	13.4	-	1.8	15.2
2018				
Own use properties	15.9	-	-	15.9
Corporate bonds	14.0	-	(0.6)	13.4

Own use properties

Valuation technique:

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

Significant unobservable inputs:	
Rental growth	Factored into the yield applied (location/sector specific)
Voids	24-36 months
Market Rent (MR)	£12.00 - £33.50 per square foot (refurbished/redeveloped)
Rent free	12 - 18 months upon re-letting
Letting fees	15% of MR

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

Own use properties (continued)

Sensitivity analysis changes in key unobservable inputs:

	Net equivalent yield (NEY)	Estimated realisable value (ERV) £m	Portfolio valuation £m
Base portfolio	5.90%	3.7	15.9
+5% ERV	5.90%	3.9	18.3
-5% ERV	5.90%	3.5	13.8
+5% NEY	6.20%	3.7	13.3
-5% NEY	5.61%	3.7	19.0
-5% NEY, -5% ERV	5.61%	3.5	16.6
+5% NEY, +5% ERV	6.20%	3.9	15.5
-5% NEY, +5% ERV	5.61%	3.9	21.4
+5% NEY, -5% ERV	6.20%	3.5	11.2

Corporate bonds

Valuation technique:

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

As no market prices are available, a discounted cash flow model is used to determine the fair value of the fixed income financial instruments. Cash flows are generated based on terms and conditions from the Note Purchase Agreement. Determination of the reference spread for the discount rate is based upon yield curves from market data providers for the same currency and similar risk (i.e. country, business area and seniority).

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

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

(c) Liquidity risk

Liquidity risk is the risk that funds might not be available to settle obligations when they fall due. The Company is exposed to liquidity risk through its property plant and equipment, accrued income, deferred tax liability, insurance contract liabilities, current tax liability and accruals and other payables. The Company considers the liquidity risk associated with property, plant and equipment to be immaterial. These are owner occupied properties and the Company would have sufficient liquid assets to meet its obligations as they fall due without depending on the sale of these properties. The liquidity risk associated with accrued income is deemed to be immaterial as the Company has sufficient other liquid assets available to meet liabilities as they fall due. The Company considers the liquidity risk associated with the deferred tax liability to be immaterial as this is almost entirely offset by a deferred tax asset and the Company has sufficient liquid assets to meet the remaining obligation as it falls due. The Company is exposed to liquidity risk associated with the current tax liability, accruals and other payables. The Company has sufficient liquid assets to settle these amounts as they fall due.

The Company is exposed to calls on its available resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's available for sale financial assets and loans at December 31, 2019 amounted to £2,350.1m (2018: £2,323.6m) plus cash and cash equivalents (including cash pooling to Allianz SE Group of £18.4m) of £25.1m (2018: £39.6m). With the exception of lent securities (see note 20), 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 cash flows from the Company's insurance contract liabilities. The analysis provided is by estimating timings of the amounts recognised in the Balance Sheet.

Available for sale financial assets	*Carrying amount*	*Less than 1 year*	*1 - 2 years*	*2 - 5 years*	*5 - 10 years*	*More than 10 years*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
2019	2,151.9	272.8	159.0	623.3	600.7	496.1
2018	2,266.7	264.1	224.0	535.3	753.9	489.4

Insurance liabilities	*Carrying amount*	*Less than 1 year*	*1 - 2 years*	*2 - 5 years*	*5 - 10 years*	*More than 10 years*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
2019	1,689.4	773.1	363.0	370.5	78.1	104.7
2018	1,701.3	836.0	345.0	360.1	66.3	93.9

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.

Notes to the Financial Statements

For the year ended December 31, 2019

29. RISK MANAGEMENT POLICIES (continued)

Capital Management

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

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

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

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

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

The Company's capital comprises total shareholders' equity and amounts to £935.9m (2018: £1,020.5m).

The Company has complied with all externally and internally imposed capital requirements throughout the year. At December 31, 2019 the own funds amount to £929.4m with a surplus of 59% on SCR (2018: own funds equal to £1,049.3m with a surplus of 56% on SCR).

30. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Allianz Holdings plc, a company registered in the UK.

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.

31. CONTINGENCIES AND COMMITMENTS

Legal proceedings and regulations

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

Notes to the Financial Statements

For the year ended December 31, 2019

32. CASH FLOWS FROM OPERATING ACTIVITIES

	Notes	2019 £m	Restated[1] 2018 £m
Profit before tax		69.3	54.4
Investment income	4 & 5	(81.7)	(41.8)
Non-cash items			
Amortisation of AFS financial assets		12.3	12.2
Amortisation of intangible assets	14	6.5	6.5
Amortisation of net deferred acquisition costs	16	169.2	180.6
Net acquisition costs deferred during the year	16	(162.0)	(168.2)
Net realised gain from sale of available for sale financial assets	6	(7.3)	(4.6)
Impairment of available of sale financial assets		-	5.1
Impairment of investment in subsidiaries		17.0	-
Proceeds from early redemption fees	6	-	(0.3)
Currency (gains)/ losses		(5.2)	1.2
Prior year reinsurance recovery	21	-	5.1
Changes in working capital			
(Increase)/decrease in reinsurance assets	18	(6.1)	66.6
Decrease in accrued income	19	1.1	6.5
Increase in insurance receivables	21	(39.4)	(15.4)
Decrease/(increase) in other receivables	22	243.9	(58.0)
Decrease in insurance contract liabilities	25	(2.2)	(113.9)
Decrease in insurance related payables	27	(3.2)	(35.8)
Decrease in accruals and other payables	28	(118.5)	(19.6)
Cash generated from/(utilised in) operations		93.7	(119.4)

(1) Refer to Note 21

33. 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

	2019 £m	2018 £m
Administration and claims handling service fees	325.4	341.1
Interest received from group loans	0.5	0.7
Reinsurance premiums paid to related parties	822.4	845.7
Reinsurance recoveries	741.7	768.6
Dividend received from subsidiary	82.0	-
Loss on put option	-	0.6
Loan repaid by the parent	20.0	-
Loan issued to fellow group undertaking	162.0	-

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

	2019 £m	2018 £m
Due from related parties at December, 31		
Subsidiaries	0.1	0.2
Other related parties	24.7	280.6
Total	24.8	280.8

Notes to the Financial Statements

For the year ended December 31, 2019

33. RELATED PARTY TRANSACTIONS (continued)

	2019	*2018*
	£m	*£m*
Due to related parties at December, 31		
Parent	13.9	80.6
Subsidiaries	57.7	116.3
Other related parties	1,004.5	1,026.7
Total	1,076.1	1,223.6

Since 2016, the Company placed a 40% quota share treaty with the ultimate parent Company's reinsurance Company, in order to reduce the capital requirements and improve the solvency position under the Solvency II Regime.

Management services were bought from a Group company on a cost-plus basis, allowing a margin of 5% (2018 – 5%).

All other transactions were made on normal commercial terms and conditions and at market rates.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

	2019	*2018*
	£m	*£m*
Loan to related parties at December, 31		
Parent	-	20.0
Other related parties	162.0	-
Total	162.0	20.0

Amounts repayable by related party, AMS, are to be repaid over 10 years, up to and including September 30, 2029 and carry interest at the Bank of England base rate +0.25%. The interest is receivable quarterly and charged on the outstanding loan balance. A guarantee from Allianz SE was put into place to support the Company's regulatory solvency position. This only applies to the £162.0m loan in 2019.

(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.

34. SUBSEQUENT EVENTS

The outbreak of COVID-19 has resulted in a pandemic causing significant disruption across the globe. COVID-19 has been classified as a non-adjusting event for accounting purposes. At December 31, 2019, a very limited number of cases had been reported to the World Health Organisation. Since then the spread of the virus has been rapid and the number of reported cases and deaths has increased significantly.

The impact on society is reflected in business closures, restrictions on movement, home working and cancellations of sporting and other events. This is expected to lead to an economic downturn.

The recent volatility in financial markets and the impact on asset and liability values is being monitored with management plans in place to mitigate financial and operational risks. The financial impact of potential claims is difficult to estimate at this stage. However, whilst there is still a significant degree of uncertainty the Company remains in a robust position, and solvency is expected to be maintained above requirements under current laws and regulations. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.