



**Report by Simon Sheaf FIA, Independent Expert, on the Proposed Transfer
of Portfolios of Policies from Liverpool Victoria Insurance Company
Limited, Highway Insurance Company Limited, Fairmead Insurance Limited
and Trafalgar Insurance Limited to Allianz Insurance Plc**

11 May 2026



Contents

1	Introduction	2
2	Executive Summary	11
3	Scope	29
4	Methodology	31
5	Background	39
6	Regulatory background	56
7	Claims Reserves	61
8	Capital Requirements	74
9	Policyholder Security	134
10	Other financial considerations	142
11	Other considerations	148
12	Jersey Scheme	158
13	Communication strategy	160
14	Reliances and limitations	167
15	Conclusions	168
A	Information received	170
B	Definitions	175
C	Abbreviations	178
D	Checklist against PRA's Statement of Policy and SUP 18	180
E	Checklist against FCA's FG22/1	184
F	My experience	195
G	Extract from Engagement Letter	197
H	Letter of Representation	200

1 Introduction

- 1.1 Insurance business transfers in the United Kingdom are subject to Part VII of the Financial Services and Markets Act 2000, as amended (“FSMA”). These transfers are required to be approved by the High Court of England and Wales (the “Court”) (or the Court of Sessions in Scotland) under Section 111 of FSMA. Such transfers are often referred to as “Part VII transfers”.
- 1.2 Section 109 of FSMA requires that a scheme report must accompany an application to the Court to approve an insurance business transfer scheme. This scheme report should be produced by a suitably qualified independent person (“Independent Expert”) who has been approved by or nominated by the Prudential Regulation Authority (“PRA”) in consultation with the Financial Conduct Authority (“FCA”). The scheme report should address the question of whether any policyholders impacted by the proposed insurance business transfer are adversely affected to a material extent. The scheme report consists of a main report and any subsequent supplementary reports issued by the Independent Expert in respect of the same transfer.
- 1.3 Allianz Insurance Plc (“AZI”, the “Transferee”), Liverpool Victoria Insurance Company Limited (“LVIC”), Highway Insurance Company Limited (“HICO”), Fairmead Insurance Limited (“FIL”) and Trafalgar Insurance Limited (“TIL”) are seeking to undertake a single Part VII transfer from LVIC, HICO, FIL and TIL to AZI. This transfer would proceed as two parallel schemes, as I explain in more detail below.
- 1.4 LVIC, HICO, FIL and TIL are collectively known as “the Transferors”. The Transferors and AZI, the Transferee, are collectively known as “the Companies”.
- 1.5 The Companies have jointly nominated Simon Sheaf (“I”, “me”), Partner and Head of Actuarial and Risk at Grant Thornton UK Advisory & Tax LLP (“Grant Thornton”), to act as the Independent Expert for the proposed transfer of the insurance business of LVIC, HICO, FIL and TIL to AZI. This nomination has been approved by the PRA in consultation with the FCA.
- 1.6 AZI is bearing the costs of producing this report.

Background to the Companies

- 1.7 Each of AZI, LVIC, HICO, FIL and TIL are direct or indirect subsidiaries of Allianz Holdings Plc (“AZH”), which is itself a subsidiary of Allianz (UK) Limited (“Allianz UK”), all of which are part of Allianz SE Group, one of the largest financial services providers in the world. I cover the ownership structure of the Companies in more detail in section 5.

Background to AZI

- 1.8 AZI is a UK-regulated general insurance company that is authorised by the PRA and regulated by the PRA and the FCA. It is also authorised to transact business under Jersey law by the Jersey Financial Services Commission (“JFSC”). AZI underwrites a wide range of insurance products across personal, commercial, and corporate sectors within the UK, and with a limited amount of international exposure, offering coverage for motor, property, liability, and specialty risks. I refer to this business as the “Existing Portfolio”.
- 1.9 In this report, I refer to AZI following the Schemes (as defined in paragraph 1.25 below) as “AZI post-Schemes”. This is the proposed post-transfer position where the assets and liabilities of all Transferors have been transferred to AZI.

Background to LVIC

- 1.10 LVIC is a UK-regulated general insurance company that is authorised by the PRA and regulated by both the PRA and the FCA. It is also authorised to transact business under Jersey law by the JFSC. It is a provider of personal lines insurance products, including motor, home, and travel insurance. It is

authorised to write business in the UK and Jersey. I refer to this business as the “Transferring LVIC Portfolio”.

Background to HICO

- 1.11 HICO is a UK-regulated general insurance company that is authorised by the PRA and regulated by the PRA and the FCA. It is also authorised to transact business under Jersey law by the JFSC. HICO underwrites personal motor and home policies. It is authorised to write business in the UK and Jersey. It historically also underwrote commercial vehicles business, but this ceased in 2019. I refer to this business as the “Transferring HICO Portfolio”.

Background to FIL

- 1.12 FIL is a UK-regulated general insurance company that is authorised by the PRA and regulated by the PRA and the FCA. It is also authorised to transact business under Jersey law by the JFSC. Formerly operating under the Legal & General brand, FIL provided home insurance, pet insurance and accident, sickness & unemployment insurance. It is in orderly run-off and no longer underwrites new business. I refer to this business as the “Transferring FIL Portfolio”.

Background to TIL

- 1.13 TIL is a UK-regulated general insurance company that is authorised by the PRA and regulated by the PRA and the FCA. While active, TIL provided motor insurance. However, it is now in orderly run-off and no longer underwrites new business. I refer to this business as the “Transferring TIL Portfolio”.

Background to the Allianz UK Group

- 1.14 The Transferors and the Transferee operate under the strategic oversight of AZH, leveraging its global expertise and resources to provide tailored insurance products to the UK market. AZH is a subsidiary of Allianz UK. In this report, I refer to Allianz UK and its subsidiaries, including the Companies and other entities, as the “Allianz UK Group”. Section 5 of this report gives further explanation of the structure of the Allianz UK Group.

Background to AMSL

- 1.15 Allianz Management Services Limited (“AMSL”) is a management services provider for entities in the Allianz UK Group. This includes employing staff on behalf of these entities, as well as acting as pension scheme sponsor.

Background to LVGIG

- 1.16 Liverpool Victoria General Insurance Group Limited (“LVGIG”) is a management services provider for entities in the Allianz UK Group. It also acts as a holding company for insurance entities in the Allianz UK Group; it is the parent company to LVIC and FIL and indirectly to HICO.

Background to the Schemes

Transferring business

- 1.17 The Transferors’ business described in paragraphs 1.8 to 1.13 above collectively form the “Transferring Portfolios”. The Transferring Portfolios are proposed to be transferred from the Transferors to the Transferee in their entirety on the Effective Date.

- 1.18 AZI will become the insurer of those policies on and from the Effective Date, with the policyholders under the Transferring Portfolios acquiring the same contractual rights with AZI as they previously had with the Transferors.
- 1.19 There are no proposed changes to the servicing, administration, terms and conditions, or claims settlement policies for the policyholders of the Transferring Portfolios once they have been transferred to AZI.

Court processes

- 1.20 The majority of the business in the Transferring Portfolios is governed by English law.
- 1.21 This includes the Isle of Man business written by LVIC and HICO (the "IoM Policies"). I have been informed by the Companies that the IoM Policies are governed by the laws of England & Wales, and that no policies have been identified that are governed by Isle of Man law.
- 1.22 The Transferring LVIC Portfolio and Transferring HICO Portfolio also include the following:
- policies effected or carried out as part of insurance business carried on in or from within Jersey, including some policies written under Jersey law (the "Jersey Policies") whose transfer is subject to the separate jurisdiction of the Royal Court of Jersey (the "Jersey Court")
 - some policies written under Guernsey law (the "Guernsey Policies"), which are governed by the laws of Guernsey and in respect of which any disputes would be subject to the jurisdiction of the Royal Court of Guernsey (the "Guernsey Court").
- 1.23 The Transferring FIL Portfolio also includes some Jersey Policies, although they have all lapsed and none are active policies.
- 1.24 It is proposed that this transfer is performed under two parallel schemes:
- The transfer of the insurance business within the Transferring Portfolios (including the IoM Policies, the Guernsey Policies and the Jersey Policies), from the Transferors to AZI, and the transfer of ancillary assets and liabilities from LVGIG to AMSL, pursuant to Part VII of the Financial Services and Markets Act 2000 and subject to the approval of the Court (the "Main Scheme")
 - The transfer of the Jersey Policies from the LVIC, HICO and FIL to AZI, pursuant to the Insurance Business (Jersey) Law 1996 and also subject to the approval of the Jersey Court (the "Jersey Scheme").
- 1.25 The Jersey Policies are treated as being transferred under the Main Scheme, (subject to the condition that the Jersey Court approves the Jersey Scheme) as well as under the Jersey Scheme. This is implemented by treating the Jersey Policies as Excluded Policies under the Main Scheme until the Jersey Scheme becomes effective. The reason for this approach is because the Court and Jersey Court have overlapping jurisdiction in relation to the Jersey Policies and the assets that support those policies are an intrinsic part of the Transferors' business and are often not capable of being separately identified or withheld from the Main Scheme.
- 1.26 In this report, I refer to the Main Scheme and the Jersey Scheme collectively as the "Schemes". The Schemes will run in parallel but will follow two different court processes, one (the Main Scheme) with the Court and the other (the Jersey Scheme) with the Jersey Court. I refer to the Court and the Jersey Court collectively as the "Courts".
- 1.27 The Companies have received legal advice, which I have reviewed, confirming that there are no equivalent Part VII processes for non-life business in Guernsey or the Isle of Man, and that the Main Scheme is therefore the appropriate legal mechanism via which the Guernsey Policies and the IoM Policies will transfer to AZI. There will therefore not be a need for parallel transfers for these policies. I comment on the recognition of the Main Scheme in these jurisdictions in section 11 of this report. I will provide an update on this in my Supplementary Report.

The Main Scheme

- 1.28 The Main Scheme is intended to become effective on 1 January 2027 ("the Effective Date").
- 1.29 The Main Scheme includes the transfer of all liabilities associated with the Transferors. It also includes the transfer of all of the Transferors' assets, excepting those required for the Transferors to meet their minimum capital requirements (as defined in paragraph 6.10) until the Transferors are deauthorised and wound up.
- 1.30 The Main Scheme includes ancillary arrangements for the transfer of certain ancillary assets and liabilities necessary for the Transferors' business (including service contracts, prepaid expenses, receivables, software and trademarks) from LVGIG to AMSL; and the restructuring of LV Repair Services Limited ("LVRS") to become a subsidiary of AZI. These proposed changes align with a broader corporate restructuring objective of the Allianz UK Group. The transfer of these ancillary assets and liabilities will be effected under the same court order as the Main Scheme. Consequently, according to the terms of the Main Scheme, the transfer of the Transferring Portfolios will not proceed without the transfer of ancillary assets and liabilities, and the transfer of ancillary assets and liabilities will not proceed without the Main Scheme.
- 1.31 Modifications and additions to the Main Scheme, or further conditions to the Main Scheme, may be imposed by the Court. Other additions or modifications to the Main Scheme are permitted if all of the Companies agree, subject to Court approval, reasonable notice being given to the PRA and FCA and a fresh report from an Independent Expert.

The Jersey Scheme

- 1.32 The Jersey Scheme will run in parallel with the Main Scheme and is also intended to become effective on the Effective Date.
- 1.33 The Jersey Scheme is dependent on the Main Scheme. This means that, even if the Jersey Scheme is approved by the Jersey Court, it will not proceed unless the Main Scheme is also approved by the Court. By contrast, the Main Scheme is not itself dependent on the Jersey Scheme being approved. It will go ahead, if approved, even if the Jersey Scheme is not approved.
- 1.34 Modifications and additions to the Jersey Scheme, or further conditions to the Jersey Scheme, may be imposed by the Jersey Court. Other additions or modifications to the Jersey Scheme are permitted if all of the Companies agree, subject to Jersey Court approval, reasonable notice being given to the JFSC and a fresh report from an Independent Expert.

Excluded Policies

- 1.35 As is standard with most portfolio transfers, there is a provision for certain policies that may not be, or may not be capable of being, transferred on the Effective Date. These are referred to as Excluded Policies within the Main Scheme and Jersey Scheme documents.
- 1.36 If there are any Excluded Policies, they would not be transferred to AZI, and the liabilities of Excluded Policies would remain liabilities of the relevant Transferor. I understand from the Companies that they would make reasonable endeavours to novate the Excluded Policies to AZI. However, this potential future action does not form part of my considerations in this report.
- 1.37 The Jersey Policies are treated as Excluded Policies under the Main Scheme until the Jersey Scheme is effective.
- 1.38 I understand from the Companies that, aside from this, no Excluded Policies are currently expected and, according to legal advice received by the Companies, no additional parallel schemes are required. If any further Excluded Policies are identified prior to the hearings at which the Companies will apply to the Court and the Jersey Court for approval of the respective schemes (the "Sanctions Hearings"), I reserve the right to revisit my analysis and conclusions.

Reinsurers transferring under the Schemes

- 1.39 Reinsurers who currently have contracts with the Transferors (the “Transferring Reinsurers”) will also be transferring as part of the Main Scheme such that, following the Main Scheme, their contracts will be with AZI rather than with the Transferors.

Deauthorisation and wind-up of Transferors following the Schemes

- 1.40 Subject to there not being any Excluded Policies, the Transferors will not have any policyholders following the Schemes if both Schemes are approved. Once all the assets, liabilities and ancillary contracts under the Schemes have transferred, the Transferors will seek to be deauthorised and wound-up, which the Companies expect would take place up to nine months after the Effective Date.

Consequences of one or both of the Schemes not being approved

- 1.41 If the Main Scheme is not approved, then the Jersey Scheme will also not proceed, and all of the Transferring Portfolios would remain with the Transferors. The Transferring Reinsurers would also not transfer and would continue to reinsure the Transferors.
- 1.42 If the Main Scheme is approved but the Jersey Scheme is not, then:
- the Jersey Policies would remain with LVIC, HICO and FIL until such point that the Jersey Scheme was approved and became effective, or until such point that the policies are individually novated to AZI. The Companies have informed me that, in this situation, AZI would fully reinsure the Jersey Policies until the point at which they are transferred or novated to AZI.
 - The Transferring Reinsurers will transfer on the Effective Date as part of the Main Scheme and will reinsure AZI rather than HICO, LVIC and FIL. In this situation, AZI would provide reinsurance to HICO, LVIC and FIL in respect of the Jersey Policies. The same economic liability would ultimately still be transferred to the Transferring Reinsurers, albeit not directly.

Other ongoing change programmes

- 1.43 There are several other major change programmes in progress for the entities in the Allianz UK Group which are running concurrently with the Schemes and are planned to be effected whether or not the Schemes are approved. These and any potential impact on the Schemes are discussed further in sections 5 and 11.

My appointment

- 1.44 The terms of my engagement are set out in a letter dated 16 May 2025 and an extract of this letter setting out the scope of my work is included in Appendix G. Note that the terms of my engagement refer to one scheme; this was before it was understood that there would be two parallel schemes.
- 1.45 The purpose of this report is to set out my considerations as to the likely effects of the Main Scheme and the Jersey Scheme on policyholders, as well as on any Transferring Reinsurers. This includes whether the Schemes will result in material detriment to any policyholders affected by the Schemes or Transferring Reinsurers, relative to their current situation.
- 1.46 For the purposes of this report, policyholders include existing and future claimants. It includes all policyholders of the Companies immediately prior to the Effective Date but does not include policyholders who may transfer to the Companies via other portfolio transfers following the Schemes, or policyholders who may subsequently take out a policy with the Companies at some future point following the Effective Date

- 1.47 I have prepared a summary of this report to be included in the information sent to policyholders (“the Summary Report”).
- 1.48 Shortly before the date of the final Court hearings, at which orders sanctioning the Schemes will be sought, I will prepare an update to this report covering any relevant matters which have arisen since the date of this report (“the Supplementary Report”).

My Professional Experience

- 1.49 I am a Fellow of the Institute and Faculty of Actuaries (“IFoA”) and a Fellow of the Society of Actuaries in Ireland (“SAI”), with more than 30 years of experience in the general insurance industry.
- 1.50 I am a Partner in Grant Thornton, and I am the Head of its Actuarial and Risk team, leading the provision of Grant Thornton’s actuarial and risk consulting services to the insurance sector. Prior to joining Grant Thornton, I was the Chief Actuary of Travelers Insurance Company Limited across the UK and Ireland and, before that, I held a senior role at Tillinghast – Towers Perrin (now part of Willis Towers Watson).
- 1.51 I have experience in all areas of general insurance actuarial work (including reserving, capital, pricing, transactions, etc). I have previously acted as the Independent Expert or Independent Actuary (the equivalent role for analogous transfers in Ireland) for 13 other sanctioned insurance business transfer schemes, and I am currently acting as the Independent Expert for another two insurance business transfers, in addition to this one.
- 1.52 I hold a Chief Actuary (Non-life with Lloyd’s) Practising Certificate and a Lloyd’s Syndicates Practising Certificate issued by the IFoA. In addition, I have previously held an Irish Signing Actuary Practising Certificate and have previously been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.
- 1.53 Full details of my experience can be found in Appendix F.

My independence

- 1.54 I am not a policyholder, nor do I have a financial interest in the Transferors or the Transferee, or the group of companies to which they belong.
- 1.55 I am not, and have never been, employed by any of the Transferors or the Transferee, or the group of companies to which they belong, as an employee, officer or director.
- 1.56 I have not previously advised the Transferors or the Transferees in any professional capacity.
- 1.57 I have been involved in two projects with companies in the group of companies to which the Transferors and Transferee belong. I do not believe these previous assignments to impair my independence to act as the Independent Expert on the Schemes. These previous assignments were disclosed to the PRA and the FCA, prior to my approval as the Independent Expert.
- 1.58 In addition, I have considered the most recent guidance issued by the Institute and Faculty of Actuaries regarding conflicts of interest and have identified no conflict of interest that might compromise my independence.

Use of this report

Parties for whom my report has been prepared

- 1.59 The purpose of this report is to inform the Court and the Jersey Court of the likely effect of the Schemes upon policyholders and Transferring Reinsurers. This report is not necessarily suitable for any other purpose.
- 1.60 This report has been prepared for the use of the Court, the Jersey Court, the policyholders of the Transferors and the Transferee, the Transferring Reinsurers, the directors and senior management of the Transferors and the Transferee, the PRA, the FCA, and the JFSC for the sole purpose of considering the impact of the Schemes on the affected policyholders and Transferring Reinsurers.

Distribution of my reports

- 1.61 In addition, draft and final versions of this report and the other reports that I produce in connection with the Schemes may be distributed to the legal advisers of the Companies and companies within the corporate group to which the Companies belong as necessary in connection with the Schemes. Should any of my reports be distributed to any of the entities listed in the previous sentence, no reliance should be placed on my reports by these entities, and Grant Thornton does not assume any liability to either these entities or to any other third parties that choose to rely on my reports.
- 1.62 The Companies shall be responsible for any confidentiality breaches that arise from the distribution of my reports to their legal advisors, to companies within the Allianz UK Group, or to any other entities to which it releases my reports.
- 1.63 Copies of the final version of this report may be made available for inspection by policyholders and Transferring Reinsurers, and copies may be provided to any person requesting the same in accordance with legal requirements. The final version of this report may also be made available on a website hosted by AZI in connection with the Schemes. I also consent to the final versions of my Summary Report and Supplementary Report being made available on the website to be hosted by AZI in connection with the Schemes.

Reliances and limitations

- 1.64 In preparing this report, I have had access to data and information supplied to me by the Transferors, the Transferee and their legal advisers. This information is listed in Appendix A of this report. I have been provided with all the information that I have requested. In addition, I have held discussions with the senior management of the Transferors and the Transferee. My conclusions depend on the accuracy of the information I have received, and I have relied on this information without independent verification, although I have reviewed it for reasonableness and internal consistency.
- 1.65 I have checked that all of the information I have been provided with has been supplied by persons appropriately qualified to provide such information. I have reviewed the CVs of the individuals who are responsible for the analysis underlying the information provided to me. I am satisfied that it is reasonable for me to rely on this information.
- 1.66 I have relied on the work of the respective external auditors of each of the Transferors and the Transferee, where relevant, in gaining confidence in the financial information which I have summarised in this report.
- 1.67 I am not a qualified legal or tax expert. Where available, I have relied on the opinions and assurances of the Companies' experts and legal advisers in these matters, and I have not sought independent expert advice. I have however sought the opinions and assurances of the insurance tax specialists within Grant Thornton.

- 1.68 This report is based on the information made available to me at, or prior to, 6 February 2026. It takes no account of developments after that date.
- 1.69 Judgements about the conclusions drawn in this report should only be made after considering the report in its entirety as any part or parts read in isolation may be misleading. In addition, this report should be read together with the other documents relating to the Schemes.
- 1.70 The underlying figures in this report are calculated to many decimal places. In the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.
- 1.71 Further reliances and limitations are set out in section 14.

Professional Guidance

- 1.72 As an Independent Expert reporting to the Court, I am required to act in accordance with Part 35 of the Civil Procedure Rules, Practice Direction 35 and the Guidance for the Instruction of Experts in Civil Claims. Accordingly, this report is prepared for the assistance of the Court, and I confirm that I understand my duty to the Court and have complied with that duty.
- 1.73 This report has been prepared under the terms of the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers" and the guidance set out in Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. In addition, this report has been prepared in accordance with the FCA's guidance paper entitled "The FCA's approach to the review of Part VII insurance business transfers".
- 1.74 This report has been produced in line with the requirements of the Technical Actuarial Standards ("TASs") issued by the Financial Reporting Council ("FRC"). In particular, this report has been prepared in accordance with TAS 100: Principles of Technical Actuarial Work and TAS 200: Insurance.
- 1.75 This report has also been produced in line with the requirements of APS X3: The Actuary as an Expert in Legal Proceedings, issued by the IFoA.
- 1.76 In addition, in accordance with the requirements of APS-X2: Review of Actuarial Work, issued by the IFoA, and the internal control processes of Grant Thornton, the work documented in this report has been peer reviewed by a suitably qualified person (an Actuary within Grant Thornton who has considerable experience of Part VII transfers and other portfolio transfers and of working in capital modelling and reserving in the UK general insurance market). The peer review process has included discussion of the key elements of the analysis and a review of the methodology and key assumptions used.
- 1.77 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions that I have expressed and conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.

Layout of this report

- 1.78 My report is structured as follows:
- This section sets out an introduction to the Schemes and to this report
 - Section 2 is an executive summary, which summarises the Schemes and the various analyses conducted, and describes my conclusions

- Section 3 sets out the scope of this report
- Section 4 provides a summary of the methodology I have employed to assess the impact of the Schemes on the relevant stakeholders
- Section 5 describes the background to the entities involved
- Section 6 provides an overview of the regulatory regimes that the Transferors and Transferee and other entities relevant to the Schemes are subject to
- Section 7 describes the work that I have carried out to assess the claims reserves of each of the Transferors and of the Transferee
- Section 8 describes the work that I have carried out to assess the capital requirements of each of the Transferors and of the Transferee
- Section 9 provides my assessment of the policyholder security considerations, including under insolvency
- Section 10 provides my assessment of other financial considerations
- Section 11 provides my assessment of other considerations
- Section 12 provides my assessment of the impact of the Schemes on the Jersey Scheme
- Section 13 provides my assessment of the proposed communication strategy for the Schemes
- Section 14 sets out the reliances and limitations that apply to my analysis and this report
- Section 15 sets out my conclusions on the Schemes.

1.79 The appendices are as follows:

- Appendix A sets out the information I received
- Appendices B and C contain definitions of technical terms and explanations of abbreviations used in this report respectively
- Appendices D and E list the regulatory requirements set out by the PRA and FCA and signpost to where in the report those requirements have been met
- Appendix F sets out my experience as Independent Expert
- Appendix G is an extract from the letter of engagement for my acting as Independent Expert.

2 Executive Summary

Introduction

- 2.1 This report considers whether any policyholders or reinsurers impacted by the transfer of LVIC's, HICO's, FIL's and TIL's insurance business to AZI are adversely impacted to a material extent.
- 2.2 In this Executive Summary, I summarise my opinion, the key elements of analysis I have carried out to enable me to form that opinion, and the rationale for the opinion.
- 2.3 This section includes discussion of the following:
- An overview of the Schemes and the context in which they sit, paragraphs 2.9 to 2.16
 - My approach, paragraphs 2.18 to 2.35
 - My key findings, including in respect of:
 - The different groups of policyholders, paragraphs 2.38 to 2.39
 - Policyholders' benefits, paragraph 2.40
 - The capital position and robustness of the Companies, paragraphs 2.41 to 2.65
 - Other considerations including levels of service, paragraphs 2.67 to 2.69
 - The situation if the Schemes are not effected, paragraphs 2.70 to 2.73
 - The Jersey Policyholders, paragraphs 2.74 to 2.77
 - Transferring reinsurers, paragraphs 2.78 to 2.81
 - Communications with affected parties, paragraphs 2.82 to 2.89
 - My conclusion, paragraph 2.90.

Background to the parties

- 2.4 The Companies involved in the Schemes are all direct or indirect subsidiaries of AZH, itself a subsidiary of Allianz UK and ultimately the Allianz SE Group. The Companies are all UK-regulated general insurance companies which are authorised by the PRA and regulated by the PRA and the FCA. In addition, AZI, LVIC, HICO and FIL are authorised to transact business under Jersey law.
- 2.5 AZI, the Transferee, is the Allianz UK Group's main active insurance entity, writing a diversified portfolio of insurance products across personal, commercial, and corporate sectors, predominantly within the UK but with some international exposure.
- 2.6 The Transferors comprise:
- LVIC which writes predominantly motor and home business, and some travel insurance.
 - HICO, a subsidiary of LVIC, which also predominantly writes motor and home business
 - FIL, a small entity in run-off since April 2023 which provided home insurance, pet insurance and accident, sickness & unemployment insurance.
 - TIL, a small subsidiary of AZI that provided motor insurance and has been in run-off since 2006
- 2.7 AMSL is a service company within the Allianz UK Group which employs almost all staff for the Companies, acts as the pension scheme sponsor, and provides almost all services to AZI and TIL, and certain services to LVIC, HICO and FIL. The remainder of staff are employed by Allianz Engineering Inspection Services Ltd.

- 2.8 LVGIG is a services management company within the Allianz UK Group which houses the majority of third-party service contracts required for the running of LVIC, HICO and FIL. It does not employ any staff. LVGIG is also the parent company to LVIC and FIL and, indirectly, to HICO.

Overview of the Schemes

- 2.9 The Schemes are intended to take effect on 1 January 2027 (the “Effective Date”).
- 2.10 The purpose of the Schemes is to transfer the Transferors’ business into AZI and to transfer certain ancillary assets and liabilities that are necessary for the Transferors’ business from LVGIG to AMSL. This is in order to simplify the structure of the Allianz UK Group, increase operational and capital efficiency, and simplify governance.
- 2.11 There are two parallel Schemes: the Main Scheme and the Jersey Scheme. All policies of the Transferors and the reinsurance covering those policies will be transferred to AZI as part of the Main Scheme. The transfer of the Jersey Policies is also subject to the approval of the Jersey Scheme by the Jersey Court. One reinsurance policy between AZI and HICO will cease on the Effective Date since AZI cannot reinsure itself. Further details on the rationale for the two parallel Schemes are provided in section 1 of this report.

Liabilities transferring under the Schemes

- 2.12 If the Schemes are sanctioned, all liabilities of the Transferors will transfer to AZI on the Effective Date. Based on data as at 30 September 2025, the policies transferring to AZI represent approximately 87% of AZI’s existing policy count and the Transferors’ liabilities represent approximately 109% of AZI’s existing liabilities. Following the Schemes, this means that around 46% of AZI’s policies and around 52% of its liabilities will relate to the Transferring Portfolios.

Assets transferring under the Schemes

- 2.13 Aside from the £3.5m retained by each Transferor to meet its minimum capital requirements until de-authorisation and wind-up, all remaining assets of the Transferors will transfer to AZI on the Effective Date.
- 2.14 However, the Schemes are expected to generate a capital benefit for AZI due primarily to diversification gained from consolidating the Transferring Portfolios into AZI’s Internal Model. This capital benefit will only arise if the Schemes are approved and the PRA approves the Major Model Change needed to extend AZI’s Internal Model to cover the incoming business. Based on calculations performed by the Companies as at 30 September 2025, the capital benefit is expected to be £130m but the amount is subject to change.
- 2.15 The Companies have informed me that, subject to these approvals and AZI maintaining solvency coverage comfortably above its target solvency ratio, AZI expects to release this capital benefit in 2027, most likely through a dividend to the parent company. No dividend has currently been committed, and any dividend would be subject to AZI Board approval and PRA non-objection.
- 2.16 Accordingly, while operationally all assets of the Transferors (other than the £3.5m per entity) will transfer to AZI, the potential £130m post-Schemes dividend means that £130m of capital is expected to leave the Allianz UK Group following the Schemes.
- 2.17 The level of capital release post-Schemes is dependent on the PRA approving the Major Model Change without any limitations, The approval timelines give the PRA until September 2026 to provide approval or reach an alternative decision. It is possible that the PRA may choose to permit partial use of the updated Internal Model, either with a capital add-on, or with certain aspects of the capital calculation being carried out using the Standard Formula, which would most likely result in a higher capital

requirement for AZI post-Schemes and hence a lower level of capital release. The Companies have a contingency plan for this eventuality which I consider to be reasonable, and which would be very unlikely to affect the security of policyholders. My conclusions in this report do not rely on unapproved methodology changes.

My approach

Approach

2.18 My approach to assessing the likely effects of the Schemes has been to:

- Understand the nature and structure of the Schemes and the legal, regulatory and operational context in which they sit
- Identify the groups of policyholders and reinsurers affected
- Consider the implications of the Schemes on the level of security provided to the affected policyholders by:
 - Assessing the financial positions of each entity, including claims reserves, Solvency UK Technical Provisions, capital requirements and Own Funds
 - Assessing counterparty default risk, particularly the exposure to Allianz Re Dublin DAC (“AZ Re”) as the reinsurance provided by AZ Re to each of the Companies is a key risk mitigant, and the mitigants in place to mitigate that counterparty default risk
 - Undertaking stress testing and reverse stress testing to evaluate the robustness of policyholder security before and after the Schemes, including under insolvency
- Consider the potential impact on levels of customer service
- Consider other financial and operational factors, including investment strategy, liquidity, expenses, tax, governance, consumer duty, ongoing change programmes and non-UK jurisdictional issues
- Consider the implications of the Schemes on reinsurers of the Transferring Portfolios
- Review the communications strategy for notifying the impacted policyholders and reinsurers about the Schemes.
- Consider the situation if one or both of the Schemes is not effected.

My definitions of materiality and likelihood

What constitutes a material adverse impact on policyholders?

- 2.19 An insurance business transfer can have both positive and negative impacts on policyholders. The existence of negative impacts should not automatically imply that the Court should reject the Scheme as the positive impacts may outweigh the negative impacts, or the negative impacts may not be material.
- 2.20 For the purposes of my assessment, I consider a material adverse impact to be the possibility, as a consequence of the Schemes, of a real or significant risk to the security or level of policyholders’ current or future benefits or to the levels of service provided to policyholders.
- 2.21 When considering policyholder security, this would be the case if the Scheme would result in a substantially greater probability of a policyholder’s claim not being paid, relative to the probability of a policyholder’s claim not being paid prior to the Scheme. This is ultimately a matter of expert judgement regarding the likelihood and impact of possible future events.

- 2.22 In terms of non-financial impacts, an assessment of materiality is more subjective but, as an example, a change in the claims handling process that added a few hours to the customer response time is probably not material. However, if it added a few months then it could be, depending on the type of claim.

Measures of likelihood

- 2.23 In this report, when I describe an event as “unlikely”, I mean that, in my judgement, it is foreseeable but towards the extremities of the range of what I would consider to be reasonably foreseeable. I describe an event as “severe” when, in my judgement, it is at the extremities of that range.
- 2.24 In this report, when I describe a scenario as “remote”, I mean that it lies significantly outside the range of outcomes that I consider reasonably foreseeable based on my professional judgement. A remote adverse scenario would require adverse developments that are materially more extreme than the upper end of a reasonably foreseeable range and/or would require multiple independent adverse events to occur simultaneously.

Information used for my analysis

- 2.25 My assessment draws on a wide range of published and internal documentation (listed in Appendix A), discussions with key personnel responsible for core functions in the Companies, and the detailed analyses described in sections 7 to 11 of this report.
- 2.26 Sections 7 and 8 discuss the claims reserves and financial positions of the Companies and in those sections I describe the information that I have relied on in relation to the claims reserves of the Companies, and the analyses that I have undertaken to assure myself that it is reasonable to rely on that information.
- 2.27 I have not incorporated Q4 2025 profits because, although the Companies had internal visibility of their expected year-end results, those figures had not yet undergone the full governance, validation and audit processes required for inclusion in this report at the time my analysis was undertaken.
- 2.28 My analysis of the financial position of the Companies prior to the Schemes and of AZI following the Schemes is based on the Companies’ unaudited financial positions as at 30 September 2025, which represents the most recent point at which all Companies had completed the full governance cycle for reserving and financial reporting. As described in Section 4, the Q3 balance sheets for AZI and FIL have been adjusted to reflect dividends paid after 30 September 2025, since these dividends were known and observable events at the time I conducted my analysis. These adjustments reduce the solvency ratios for AZI and FIL relative to the figures originally reported at Q3, but I believe that they provide a more appropriate basis for assessing their foreseeable financial positions prior to the Schemes.
- 2.29 In respect of AZI’s solvency coverage ratio prior to the Schemes, the adjusted Q3 2025 solvency ratio of 141% used in my analysis is potentially conservative. It reflects a temporarily reduced position following the adjustment for the Q4 dividend, and it is lower than the solvency coverage ratios AZI has typically reported in recent years, which have generally been in the region of 150-170%. As noted in Section 4, updated financial information available after the completion of my analysis indicates that AZI’s solvency coverage ratio had increased to approximately 152% at Q4 2025. However, because the Q4 figures had not yet undergone the full governance, validation and audit processes required for inclusion in this report, they have not been reflected in my base case.
- 2.30 I am comfortable using this conservative solvency coverage ratio in my assessment. My conclusions do not depend on AZI’s solvency coverage ratio being as low as 141%, nor would they change had I used a higher pre-Schemes solvency ratio. The key drivers of policyholder security in my analysis are the absolute capital strength of AZI following the Schemes, the material surplus above its SCR, and the results of the stress and reverse-stress testing, all of which demonstrate that AZI remains robust under severe but plausible scenarios following the Schemes.

- 2.31 I will issue a Supplementary Report using the most up-to-date information reasonably available before the Court hearings at which sanction of the Schemes will be sought.

Use of reasonably foreseeable information

- 2.32 My assessment is based on the reasonably foreseeable financial and operational positions of the Companies both before and after the Schemes. It does not allow for discretionary future management actions except where such actions form part of the established risk management framework or capital plans.
- 2.33 While no dividend has yet been committed and any dividend would be subject to AZI Board approval and PRA non-objection, I have reflected - in both the balance sheet and in my stress testing - a potential £130m dividend (a "Part VII Driven Capital Release", which I discuss further in paragraph 4.48) in AZI's foreseeable post-Schemes financial position. As set out in Section 4, this reflects a likely consequence of the Schemes given the expected capital benefit arising from incorporating the Transferring Portfolios into AZI's Internal Model, subject to PRA approval of the Major Model Change. This treatment avoids presenting a post-Schemes solvency position that assumes the surplus would remain permanently within AZI, rather than being released under AZI's capital strategy, and would potentially overstate AZI post-Schemes' financial strength. In addition, it represents a likely consequence of the Schemes.
- 2.34 The resulting post-Schemes solvency coverage ratio for AZI of 148% that I have used in my analysis is itself potentially conservative for the following reasons:

- First, it assumes that the estimated £130m Part VII Driven Capital Release is paid out in full. As discussed in Section 4, AZI has not committed to paying this dividend, and any such dividend would only be made after the Schemes become effective and after the PRA has confirmed it has no further questions. If the dividend is paid at a lower amount, or if AZI decides not to pay a dividend at that point, AZI's solvency coverage ratio post-Schemes would be correspondingly higher.
- Secondly, as discussed above, the pre-Schemes solvency ratio is itself potentially conservative and this conservatism will be reflected in AZI's projected post-Schemes financial position.

Taken together, these factors mean that the 148% solvency coverage ratio used in my analysis may understate AZI's actual or foreseeable post-Schemes capital strength.

- 2.35 However, my conclusions would not change if a higher post-Schemes solvency ratio were used. The key drivers of policyholder security in my analysis are the absolute level of Eligible Own Funds, the material surplus above the SCR, the significantly enlarged and more diversified post-Schemes balance sheet, and the results of the stress and reverse-stress testing, all of which demonstrate that AZI remains highly resilient to severe but plausible adverse scenarios following the Schemes. A higher post-Schemes solvency ratio would simply reinforce those conclusions rather than alter them.
- 2.36 I will issue a Supplementary Report based on the most up to date information available to me prior to the Court hearings at which the sanction of the Schemes is sought.

Summary of my analysis

- 2.37 The findings of my report are summarised in this section. The detailed explanation behind these conclusions follows in the body of this report.

Groups of policyholders affected

- 2.38 My report considers the effect of the Schemes on the following groups of policyholders:
- Policyholders being transferred from LVIC to AZI ("the Transferring LVIC Policyholders")

- Policyholders being transferred from HICO to AZI (“the Transferring HICO Policyholders”)
- Policyholders being transferred from FIL to AZI (“the Transferring FIL Policyholders”)
- Policyholders being transferred from TIL to AZI (“the Transferring TIL Policyholders”)
- Existing policyholders within AZI (“the Existing Policyholders”).

2.39 No policyholders will remain with the Companies after the Effective Date, provided that the Jersey Scheme is effected in parallel with the Main Scheme and provided that there are no Excluded Policies.

Policyholders’ benefits

2.40 I am satisfied that there will be no material change as a result of the Schemes to the benefits to which policyholders are entitled and can reasonably expect under their policies.

Policyholders’ security

2.41 Below, I set out my opinions on policyholder security. The evidence supporting these opinions is discussed in section 9 of this report.

Overview of key financial metrics

2.42 Eligible Own Funds represent the capital available to absorb losses, while the Solvency Capital Requirement (“SCR”) represents the level of capital an insurer is required to hold to ensure it can meet its obligations in all but extreme circumstances. The surplus of Eligible Own Funds over the SCR, and the resulting solvency coverage ratio (the ratio of Eligible Own Funds to SCR), are therefore key indicators of policyholder security: generally speaking, a higher surplus and higher coverage ratio imply a greater buffer to withstand adverse events.

2.43 The table below compares these indicators for each Company before the Schemes and for AZI on a post-Schemes basis.

Table 2.1: Solvency coverage as at 30 September 2025 (£m)

	AZI	LVIC	HICO	FIL	TIL	AZI post-Schemes
Eligible Own Funds (EOF)	666.5	761.6	232.0	13.5	8.9	1318.0
Solvency Capital Requirement (SCR)	474.1	540.7	130.4	3.5	3.5	893.0
Surplus of EOF above SCR	192.5	221.0	101.6	10.0	5.4	425.0
Solvency coverage ratio	141%	141%	178%	387%	255%	148%

2.44 Although the solvency coverage ratios presented in the table above provide a useful high-level comparison, they should not be interpreted as directly comparable measures of financial strength across the Companies. As discussed in Sections 8 and 9 of this report, AZI calculates its SCR using an Internal Model, whereas LVIC, HICO, FIL and TIL calculate their SCRs using the Standard Formula. These two approaches produce solvency ratios that are not like-for-like: the Internal Model is a more risk-sensitive assessment of the underlying risks and recognises diversification benefits differently compared with the Standard Formula. I consider that transferring to a company that uses an Internal Model from companies that use the Standard Formula is a benefit of the Schemes to the Transferring Policyholders.

2.45 In addition, percentage solvency coverage ratios do not convey the absolute scale of capital strength, which is a key determinant of policyholder security. Some Transferors exhibit higher percentage solvency coverage ratios than AZI post-Schemes and, if considered in isolation and without regard to the absolute scale, risk profile and diversification of the respective companies, a transfer to an entity with a lower solvency coverage ratio could suggest that the Schemes may have an adverse impact on

those Transferring Policyholders. However, the Transferors' absolute levels of Own Funds and surplus capital are materially smaller, and their portfolios are far less diversified than AZI post-Schemes. Following the Schemes, AZI will hold a larger capital base, a materially greater surplus above its SCR, and a broader spread of risks, all of which enhance its ability to absorb adverse events.

- 2.46 For these reasons, comparisons of solvency coverage ratios between the Companies should be interpreted in the context of differences in capital methodologies, portfolio diversification, and absolute capital resources, and not on a percentage basis alone.

Summary of my assessment of the financial strength of the Companies

- 2.47 The Schemes will consolidate the Transferors into AZI, creating a single, larger and more diversified insurer, even on the assumption of £130m of surplus capital being extracted following the Schemes. AZI will have increased absolute Own Funds, a higher surplus of Own Funds over SCR, and enhanced operational resilience compared to each individual Transferor.
- 2.48 Based on financial information as at 30 September 2025, the assets and liabilities transferring under the Schemes represent a substantial increase in AZI's scale: AZI's net Technical Provisions will increase by 153%, its Eligible Own Funds by 98%, and its SCR by 88% on a post-Schemes basis. Even after allowing for the assumed £130m Part-VII-driven dividend, AZI is projected to hold Eligible Own Funds of £1.3bn against an SCR of £893m, giving a solvency coverage ratio of 148% - comfortably above its Assumed Target Ratio of 130% (which is the current target ratio for AZI, LVIC and HICO, and which I have assumed for the purposes of this report to be the target ratio AZI will use post-Schemes, although final approval of the target will be in December 2026 – I discuss this further in paragraph 8.9). While the percentage solvency coverage ratio is lower for AZI post-Schemes than for HICO, FIL and TIL, the absolute surplus of £425m post-Schemes is materially larger than that of any individual Transferors and provides a stronger buffer against adverse developments. It should also be noted that the financial position I have assumed for AZI following the Schemes may be conservative for the reasons given above.
- 2.49 The Transferors currently have differing risk profiles and drivers of capital requirements: LVIC and HICO are heavily concentrated in UK personal motor and home; FIL and TIL are small, run-off entities. Although some Transferors exhibit higher solvency coverage ratios, their absolute Own Funds and capacity to absorb losses are materially lower than AZI's. Following the Schemes, the combination of a broader business mix - spanning Commercial, Personal and Specialty Lines - together with increased diversification across Motor, Property, Liability, Pet and SME business, reduces volatility and reduces sensitivity to shocks in any one class. Reinsurance protection will continue unchanged across all transferring business, with quota share and excess-of-loss programmes transferring intact and substantially mitigating reserve and premium risk.
- 2.50 The results of my stress testing confirm that AZI post-Schemes has a strong ability to absorb severe stresses. My reverse stress testing indicates that the only remote events or combinations of events that - would lead to an insolvency scenario are remote and far beyond the upper end of the reasonably foreseeable range.
- 2.51 Reinsurance mitigation is key for each of the Companies and for AZI post-Schemes. I have therefore assessed the counterparty default risk, particularly exposure to AZ Re, and found it to be materially mitigated by the funds-withheld structures and contractual protections in place, and also found the likelihood of an AZ Re default to be remote. It is also unlikely that a reinsurer default would coincide with the types of adverse claims events affecting the Companies, as those events are driven by UK-specific insurance shocks, whereas reinsurer defaults would typically stem from far broader, multi-geography stresses.
- 2.52 Overall, the post-Schemes entity is substantially more resilient to adverse developments than any of the component firms in isolation.

Implications for policyholders

- 2.53 If considered in isolation, and without regard to the absolute scale, risk profile and diversification of the respective companies, certain metrics - such as the solvency coverage ratios of the respective companies and the size of percentage stresses required to deplete Own Funds - could suggest that the Schemes may have an adverse impact on policyholders. However, these metrics do not adequately reflect the much greater absolute strength of the AZI's balance sheet following the Schemes, nor the remoteness of the extreme scenarios required for that strength to be exhausted, even where the post-Schemes entity is exposed to a broader range of risks..
- 2.54 Against that backdrop, and having considered the benefits and potential adverse impacts of the Schemes in aggregate, I consider that the effects on the Transferring Policyholders are, on balance, uniformly beneficial. Each group of Transferring Policyholders will move from a smaller, less diversified entity into a materially larger insurer with stronger absolute capital resources, greater flexibility to respond to adverse events, and unchanged regulatory protections, reinsurance arrangements and servicing arrangements.
- 2.55 Existing Policyholders will remain within an enlarged and better-diversified entity with an improved solvency coverage ratio and enhanced operational resilience. The results of my stress testing confirm that AZI is highly secure following the Schemes, including under insolvency scenarios, and that the likelihood of any policyholder's claim not being paid remains remote.
- 2.56 Accordingly, I do not expect the Schemes to have a material adverse impact on the policyholder security of any group of policyholders. Below, I have set out in further detail how I reached that opinion for each group of policyholders in turn.

Impact of the Schemes on Transferring LVIC Policyholders

- 2.57 Below, I compare the financial strength of LVIC with that of AZI post-Schemes and consider the implications for the Transferring LVIC Policyholders:
- LVIC is currently a well-capitalised insurer with a strong solvency coverage ratio of 141%, supported by extensive reinsurance protection and subject to PRA and FCA supervision. However, LVIC is a smaller and less diversified entity than AZI post-Schemes, with capital strength heavily concentrated in Motor and Home risks. Its absolute surplus capital (£221m above its SCR) is materially lower than that of AZI post-Schemes (£425m).
 - Following the Schemes, the Transferring LVIC Policyholders will move to AZI, whose post-Schemes financial position is significantly stronger in absolute terms. AZI will hold around £1.3bn of Eligible Own Funds against an SCR of £893m, giving a surplus of £425m and a solvency coverage ratio of 148%. Although the solvency coverage ratio is only moderately higher (+7 percentage points), AZI's post-Schemes ratio is itself potentially a conservative figure, as it already reflects the assumed full £130m Part VII-driven capital release. In addition, AZI's absolute capital base and surplus will be roughly twice that of LVIC. Furthermore, AZI post-Schemes' materially broader business mix across Motor, Property, Liability, Pet and SME lines provides greater diversification and reduces the sensitivity to stresses affecting any single class of business. I consider this to represent a benefit of the Schemes for the Transferring LVIC Policyholders.
 - On a forward-looking basis, AZI's solvency coverage ratio is projected to remain comfortably above its Assumed Target Ratio of 130%, even after allowing for the anticipated £130m Part VII Driven Capital Release. AZI's business plan and forward-looking projections indicate that solvency coverage is expected to remain robust over the foreseeable horizon, supported by the increased scale and diversification of the post-Schemes entity and the strength of its reinsurance protection.
 - LVIC's reinsurance arrangements – in particular its casualty and property excess-of-loss protections and its quota share agreements - will transfer unchanged to AZI. The Transferring LVIC

Policyholders will therefore continue to benefit from the same reinsurance protections following the Schemes.

- I also performed reverse stress testing for both LVIC and AZI post-Schemes to assess the size of single-factor and combination stresses required for assets to fall below liabilities. My testing indicates that the stresses required to deplete the capital of both LVIC and AZI post-Schemes are remote for the following reasons:
 - The size of reserve and investment stresses required to reduce assets below liabilities were far more extreme than those considered in the Allianz UK ORSA, and beyond the 1-in-200 year stresses as implied by LVIC's and AZI's regulatory capital calculations
 - The required investment stresses were also well beyond the worst observed historical deterioration for similar assets
 - The size of reinsurance default required to do the same would require AZ Re to default, which I consider to be remote owing to its strong credit rating and collateralisation arrangements
 - I also considered what combinations of stresses would reduce assets below liabilities and found that only combinations of stresses involving a stress I judge to be remote, and which I do not expect to be materially correlated with the other stresses in the combination, would be sufficient
- For many of the reverse stress tests, LVIC requires a larger percentage stress or combination of stresses to reduce assets below liabilities than for AZI post-Schemes and, if considered in isolation and without taking account of the absolute scale, risk profile and diversification of the respective companies, this would indicate that the Schemes may have an adverse impact on the Transferring LVIC Policyholders. However, in my opinion, the far more important metric for assessing policyholder security is the absolute deterioration required to reduce assets below liabilities. AZI post-Schemes has materially larger Own Funds and a more diversified risk profile than LVIC, so the absolute adverse movement needed for AZI post-Schemes' assets to fall below its liabilities is substantially greater than for LVIC. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post-Schemes is not materially weaker than that provided to LVIC pre-Schemes.
- LVIC and AZI are subject to the same regulatory regimes, including Solvency UK, the same rules and process for wind-up and capital extraction, and the same FSCS protection in the event of insolvency. The Schemes will not change these protections.

2.58 Having considered these factors collectively - the substantially stronger absolute capital position of AZI post-Schemes, the increased diversification and resilience of the post-Schemes entity, the unchanged reinsurance protections, the remote likelihood of insolvency, and the regulatory safeguards - I am satisfied that the Schemes will not have a material adverse impact on the security of the Transferring LVIC Policyholders, including under insolvency.

Impact of the Schemes on Transferring HICO Policyholders

2.59 Below, I compare the financial strength of HICO with that of AZI post-Schemes and consider the implications for the Transferring HICO Policyholders:

- HICO is a well-capitalised insurer with a solvency coverage ratio of 178% and extensive reinsurance protection. However, it is a smaller and less diversified entity than AZI post-Schemes, with capital strength concentrated in Personal Motor and Household business. Its absolute surplus capital (£102m above its SCR) is materially lower than that of AZI post-Schemes (£425m).
- Following the Schemes, the Transferring HICO Policyholders will move to AZI, whose post-Schemes solvency ratio of 148% is lower than HICO's pre-Scheme solvency coverage ratio of

178%. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, this metric indicates that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, I do not consider it to be a material adverse impact for the reasons discussed below.

- AZI's post-Schemes' financial position is significantly stronger than HICO's in absolute terms. AZI will hold around £1.3bn of Eligible Own Funds against an SCR of £893m, giving a surplus of £425m. AZI's post-Schemes absolute capital base and surplus are far larger than HICO's, and AZI benefits from materially greater diversification across Motor, Property, Liability, Pet and Commercial lines. This diversification reduces sensitivity to stresses in any single class of business and increases overall resilience. I consider this to represent a benefit of the Schemes for the Transferring HICO Policyholders.
- On a forward-looking basis, AZI's solvency coverage ratio is projected to remain comfortably above its Assumed Target Ratio of 130%, even after allowing for the anticipated £130m Part VII Driven Capital Release. AZI's business plan and Own Risk and Solvency Assessment ("ORSA") projections indicate that solvency coverage is expected to remain robust over the foreseeable horizon, supported by the scale and diversification of the post-Schemes entity and the strength of its reinsurance protection.
- HICO's reinsurance arrangements will transfer unchanged to AZI, with the exception of one reinsurance arrangement HICO holds with AZI to cover its legal expenses business (0.02% of the Transferring HICO Portfolio), which will cease at the Effective Date since AZI cannot reinsure itself. The reinsurance with AZI is not material in the context of HICO's finances, nor AZI's post-Schemes. The Transferring HICO Policyholders will therefore continue to benefit from almost the same recoveries, with this one immaterial change which, in my view, does not represent a material adverse impact on the Transferring HICO Policyholders.
- I also performed reverse stress testing for both HICO and AZI post-Schemes to assess the size of single-factor and combination stresses required for assets to fall below liabilities. My testing indicates that the stresses required to deplete the capital of both HICO and AZI post-Schemes are remote for the following reasons:
 - The size of reserve and investment stresses required to reduce assets below liabilities were far more extreme than those considered in the Allianz UK ORSA, and beyond the 1-in-200 year stresses as implied by HICO's and AZI's regulatory capital calculations
 - The required investment stresses were also well beyond the worst observed historical deterioration for similar assets
 - The size of reinsurance default required to do the same would require AZ Re to default, which I consider to be remote owing to its strong credit rating and collateralisation arrangements
 - I also considered what combinations of stresses would reduce assets below liabilities and found that only combinations of stresses involving a stress I judge to be remote, and which I do not expect to be materially correlated with the other stresses in the combination, would be sufficient.
- For many of the reverse stress tests, HICO requires a larger percentage stress or combination of stresses to reduce assets below liabilities than for AZI post-Schemes and, if considered in isolation and without taking account of the absolute scale, risk profile and diversification of the respective companies, this would indicate that the Schemes may have an adverse impact on the Transferring HICO Policyholders. However, in my opinion, the far more important metric for assessing policyholder security is the absolute deterioration required to reduce assets below liabilities. AZI post-Schemes has materially larger Own Funds and a more diversified risk profile than HICO, so the absolute adverse movement needed for AZI's assets to fall below its liabilities is substantially

greater. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post-Schemes is not materially weaker than that provided to HICO pre-Schemes.

- HICO and AZI are subject to the same regulatory regimes, including Solvency UK, the same wind-up processes and the same FSCS protection in the event of insolvency. The Schemes will not change these protections.

2.60 Having considered these factors collectively - the substantially stronger absolute capital position of AZI post-Schemes, the increased diversification and resilience of the post-Schemes entity, the unchanged reinsurance protections, the remote likelihood of insolvency, and the regulatory safeguards - I am satisfied that the Schemes will not have a material adverse impact on the security of the Transferring HICO Policyholders, including under insolvency.

Impact of the Schemes on Transferring FIL Policyholders

2.61 Below, I compare the financial strength of FIL with that of AZI post-Schemes and consider the implications for the Transferring FIL Policyholders:

- FIL is a small run-off insurer with a high solvency coverage ratio (387%), which is expected given a run-off insurer would tend to target a higher solvency coverage ratio than an active insurer. However, FIL's absolute capital base is small, and its business is effectively fully reinsured to AZ Re. FIL is also highly concentrated in Home insurance, with limited diversification.
- Following the Schemes, the Transferring FIL Policyholders will move to AZI, whose post-Schemes solvency ratio of 148% is lower than FIL's pre-Schemes solvency coverage ratio of 378%. AZI post-Schemes' solvency coverage ratio is potentially a conservative figure, as it already reflects the assumed full £130m Part VII-driven capital release. Nevertheless, if considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the headline solvency coverage ratios indicates an adverse movement for the Transferring FIL Policyholders. However, I do not consider this to be a material adverse impact for the reasons discussed below.
- AZI's post-Schemes financial position is significantly stronger than FIL's in absolute terms. AZI will hold around £1.3bn of Eligible Own Funds and will have a materially larger balance sheet - approximately 97 times the size of FIL's - providing a far stronger capital base, greater ability to absorb adverse developments, and reduced volatility compared with FIL. While AZI post-Schemes' solvency coverage ratio will be lower than FIL's, it is potentially a conservative figure and FIL's high ratio reflects its very small size and run-off nature rather than greater resilience: its absolute surplus capital is small (£10.0m), and its overall balance sheet is highly dependent on reinsurance. In contrast, AZI post-Schemes' substantially larger capital base and diversified, active portfolio offer materially stronger protection for policyholders in absolute terms. In addition, as an active insurer, AZI has more scope to adjust its business plan to respond to adverse events. I consider this to represent a benefit of the Schemes for the Transferring FIL Policyholders.
- On a forward-looking basis, AZI's solvency coverage ratio is projected to remain comfortably above its Assumed Target Ratio of 130%, even after allowing for the anticipated £130m Part VII Driven Capital Release. AZI's projections indicate that solvency remains robust over the foreseeable horizon, supported by its scale, diversification and reinsurance protection.
- FIL's reinsurance arrangements - including its 50% quota share and 50% loss portfolio transfer with AZ Re - will transfer to AZI unchanged. The Transferring FIL Policyholders will therefore continue to benefit from the same reinsurance recoveries.
- I also performed reverse stress testing for both FIL and AZI post-Schemes. Given FIL's reinsurance arrangements, only a combination of highly adverse events - such as a severe reserve deterioration occurring alongside an AZ Re default - would be sufficient to deplete FIL's Own Funds, and I

consider the likelihood of these stresses to be remote. My testing also indicates that the stresses required to deplete the capital of AZI post-Schemes are remote. I reached these conclusions for the following reasons:

- The size of reserve and investment stresses required to reduce assets below liabilities were far more extreme than the 1-in-200 year stresses as implied by FIL's and AZI's regulatory capital calculations
 - The required investment stresses were also well beyond the worst observed historical deterioration for similar assets
 - Any reinsurance default would involve AZ Re defaulting, which I consider to be remote owing to its strong credit rating and collateralisation arrangements
 - I also considered what combinations of stresses would reduce assets below liabilities and found that only combinations of stresses involving a stress I judge to be remote, and which I do not expect to be materially correlated with the other stresses in the combination, would be sufficient
- The percentage stresses required to reduce FIL's assets to below its liabilities are larger than for AZI post-Schemes and, if considered in isolation and without taking account of the absolute scale, risk profile and diversification of the respective companies, this would indicate that the Schemes may have an adverse impact on the Transferring FIL Policyholders. However, in my opinion, the far more important metric for assessing policyholder security is the absolute deterioration required to reduce assets below liabilities. The significantly larger and more diversified balance sheet of AZI post-Schemes means that materially greater absolute shocks would be required for assets to fall below liabilities. As a result, I consider that AZI post-Schemes is more resilient to stresses in absolute terms than FIL. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post-Schemes is not materially weaker than that provided to FIL pre-Schemes.
 - FIL and AZI are subject to the same regulatory regimes, including Solvency UK and FSCS protection. AZI is also a member of Employers' Liability Tracing Office ("ELTO"), providing improved access for future claimants under FIL's Employers' Liability policies compared to the current situation where FIL is not a member of ELTO.

2.62 Having considered these factors collectively - the substantially stronger absolute capital position of AZI post-Schemes, the increased diversification and resilience of the post-Schemes entity, the unchanged reinsurance protections, the remote likelihood of insolvency, and the regulatory safeguards - I am satisfied that the Schemes will not have a material adverse impact on the security of the Transferring FIL Policyholders, including under insolvency.

Impact of the Schemes on Transferring TIL Policyholders

2.63 Below, I compare the financial strength of TIL with that of AZI post-Schemes and consider the implications for the Transferring TIL Policyholders:

- TIL is a very small run-off insurer with a high solvency coverage ratio (255%) which is expected given a run-off insurer would tend to target a higher solvency coverage ratio than an active insurer. It has minimal diversification, with only two remaining PPO claims. Its absolute surplus capital (£5.4m) is very small relative to that of AZI post-Schemes (£425m).
- Following the Schemes, the Transferring TIL Policyholders will move to AZI, whose post-Schemes financial position is significantly stronger in absolute terms. AZI will hold around £1.3bn of Eligible Own Funds and will have a materially larger balance sheet - approximately 97 times the size of TIL's - providing a far stronger capital base, greater ability to absorb adverse developments, and reduced volatility compared with TIL. While AZI post-Schemes' solvency coverage ratio (148%) will

be lower than TIL's (255%), it is potentially a conservative figure, as it already reflects the assumed full £130m Part VII-driven capital release. In addition, TIL's high ratio reflects its very small size and run-off nature rather than greater resilience: its absolute surplus capital is small (£5.4m), and its overall balance sheet is highly dependent on reinsurance. In contrast, AZI post-Schemes' substantially larger capital base and diversified, active portfolio offer materially stronger protection for policyholders in absolute terms. In addition, as an active insurer, AZI has more scope to adjust its business plan to respond to adverse events. I consider this to represent a benefit of the Schemes for the Transferring TIL Policyholders.

- Furthermore, as discussed in paragraph 8.8, the Transferring TIL Policyholders will be moving into an entity with a defined target solvency ratio, which is a positive change in respect of risk management and governance. And, as discussed in paragraph 10.18, the Transferring TIL Policyholders will also be moving into an entity which undertakes a greater degree of liquidity monitoring.
- On a forward-looking basis, AZI's solvency coverage ratio is projected to remain comfortably above its Assumed Target Ratio of 130%, even after allowing for the anticipated £130m Part VII Driven Capital Release. Its business plan and ORSA projections indicate ongoing solvency strength.
- TIL's reinsurance arrangements, including unlimited excess-of-loss cover for its PPOs, will transfer unchanged to AZI, meaning the Transferring TIL Policyholders continue to benefit from the same recoveries.
- I also performed reverse stress testing for both TIL and AZI post-Schemes. Because TIL's portfolio is highly reinsured and it holds cash, only a combination of highly adverse events - such as an AZ Re default together with a severe reserve deterioration, a deterioration in the Group Cash Pool asset, or a combination of these stresses - would be sufficient to reduce TIL's assets below its liabilities. I consider the likelihood of these stresses to be remote. My testing also indicates that the stresses required to deplete the capital of AZI post-Schemes are remote. I reached these conclusions for the following reasons:
 - The size of reserve and investment stresses required to reduce assets below liabilities were far more extreme than those considered in the Allianz UK ORSA, and beyond the 1-in-200 year stresses as implied by TIL's and AZI's regulatory capital calculations
 - The required investment stresses were also well beyond the worst observed historical deterioration for similar assets
 - The size of reinsurance default required to do the same would require AZ Re to default, which I consider to be remote owing to its strong credit rating and collateralisation arrangements
 - The deterioration in TIL's Group Cash Pool asset required to reduce assets below liabilities is remote given the Group Cash Pool's
 - I also considered what combinations of stresses would reduce assets below liabilities and found that only combinations of stresses involving a stress I judge to be remote, and which I do not expect to be materially correlated with the other stresses in the combination, would be sufficient
- For many of the reverse stress tests, TIL requires a larger percentage stress than AZI post-Schemes to reduce assets below liabilities and, if considered in isolation and without taking account of the absolute scale, risk profile and diversification of the respective companies, this would indicate that the Schemes may have an adverse impact on the Transferring TIL Policyholders. However, in my opinion, the far more important metric for assessing policyholder security is the absolute deterioration required to reduce assets below liabilities. AZI post-Schemes has hugely larger Own Funds and a more diversified risk profile than TIL, so the absolute adverse movement

needed for AZI's assets to fall below its liabilities is substantially greater. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post-Schemes is not materially weaker than that provided to TIL pre-Schemes.

- TIL and AZI are subject to the same regulatory regimes, including Solvency UK and FSCS protection. The move to AZI's more developed risk-management framework is a further benefit.

2.64 Having considered these factors collectively - the substantially stronger absolute capital position of AZI post-Schemes, the increased diversification and resilience of the post-Schemes entity, the unchanged reinsurance protections, the remote likelihood of insolvency, and the regulatory safeguards - I am satisfied that the Schemes will not have a material adverse impact on the security of the Transferring TIL Policyholders, including under insolvency.

Impact of the Schemes on Existing Policyholders

2.65 Below, I compare the financial strength of AZI pre- and post-Schemes and consider the implications for the Existing Policyholders:

- The Existing Policyholders will remain within AZI, which will become a larger and more diversified insurer following the Schemes. Its solvency coverage ratio will increase from 141% to 148% and its capital base and diversification will strengthen materially. I consider this to represent a benefit of the Schemes for the Existing Policyholders.
- On a forward-looking basis, AZI's solvency coverage ratio is projected to remain comfortably above its Assumed Target Ratio of 130%, even after the anticipated £130m Part VII Driven Capital Release. Its business plan and ORSA projections indicate that solvency coverage is expected to remain robust over the foreseeable horizon, supported by AZI's scale and diversified portfolio.
- I also performed reverse stress testing for AZI pre- and post-Schemes. My testing indicates that the stresses required to deplete the capital of AZI both pre- and post-Schemes are remote for the following reasons:
 - The size of reserve and investment stresses required to reduce assets below liabilities were far more extreme than those considered in the Allianz UK ORSA, and beyond the 1-in-200 year stresses as implied by AZI's pre-Scheme and post-Scheme regulatory capital calculations
 - The required investment stresses were also well beyond the worst observed historical deterioration for similar assets
 - The size of reinsurance default required to do the same would require AZ Re to default, which I consider to be remote owing to its strong credit rating and collateralisation arrangements
 - I also considered what combinations of stresses would reduce assets below liabilities and found that only combinations of stresses involving a stress I judge to be remote, and which I do not expect to be materially correlated with the other stresses in the combination, would be sufficient.
- For many of the reverse stress tests, AZI requires a larger percentage stress or combination of stresses to reduce assets below liabilities prior to the Schemes than following the Schemes and, if considered in isolation and without taking account of the absolute scale, risk profile and diversification of AZI pre- and post- Schemes, this would indicate that the Schemes may have an adverse impact on the Existing Policyholders. However, in my opinion, the far more important metric for assessing policyholder security is the absolute deterioration required to reduce assets below liabilities. AZI has materially larger Own Funds and a more diversified risk profile following the Schemes than it does prior to the Schemes, so the absolute adverse movement needed for AZI's assets to fall below its liabilities becomes substantially greater. Accordingly, when considered

in the round, I am satisfied that the level of security against financial stresses provided by AZI following the Schemes is not materially weaker than that provided prior to the Schemes.

- Existing Policyholders will continue to receive the same regulatory protections, including PRA and FCA supervision, Solvency UK requirements, and FSCS protection.

2.66 Having considered these factors collectively - the substantially stronger absolute capital position of AZI post-Schemes, the increased diversification and resilience of the post-Schemes entity, the unchanged reinsurance protections, the remote likelihood of insolvency, and the regulatory safeguards - I am satisfied that the Schemes will not have a material adverse impact on the security of the Existing Policyholders, including under insolvency.

Levels of service

2.67 I do not anticipate any material adverse impact to the levels of service provided to any of the policyholders in terms of policy servicing, claims handling and complaints handling following the Schemes. This is because the same centralised teams from Allianz UK are currently responsible for providing services to the policyholders of each of the Companies, and I understand from Allianz UK that these teams will continue to provide these services following the Schemes. Evidence supporting this opinion is discussed in section 11.

Other financial considerations

2.68 I do not expect any material adverse impact to any group of policyholders following the Schemes as a result of the other financial factors I have considered. Evidence supporting these opinions is discussed in section 10. The other financial factors I considered were:

- The investment strategies of the Companies
- The Companies' liquidity positions
- The implications of the Schemes on the Companies' ongoing expense levels
- The Companies' pension arrangements
- Tax implications as a result of the Schemes
- The impact of the Companies' new business strategy
- The impact of other transfers into or out of the Companies.

Other considerations

2.69 I do not expect any material adverse impact to any group of policyholders following the Schemes as a result of the other factors I have considered. Evidence supporting these opinions is discussed in section 11. The other factors I considered were:

- Consumer Duty
- Access of policyholders to the Employers' Liability Tracing Office
- Governance and management frameworks
- Ongoing change projects within the Allianz UK Group

- AZI's operational readiness for the changes required in moving business from the separate Companies to a single entity
- The impact on the Schemes of policies under non-UK jurisdictions
- Policies subject to sanctions.

Impact on Existing Policyholders and policyholders transferring under the Main Scheme should either or both of the Schemes not become effective

- 2.70 I have considered the likely effects on the Transferring Policyholders (as defined in paragraph 3.4) in the Main Scheme and the Existing Policyholders should one or both of the Schemes not become effective.
- 2.71 Since the likelihood of AZI being unable to meet its obligations following the Scheme is remote, they would not be materially better off from a security perspective if neither of the Schemes is effected and, in some cases they may be worse off. Furthermore, aside from minor changes to policyholder documentation, their policy servicing will remain unchanged as a result of the Schemes. It therefore follows that the Transferring Policyholders in the Main Scheme and Existing Policyholders would not be materially better off if neither of the Schemes is effected.
- 2.72 If the Main Scheme were to become effective but the Jersey Scheme were not to, then since the materiality of the Jersey Scheme is extremely low, this will not have a material impact on the Transferring Policyholders in the Main Scheme or the Existing Policyholders.
- 2.73 I discuss the Jersey Policyholders in the next section.

Jersey Scheme

- 2.74 The Jersey Scheme is dependent on the Main Scheme and will not go ahead if the Main Scheme is not effected, even if it is approved by the Jersey Court. The policyholders under the Jersey Scheme (the "Jersey Policyholders") will either transfer with the Transferring Policyholders at the Effective Date, in which case my conclusions regarding security and servicing for the Main Scheme will apply to them equally, or they will remain within LVIC, HICO and FIL.
- 2.75 If the Jersey Policyholders remain within LVIC, HICO and FIL because both Schemes are not approved, then I have concluded they will be not be materially better off than if they had transferred, and, by some measures, they may be worse off.
- 2.76 If the Jersey Policyholders remain with LVIC, HICO and FIL because the Jersey Scheme has not been approved but the Main Scheme has been effected, then these policies will be fully reinsured to AZI in which case they would sit within a smaller, less diversified company which is more vulnerable to single loss events. They would cease to benefit from a larger, more flexible investment portfolio, although LVIC, HICO and FIL would have less investment volatility as they would hold just cash. And they would be fully reinsured to AZI, mitigating but not removing the risks they are exposed to. Parental support would remain the same but may be less focused. Servicing would remain unchanged. Therefore the Jersey Policyholders in this case would not be in a better position and may in some cases be in a worse position.
- 2.77 Evidence supporting these opinions is discussed in section 12.

Transferring reinsurers

- 2.78 The Transferors' reinsurance contracts will continue to cover the Transferring Portfolios after the Schemes. There will be no other change to the terms of the contracts.
- 2.79 The Transferring Reinsurers will be providing coverage to the same policyholders before and after the Schemes, with no change in their exposure after the Schemes. There will be no change to the claims reinsurers will be obligated to pay.
- 2.80 In the event that the Main Scheme is approved but the Jersey Scheme is not effected at the Effective Date, then I understand from the Companies that the reinsurance contracts currently covering the Jersey Policies would be transferred to AZI, but since AZI will fully reinsure the Jersey Policies, the Transferring Reinsurers will continue to cover those policies indirectly, as well as the policies covered within the Transferring Portfolios under the Main Scheme, and there will be no change to the claims reinsurers will be obligated to pay.
- 2.81 I therefore identify no Transferring Reinsurers that would be materially adversely affected by the Schemes. Evidence supporting this opinion is discussed in section 11.

Communications strategy

- 2.82 I have also considered the strategy for notifying impacted policyholders and reinsurers about the Schemes.
- 2.83 All policyholders with a current insurance policy with the Transferors, all policyholders on whose policy there is a claim under the Transferors, and all policyholders whose policies were issued on or after 1 May 2024 will be notified. The following parties will also be notified: brokers which engage with any of the parties mentioned in the previous sentence, managing general agents, corporate partners, introducers, transferring reinsurers, reinsurance brokers of the transferring reinsurers, professional bodies to which the Companies pay fees, interested regulatory bodies, claims management companies, third party counterparties of LVGIG, aggregator websites, and beneficiaries of periodic payment orders or provisional damage orders.
- 2.84 Advertisements will be published in the London, Edinburgh and Belfast Gazettes; four national UK newspapers, being The Times, The Financial Times, The Daily Mail and The Sun; la Gazette Officielle (Guernsey); and the Isle of Man Courier. Notice of the Jersey Scheme will also be placed in the Jersey Gazette. Materials relating to the Schemes will be published on a website hosted by the Allianz UK Group.
- 2.85 Policyholders and claimants of the Existing Portfolio will not be notified. Furthermore, in the Transferring Portfolios, potential claimants arising from policies issued prior to 1 May 2024, gone-away policyholders, named insureds who are not the policyholder, policyholders whose information is held by intermediaries but is not available from them, policyholders of short-term policies sold through intermediaries will also not be directly notified. In addition, additional third-party reinsurers and reinsurance brokers of the Transferors who cannot be identified will not be directly notified. The Companies have provided me with their reasons for not notifying these parties.
- 2.86 I believe this approach is reasonable for the reasons set out in section 13.
- 2.87 I have reviewed the draft communications to each group the Companies intend to notify, the draft newspaper advertisements and the draft text to be contained on the dedicated website and I am of the opinion that the material is clear and straightforward, and contains the information required of such communications, and that it is appropriate for policyholders in vulnerable circumstances.

- 2.88 I believe the proposed timelines for the communications allow sufficient time for policyholders, including those in vulnerable circumstances, to respond, and for these responses to be addressed, ahead of the submission of documents for the Sanctions Hearing.
- 2.89 I believe that the proposed approach is proportionate and reasonable. Evidence supporting these opinions is discussed in section 13 of this report.

Conclusion

- 2.90 I confirm that I have considered the effects of the Schemes on the following groups:
- Transferring LVIC Policyholders
 - Transferring HICO Policyholders
 - Transferring FIL Policyholders
 - Transferring TIL Policyholders
 - Existing Policyholders.
- 2.91 I am satisfied that the implementation of the Schemes will not have a material adverse impact on:
- The security of policyholders' contractual benefits for any of these groups of policyholders
 - The level of customer service for any of these groups of policyholders.
- 2.92 Furthermore, I am satisfied that the implementation of the Schemes will not have a material adverse impact on the Transferring Reinsurers.
- 2.93 In addition, I conclude that the proposed communication strategy for informing the policyholders and other interested parties about the Schemes is appropriate.
- 2.94 Given the above, I conclude that the risk of any group of policyholders or reinsurers being materially adversely affected by the Schemes is sufficiently remote that there is no reason why the Schemes should not proceed.
- 2.95 I do however consider it necessary that I review the most recent information prior to the Sanctions Hearing when this becomes available later, before confirming my conclusions and opinions.

3 Scope

Purpose of this report

- 3.1 I am required as Independent Expert to consider the likely effects of the Schemes on policyholders and Transferring Reinsurers, including whether the Schemes will result in material detriment to any policyholders or Transferring Reinsurers affected by the Schemes, relative to their current situation. The purpose of this report is to set out my considerations.
- 3.2 For the purposes of this report, policyholders include existing and future claimants.

Policyholders affected by the Schemes

- 3.3 My report considers the effect of the Schemes on the following groups of policyholders:
- The Transferring LVIC Policyholders
 - The Transferring HICO Policyholders
 - The Transferring FIL Policyholders
 - The Transferring TIL Policyholders
 - The Existing Policyholders.
- 3.4 The Transferring LVIC Policyholders, the Transferring HICO Policyholders, the Transferring FIL Policyholders, the Transferring TIL Policyholders are jointly referred to in this report as “the Transferring Policyholders”.
- 3.5 No other policyholder groups were deemed necessary to consider in this assessment, nor was the impact of any policyholders who may transfer into AZI via other portfolio transfers following the Schemes, or policyholders who may take out a policy with the Companies at some future point following the Effective Date.

What is a material detriment to policyholders?

- 3.6 An insurance business transfer can have both positive and negative impacts on policyholders. The existence of negative impacts should not imply that the Courts should reject the respective schemes as the positive impacts may outweigh the negative impacts, or the negative impacts may not be material.
- 3.7 For the purposes of my assessment, I consider a material adverse impact to be the possibility, as a consequence of the Schemes, of a real or significant risk to the security or level of policyholders’ current or future benefits or to the levels of service provided to policyholders.
- 3.8 When considering policyholder security, this would be the case if the Schemes would result in a substantially greater probability of a policyholder’s claim not being paid, relative to the probability of a policyholder’s claim not being paid prior to the Schemes. This is ultimately a matter of expert judgment regarding the likelihood and impact of possible future events.
- 3.9 In terms of non-financial impacts, an assessment of materiality is more subjective, but as an example a change in claims handling process that added a few hours to the claimant response time is probably not material, but if it added a few months then it could be, depending on the type of claim.

Reinsurers affected by the Schemes

- 3.10 I have also considered the impact of the Schemes on any reinsurers that provide protection to any part of the Transferring Portfolios and will continue to provide protection to the Transferring Portfolios following the Schemes. A material adverse impact on a reinsurer is one that could cause the reinsurer to take a different view on the future performance of the reinsurance policies that it has written. A hypothetical example could be that the Schemes gives rise to a non-trivial additional exposure for the reinsurer.

Alternative schemes or proposals considered

- 3.11 I am required to consider the terms of the Schemes only and have not considered whether any alternative scheme, schemes, or arrangement might result in a preferable outcome.

4 Methodology

4.1 In this section, I describe my approach to assessing the Schemes.

Overview of my approach

4.2 My conclusions have been drawn by undertaking the following activities:

- Review of documentation received from the Companies
- Discussions with key personnel at the Companies
- Undertaking my own analysis, where necessary.

4.3 In particular:

- My view on the insurance liabilities of the Transferors and the Transferee is based upon my review of the documentation provided to me by the Companies and discussions with the relevant individuals at the Companies.
- My view on the capital requirements and assessments for the Transferors and the Transferee is based upon my review of the calculations and documentation provided to me by the Companies and discussions with the relevant individuals at the Companies.

4.4 My approach to assessing the Schemes has been to:

- Understand the nature and structure of the Schemes and identify the groups of policyholders that would be affected
- Assess the financial positions of each of the Transferors and the Transferee
- Consider the implications of the Schemes for the level of security, including under insolvency, being offered to each group of policyholders
- Consider the potential impact on levels of policyholder service
- Consider other factors that might affect policyholders
- Consider the Companies' communications strategy for informing interested parties of the Schemes
- Consider the recognition of the Schemes in non-UK jurisdictions
- Consider the implications of the Schemes in respect of Transferring Reinsurers.

4.5 The analysis in my report focusses on the combined effect of the Schemes on the policyholders listed in paragraph 3.3, rather than considering the effect of each scheme in isolation. I consider this approach to be appropriate for the following reasons:

- I consider this approach to be appropriate for reaching a conclusion regarding the Main Scheme because the Jersey Policies are an immaterial proportion of the Transferring Portfolios, both in terms of number of policies and transferring liabilities, and therefore the financial analysis I have performed would be virtually the same whether both Schemes are approved or only the Main Scheme is approved
- I consider this approach to be appropriate for reaching a conclusion regarding the Jersey Scheme because the Jersey Scheme can only proceed if the Main Scheme is approved. In Section 14, I have then considered the effect on policyholders who would remain with the Transferors if the Main Scheme was approved but the Jersey Scheme was not.

4.6 I provide additional details for each of the activities listed above in the remainder of this section.

Understand the nature and structure of the Schemes and identify the groups of policyholders that would be affected

- 4.7 I have discussed the nature and the structure of the Schemes with the Companies and reviewed the relevant documentation that I have received.

Assess the financial positions of the Companies

- 4.8 The level of security provided to policyholders of an insurance company depends on the available capital of the company and, in particular, the probability that this level of capital is sufficient to make claim payments as they fall due.

- 4.9 In assessing the financial positions of the Companies, I consider the following:

- the financial strength of their balance sheets, including net assets and level of capital
- the strength of their claims reserves
- their capital requirements, both in terms of regulatory requirements and their own view of the required capital, and the resulting solvency coverage ratios
- their robustness to adverse events and the management actions available to them in those circumstances.

Assess the financial strengths of the Transferors and the Transferee

- 4.10 I have considered the balance sheets of each of the Transferors and the Transferee, on a regulatory basis, as part of my assessment of their relative financial strengths, including the net assets and level of capital.

- 4.11 I have compared the balance sheet of the Transferors and Transferee prior to the Schemes with the reasonably foreseeable position of the Transferee following the Schemes. I have based this analysis on financial data as at 30 September 2025, being the most recent date at which financial information was available when I produced this report. However, in performing that analysis, I have allowed for certain management actions which I have discussed in further detail in paragraphs 4.39 to 4.41 and 4.48 to 4.55.

- 4.12 The financial strengths of Transferors and the Transferee are discussed in sections 7, 8 and 9 of this report.

Assess the claims reserves of the Transferors and the Transferee

- 4.13 An important part of the security provided to policyholders is the strength of the claims reserves - the amount of money the insurer will have to pay out on unpaid reported claims, unreported claims and future claims in respect of policies already sold. The claims reserves generally form the largest part of the liabilities for an insurer.

- 4.14 I have therefore considered the claims reserves included on the balance sheet for each of the Transferors and the Transferee. I have also considered the Technical Provisions on a Solvency UK basis (as defined in paragraph 6.4) for each of the Transferors and the Transferee. This is discussed in section 7.

Assess the capital positions of the Transferors and the Transferee

- 4.15 My assessment of the capital positions of Transferors and the Transferee is discussed in sections 8 and 9.

Regulatory capital requirements

- 4.16 Insurers are subject to capital requirements imposed by UK regulation. These capital requirements are discussed in more detail in paragraph 6.10. The level of available capital compared to regulatory capital requirements is a measure of the security provided to the policyholders.
- 4.17 To further review the financial strength of Transferors and the Transferee, I have reviewed the methodology, assumptions and processes used in the modelling undertaken to assess the required regulatory capital.
- 4.18 I have also compared the coverage of the regulatory capital requirements prior to the Schemes with the coverage of the regulatory capital requirements following the Schemes for Transferors and the Transferee, respectively, based on balances as at 30 September 2025. In performing that analysis, I have allowed for certain management actions which I have discussed in further detail in paragraphs 4.39 to 4.41 and 4.48 to 4.55.

Own assessment of required capital

- 4.19 Insurers are also required to undertake an assessment of their own risks and solvency needs. Another measure of the security provided to policyholders is the level of available capital compared to the insurer's own view of required capital, which is considered within their ORSA.
- 4.20 I have reviewed the modelling undertaken by Transferors and the Transferee to form a view on their estimates of capital within the Allianz UK Group's ORSA.

My testing

- 4.21 In addition, I have undertaken my own testing of AZI's regulatory capital requirements to understand the robustness of the capital base of AZI following the Schemes. I have provided further detail on my approach in section 8.

Measures of likelihood

- 4.22 In this report, when I describe an event as "unlikely", I mean that, in my judgement, it is foreseeable but towards the extremities of the range of what I would consider to be reasonably foreseeable. I describe an event as "severe" when, in my judgement, it is at the extremities of that range.
- 4.23 In this report, when I describe a scenario as "remote", I mean that it lies significantly outside the range of outcomes that I consider reasonably foreseeable based on my professional judgement. A remote adverse scenario would require adverse developments that are materially more severe than the upper end of a reasonably foreseeable range and/or would require multiple independent adverse events to occur simultaneously.

Consider the implications of the Schemes for the level of security, including under insolvency

- 4.24 I have considered each of the groups of Transferring Policyholders and Existing Policyholders both before and after the Schemes and the relative level of security available to them, including under insolvency. This is discussed further in section 9.

Consider the potential impact on levels of customer service

- 4.25 I have considered how the level of customer service, specifically claims handling and policy servicing, experienced by each of the groups of Transferring Policyholders and Existing Policyholder could change following the Schemes. This is discussed in paragraphs 11.11 to 11.19.

Consider other financial factors that might affect policyholders

- 4.26 Through my discussions with Transferors and the Transferee and reviews of documentation, I have also considered various other financial factors that might affect policyholders, namely the following:
- Investment strategy
 - Liquidity position
 - Implications of the Schemes on ongoing expense levels
 - Pension arrangements
 - Tax implications
 - Impact of new business strategy
 - Impact of other transfers.
- 4.27 These issues are discussed in section 10 of this report.

Consider other factors that might affect policyholders

- 4.28 Through my discussions with the Transferors and the Transferee and reviews of documentation, I have also considered various other factors that might affect policyholders, namely the following:
- Claims handling
 - Policy administration
 - Complaints
 - Membership of ELTO
 - Ongoing change projects
 - Governance and management framework
 - Sanctions
 - Recognition of the Schemes in other jurisdictions
 - The impact on Existing Policyholders and policyholders transferring under the Main Scheme if one or both of the Schemes do not become effective.
- 4.29 These issues are discussed in section 11 of this report.

Consider the implications of the Schemes for Transferring Reinsurers

- 4.30 I have considered the implications of the Schemes on Transferring Reinsurers. This is discussed in section 11.

Consider the implications of the Jersey Scheme

- 4.31 I have considered the implications on the Jersey Policyholders in the event that both or one or neither of the Schemes is effected. This is discussed in section 12.

Consider the communication strategy

- 4.32 Through my discussions with Transferors and the Transferee and reviews of documentation, I have also considered the communication strategy that they are planning to use to notify impacted policyholders and reinsurers about the Schemes.
- 4.33 These issues are discussed in section 13.

Assumptions made when performing my assessments

- 4.34 When considering the impact of the Schemes, I have made the following assumptions:
- The Transferring Portfolios, including the Jersey Policies, will transfer to AZI in full on the Effective Date, and there will be no Excluded Policies and no other parallel schemes. If these conditions do not hold, I reserve the right to revisit my analysis.
 - All liabilities and corresponding assets associated with the Transferring Portfolios will transfer from the Transferors to AZI, including those in the scope of the Jersey Scheme, excluding those assets which will remain in the Transferors to meet their minimum capital requirements (as defined in paragraph 6.10) until the Transferors are deauthorised and wound up. The assets and liabilities transferred under the Schemes will have a similar solvency impact on AZI as presented in this report.
 - The day-to-day administration of the Transferring Portfolios will continue with the same service provider (AMSL) following the Schemes.
 - AZI will continue to follow its current business strategy.
- 4.35 These assumptions, reviewed and confirmed by the Companies' senior management, are deemed reasonable for assessing the Schemes' implications. Should any of these assumptions prove invalid, my assessment and conclusions may require revision.

Financial positions on which my assessment is based

- 4.36 My assessment is based on the reasonably foreseeable positions of the Transferors and Transferee before the Schemes and the Transferee following the Schemes.

Use of the Companies' financial positions as at Q3 2025

- 4.37 The financial analysis in this report is based on the Companies' Q3 2025 positions. Although the fully governed and audited Q4 2025 results will become available before the Directions Hearing, they will not be available in time for inclusion in my analysis. Q3 2025 therefore represents the most recent set of financial information that had undergone the full governance and validation cycle at the point the analysis was undertaken. The Q3 data had been subject to the Companies' established quarterly reserving, financial reporting and governance processes, including senior management oversight.

- 4.38 Since the purpose of this report is to assess policyholder security and the impact of the Schemes on a forward-looking basis, I consider Q3 2025 to provide a reliable and appropriate baseline (with the adjustments discussed below).

Adjustments for known management actions for AZI and FIL after Q3 2025

- 4.39 The financial positions for AZI and FIL have been adjusted to reflect dividends paid in Q4 2025, as these were known and observable events at the time I performed my analysis. I am not aware of any other material events since Q3 2025 that should be reflected in my analysis.
- 4.40 Expected Q4 profits have not been incorporated because, although the Companies have internal visibility of their anticipated year-end performance, the Q4 2025 results had not yet undergone the full governance and audit processes required for inclusion in this report at the time my analysis was undertaken. It would not have been appropriate for me to rely on financial information that had not yet been fully governed, validated and approved through the established processes. However, I will incorporate more up-to-date financial information in my Supplementary Report.
- 4.41 Reflecting the dividends but not the Q4 2025 profits has had the effect of reducing the pre-Schemes Eligible Own Funds and solvency coverage ratios for AZI and FIL used in my analysis.

Comparison of AZI's adjusted solvency position at Q3 2025 to its usual solvency levels

- 4.42 The pre-Schemes solvency coverage ratio for AZI that I have used in my analysis (141%) is lower than those that have been reported by AZI over the past few years (generally between 150-170%). Readers should not interpret this as meaning that AZI has experienced a material reduction in its financial strength – it represents a temporary point-in-time position and is a direct consequence of the adjustment that I have made for the dividend paid out in Q4 2025. Prior to the adjustment I made for the dividend, AZI's solvency ratio at Q3 2025 was 163% which is not out of line with AZI's reported solvency ratios over the past few years.
- 4.43 While historical solvency ratios provide useful context, they are not an appropriate basis for assessing the impact of the Schemes. The Q3 2025 solvency position - adjusted for the known Q4 dividend - provides a more accurate and relevant assessment point than historical ratios which may reflect earlier business conditions, capital structures, reinsurance arrangements, reserving positions and market environments that may not be fully representative of the financial position at the time this report was prepared. My conclusions are based on absolute capital strength, stress resilience, and post-Scheme solvency, none of which depend on historical solvency ratio levels.
- 4.44 I also note that adopting a conservative Q3 solvency coverage ratio relative to historical levels does not affect my conclusions. My assessment focuses on AZI's absolute capital strength, the projected solvency position following the Schemes, the resilience of AZI in severe adverse scenarios, and the protections available to policyholders under both normal and adverse conditions. These conclusions do not depend on AZI maintaining solvency ratios at the higher levels observed historically. In other words, if I had assumed a higher pre-Schemes solvency ratio for AZI, it would not have changed my conclusions.
- 4.45 I will incorporate updated solvency information from the year-end 2025 financial results (or Q1 2026 information, if available) into my Supplementary Report, ensuring that the Court has the most current financial position of AZI before the Sanctions Hearing.

Comparison of FIL's adjusted solvency position at Q3 2025 to its usual solvency levels

- 4.46 FIL's solvency ratio has varied over time, which is not unexpected for a small run-off entity. Historically it has tended to fall within the range of 150–300%. Over the past couple of years, the ratio increased to around 900–950%, driven primarily by reductions in its SCR as the business continued to run off. The ratio then decreased following the £20m dividend paid to its parent company in December 2025. I

consider the adjusted solvency ratio of 387% to be a more appropriate reflection of FIL's financial position immediately prior to the Schemes than the unadjusted 958% solvency ratio reported at Q3 2025. Although I cannot rely on Q4 2025 figures as they have not undergone the full governance and audit process, I note that the latest available draft Q4 2025 figures would support that view.

- 4.47 However, the solvency coverage ratio for FIL should be interpreted with caution. The solvency coverage ratio is only an indicator of financial strength and is far less relevant in the context of a very small run-off entity such as FIL whose SCR is set equal to the AMCR and is therefore not based on its risk profile. What matters for assessing financial strength and policyholder security is the absolute quantum of Own Funds, the scale of the balance sheet, and the degree of diversification.

Treatment of speculative or discretionary future management actions

- 4.48 In performing my assessment, I have not relied on speculative or discretionary future management actions that may take place after the Schemes.
- 4.49 However, to avoid a misleading presentation of the positions of the Companies before and after the Schemes, I have considered material management actions that are likely to be a consequence of the Schemes. This aligns with the Independent Expert's duty to assess the likely effects of the Schemes and the financial resources of the Transferee following the Schemes.
- 4.50 The Companies expect that there will be a capital benefit to AZI of approximately £130m arising from the Schemes, provided that the Major Model Change incorporating the Transferring Portfolios into AZI's Internal Model (as discussed further in section 8) is approved by the PRA. I have been informed by the Companies that, as part of AZI's capital strategy following the Schemes, its business plan anticipates the potential redistribution of this £130m surplus capital to Allianz SE Group during 2027 (the "Part VII Driven Capital Release"), either in the form of a one-off dividend or as part of a larger dividend.
- 4.51 However, the Part VII Driven Capital Release would be contingent on the following:
- the capital benefit to AZI will only be realised if the Major Model Change is approved by the PRA
 - AZI will undertake appropriate solvency stress assessments at the relevant time before proposing any dividend
 - the payment and size of any dividend would be subject to a management recommendation and then approval by the AZI Board
 - the payment of any dividend by AZI will be subject to the PRA having no further questions, and therefore the PRA would need to be comfortable with AZI's post-Schemes financial position after the proposed dividend at the time it is proposed, in order to provide that non-objection.
- 4.52 Whilst AZI has not committed to the payment of this dividend, and would not do until after the Schemes have become effective, I have presented the position of AZI following the Schemes on a post-dividend basis in order to reflect the potential foreseeable impact of the Schemes on AZI. I have used this post-dividend position as the base case for my analysis of AZI's financial position following the Schemes.
- 4.53 As a consequence, the AZI post-Schemes financial position that I have used as the basis for my analysis may contain some conservatism for the following reasons:
- Potential conservatism in AZI's pre-Schemes balance sheet: The AZI post-Schemes balance sheet has been derived by adjusting and aggregating the pre-Schemes balance sheets of all Companies (with AZI and FIL adjusted for the December 2025 dividends). Any conservatism inherent in AZI's pre-Scheme financial position (see paragraphs 4.42 to 4.45 above) will therefore, by definition, also be reflected in the post-Schemes financial position.
 - Assumed full payment of the Part VII Driven Capital Release: The projected 148% solvency ratio assumes that the estimated £130m Part VII Driven Capital Release will be paid out in full as a dividend following the Schemes. AZI has not committed to paying this dividend, and would not do

so until after the Schemes have become effective. Any such dividend would require a management recommendation, approval by the AZI Board, and a “no further questions” outcome from the PRA - meaning the PRA would need to be satisfied with AZI’s post-Schemes financial position after the proposed dividend at the point the dividend is proposed in order to provide that non-objection. If the capital release is not paid out in full, AZI’s post-Schemes solvency ratio would be higher than 148%.

- 4.54 I note that the £130m figure is currently an expectation of the capital benefit to AZI following the Schemes, based on analysis performed by the Companies. I will consider this further as part of my analysis for the Supplementary Report.
- 4.55 Aside from the management actions discussed above, I have not allowed for discretionary future management actions by the Transferors or the Transferee. In addition, I have not considered the impact of profits, and dividends that may be paid by AZI out of those profits, after the Schemes become effective.

5 Background

Background and purpose of the Schemes

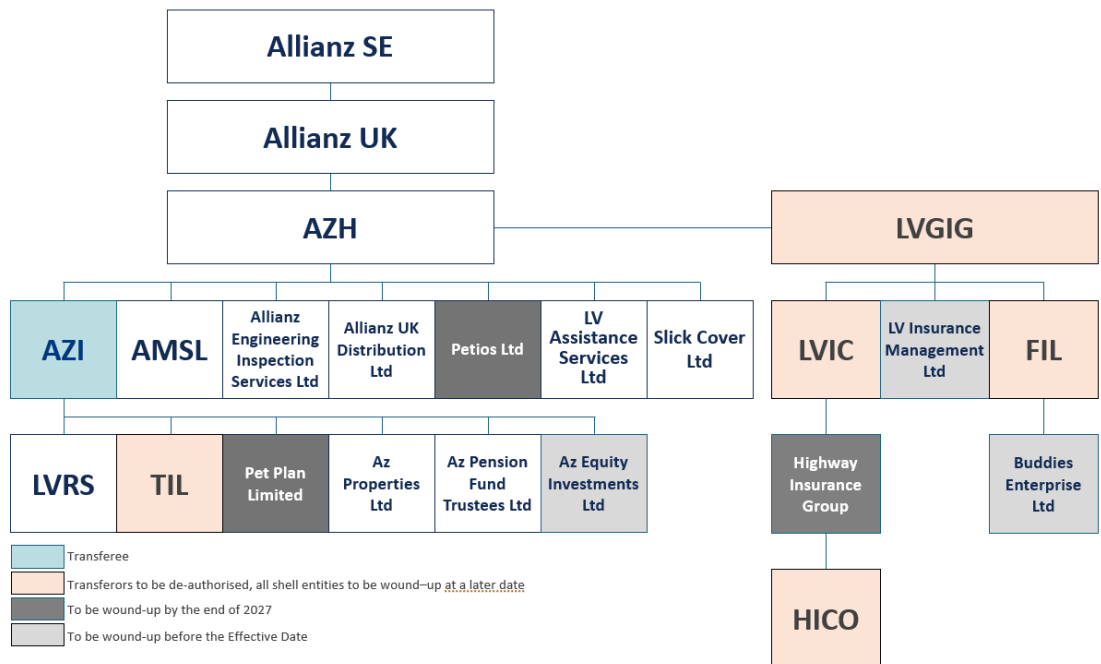
- 5.1 Over the course of the past few years, AZH has acquired a number of different insurance entities, which has now led to it managing five different legal insurance entities in the UK.
- 5.2 In particular, in January 2020, AZH completed the acquisition of the remaining shares of LVGIG from Liverpool Victoria Friendly Society, giving it 100% ownership of LVGIG. In addition, at the same time, it acquired the general insurance division of Legal & General, FIL (as it was subsequently renamed).
- 5.3 The purpose of the Schemes is for the Allianz UK Group to simplify its group structure whilst maintaining the ability to service all of its policyholders. The objective of the Schemes is to move to having one dual-regulated insurance entity within the UK (AZI) and one services entity (AMSL).
- 5.4 The Schemes are designed to transfer all assets and liabilities corresponding to all insurance business from the Transferors to the Transferee, excepting those assets required by the Transferors to meet their minimum capital requirements (as defined in paragraph 6.10) until the Transferors are deauthorised and wound up.
- 5.5 The ancillary assets and liabilities of LVGIG which are necessary for the business of the Transferors, including service contracts, prepaid expenses, receivables, software and trademarks, will also be transferred from LVGIG to AMSL via the Main Scheme. This transfer is to assist with the simplification of the Allianz UK Group and with the efficient and complete future running of the business. The transfer of these ancillary assets and liabilities will be effected under the same court order as the Main Scheme. Consequently, according to the terms of the Main Scheme, the transfer of the Transferring Portfolios will not proceed without the transfer of these ancillary assets and liabilities, and the transfer of these ancillary assets and liabilities will not proceed without the Main Scheme.
- 5.6 The contractual terms and conditions for the Transferring Portfolios and the Existing Policyholders will remain unchanged as a consequence of the proposed Schemes. The current and expected benefits, including current or potential future claim amounts, will remain unaffected.

Group restructure

- 5.7 The Allianz UK Group consists of Commercial, Personal, and Specialty Operating Units, supported by Shared Services Functions. The Commercial and Specialty lines are underwritten by AZI, and the Personal lines are underwritten by LVIC and HICO. FIL and TIL no longer underwrite new business and are in orderly run-off. The types of business written are detailed in the company background sections below.

5.8 The structure chart below reflects the Allianz UK Group structure prior to the Effective Date, and prior to other proposed wind-ups (Allianz UK Group intends to wind-up LV Insurance Management Ltd, AZ Equity Investments Ltd and Buddies Enterprise Ltd in advance of the Effective Date). The chart also reflects the new Managing General Agent (named Slick Cover Limited), incorporated in February 2026, which I discuss further in paragraph 5.90 below.

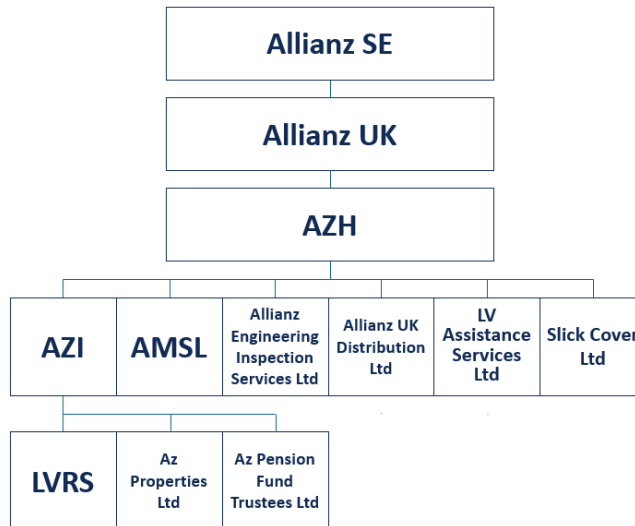
Chart 5.1: Allianz UK Group structure chart before the Schemes and before proposed wind-ups



5.9 The structure chart below shows the proposed Allianz UK Group structure following the Schemes and following the proposed deauthorisation and wind-up of the Transferors, and other entities proposed for wind-up after the Effective Date (Petios Ltd, Pet Plan Limited and Highway Insurance Group).

5.10 I have been informed by the Companies that the winding up of the Transferors may be up to nine months after the Effective Date and is subject to each of the Main Scheme and the Jersey Scheme being approved, the Main Scheme being recognised under Guernsey law, and there being no Excluded Policies. Note that the winding-up of the other entities does not have a bearing on the Schemes and is outside the scope of this report.

Chart 5.2: Allianz UK Group structure chart after the Schemes and after proposed wind-ups



Background to AZI

- 5.11 AZI is a wholly owned subsidiary of AZH which is itself owned by Allianz UK. Both AZH and AZI are public limited companies.
- 5.12 AZI was incorporated on 18 May 1905 as “The Cornhill Insurance Company Limited”. Its registered office is located in Guildford, Surrey. After three further names – “Cornhill Insurance Company Limited” in 1935, “Cornhill Insurance Public Limited Company” in 1981, when it was re-registered as a public limited company, and “Allianz Cornhill Insurance PLC” in 2003 – it changed its name to “Allianz Insurance Plc” in April 2007.
- 5.13 AZI’s ultimate owner is Allianz Societas Europaea (“Allianz SE”), which is headquartered in Germany.
- 5.14 AZI is authorised by the PRA and regulated by the PRA, the FCA, and the JFSC.
- 5.15 AZI underwrites non-life insurance contracts predominantly within the UK. AZI conducts general insurance business through direct and broker distribution channels. The primary sources of premium income are from selling Commercial, Pet, and Legal Expenses insurance products. The Commercial products include Motor, Property and Liability contracts.
- 5.16 As at 30 September 2025, AZI had approximately 5.1 million policyholders.

- 5.17 The table below sets out an analysis of the earned premium income by class of business for AZI between 1 January 2025 and 30 September 2025:

Table 5.1: Gross earned premium by class for AZI in 2025 for the 9 months up to 30 September 2025 (£m)

Class of business	Operating Unit	GEP	%
Pet	Specialty	616.9	36%
Motor	Commercial	407.4	24%
Property	Commercial	267.1	16%
Liability	Commercial	159.7	9%
Small Medium Companies	Commercial	106.7	6%
Engineering	Commercial	82.2	5%
Other	Commercial, Specialty	33.7	2%
Legal Expenses	Commercial	30.0	2%
Total Premium		1,703.7	

- 5.18 The 'Other' category above encompasses the following types of business: Personal Accident and Terrorism (under the Commercial operating unit) and Musical Instrument (under the Specialty operating unit).

AZI's reinsurance programme

- 5.19 AZI has an extensive reinsurance programme in place, which is summarised below:
- Multi risk (Catastrophe) excess of loss
 - Property risk and Engineering excess of loss, including low level clash cover
 - Liability risk excess of loss (including for its Motor book)
 - Marine Cargo quota share
 - 100% quota share coverage for Cyber and Tech E&O
 - Facultative cover
 - Legal protection reinsurance
 - Other intra-group reinsurance
 - Business Interruption reinsurance
 - Variable quota share coverage for all lines of business, applied after the cover above, with different percentages ceded for different classes
- 5.20 Historically, there has been a similar extensive programme in place, with different excesses, limits and structures in each year.
- 5.21 97% of this reinsurance cover is with AZ Re. The variable quota share cover provided by AZ Re is provided on a funds withheld basis – what this means in practical terms and its implications on AZI's counterparty risk exposure to AZ Re are discussed from paragraph 5.102 below.
- 5.22 The remaining reinsurance protection is supported by a well-diversified panel of external reinsurers, with no exposure materially concentrated in any single counterparty. Of the four other reinsurers with greater than 0.1% exposure, all are rated at least AA-.

- 5.23 Following the Schemes, I understand from AZI that the reinsurance covers that currently apply to the Existing Policyholders will continue to apply to the Existing Policyholders.

AZI's risk profile

- 5.24 AZI has a mix of tail lengths within its business portfolio. Its Motor and Property business is generally shorter-tailed, but with some longer-tailed perils such as injury claims in Motor (which expose the business to legal and regulatory uncertainty), and subsidence and business interruption for Property. Its Liability business is generally longer-tailed and exposed to legal and regulatory uncertainty. Periodical Payment Orders ("PPO") within the Motor and Liability classes further increase uncertainty through exposure to inflation and longevity risk. AZI's Pet business is short-tailed, with limited uncertainty.
- 5.25 AZI has a well-diversified portfolio, with significant exposure to a range of classes, with generally low correlation between them.
- 5.26 The classes which most contribute to AZI's Reserve Risk are Motor and Liability, owing to the size of these classes and their relative uncertainty. Premium Risk is driven by Pet, owing to its high net earned premiums, which is in part due the fact that the variable quota share cession rate selected for this class is only 10%. Together, these classes have the biggest impact on AZI's Solvency Capital Requirement (SCR, as defined in paragraph 6.10).
- 5.27 Motor, Property and Liability are the main contributors to AZI's balance sheet reinsurance asset, with excess of loss cover mitigating against large losses and PPOs within Motor and Liability, and 80% of Property ceded to the variable quota share.
- 5.28 The key drivers of AZI's SCR are Reserve Risk, Market Risk and Premium Risk. These risks remain within appetite and are subject to a wide range of stress and scenario testing within Allianz UK's ORSA, which I describe further in section 8. A range of additional significant risks, including risks from transformation, people, suppliers and brand are tracked and managed at the Allianz UK level, and all remain stable and within appetite. Unlike the other Companies, AZI has exposure to Real Estate Risk through its investment portfolio.

Background to LVIC

- 5.29 LVIC is, via intermediate companies, a wholly owned subsidiary of AZH.
- 5.30 LVIC was incorporated on 26 July 1996. Its registered office is located in Guildford, Surrey. It was acquired by the Allianz UK Group in January 2020.
- 5.31 LVIC is authorised by the PRA and regulated by the FCA, PRA, and the JFSC.
- 5.32 LVIC is authorised to underwrite non-life insurance contracts within the UK, and within Jersey, through both direct and broker distribution channels. The primary sources of premium income are from the sale of motor insurance products and household insurance products. Motor insurance products include Private Car and Motorcycle. LVIC also underwrites Road Rescue and Travel Insurance.
- 5.33 I understand from LVIC that it has undertaken a detailed review for policyholders of policies inceptioned in the last two years and has found no evidence of policyholders located outside of the UK, Jersey, Guernsey and the Isle of Man, excepting a single road rescue policy for a policyholder based in France. In addition, LVIC has reviewed its Solvency and Financial Condition Reports ("SFCR"s) back to 2020 and found no evidence of any policies under any other jurisdictions.
- 5.34 As at 30 September 2025, LVIC had approximately 3,785,000 active policyholders.
- 5.35 The table below sets out a breakdown of the earned premium income by class of business for LVIC between 1 January 2025 and 30 September 2025:

Table 5.2: Gross earned premium by class for LVIC up to 30 September 2025 (£m)

Class of business	Operating Unit	GEP	%
Motor	Personal	996.5	75%
Property	Personal	260.4	20%
Other	Personal	54.9	4%
Legal Expenses	Personal	22.0	2%
Liability	Personal	0	0%
Total Premium		1,333.8	

5.36 The 'Other' category above encompasses the following types of business: Motor Road Rescue, Home Emergency and Travel. Liability is included above but, as it is fully in run-off, it holds reserves but does not receive premiums.

LVIC's reinsurance programme

5.37 LVIC has an extensive reinsurance programme in place, which is summarised below:

- Casualty excess of loss for its Motor book
- Quota share coverage for the flood risk portion of any home insurance policies which are ceded to the reinsurer, subject to certain excesses and exclusions
- 100% quota share coverage for its home emergency and legal expenses business
- Multi risk (Catastrophe) excess of loss
- 40% quota share coverage for any liabilities remaining after the above reinsurance coverage.

5.38 In respect of prior years, LVIC has a number of similar excess of loss and quota share reinsurance agreements in place which will all transfer as part of the Schemes.

5.39 97% of LVIC's reinsurance cover, by exposure, is with AZ Re. The variable quota share cover provided by AZ Re is provided on a funds withheld basis. What this means in practical terms and its implications on AZI's counterparty risk exposure to AZ Re are discussed from paragraph 5.102 below.

5.40 The remaining reinsurance protection is supported by a well-diversified panel of external reinsurers, with no exposure materially concentrated in any single counterparty. Of the twelve other reinsurers with greater than 0.1% exposure, all are rated at least AA-.

5.41 All of the reinsurance covers above will be transferred to AZI under the Schemes.

LVIC's risk profile

5.42 LVIC is weighted towards shorter-tailed business. It writes mostly Motor and Property business, which are generally short-tailed, but with some longer-tailed perils such as injury claims in Motor (which expose the business to legal and regulatory uncertainty), and subsidence for Property. It writes mostly Motor and Property business, which are generally short-tailed, but with some longer-tailed perils such as injury claims in Motor (which expose the business to legal and regulatory uncertainty), and subsidence for Property. PPOs within Motor further increase uncertainty through exposure to inflation and longevity risk.

5.43 Diversification is limited, given the strong concentration in Motor business (75%).

5.44 Motor business is also the main driver of LVIC's Reserve Risk, owing to its size and the relative uncertainty due to its injury claims and PPOs.

- 5.45 LVIC mitigates against large losses and PPOs in Motor with excess of loss cover, and further reduces its exposure with quota share reinsurance, in total ceding around half of its Motor gross best estimate Technical Provisions. LVIC also participates in the Flood Re programme, unlike AZI, although this is not material to its expected reinsurance recoveries.
- 5.46 The key drivers of LVIC’s SCR are Reserve Risk, Market Risk and Premium Risk. These risks remain within appetite and are subject to a wide range of stress and scenario testing, which I describe further in section 8. A range of additional significant risks, including risks from transformation, people, suppliers and brand are tracked and managed at the Allianz UK level, and all remain stable and within appetite. Stress and scenario testing within Allianz UK’s ORSA indicate LVIC is more exposed than the other Companies to pricing and underwriting deficiencies, reflecting its concentration in personal lines and its reliance on accurate technical assumptions.
- 5.47 HICO is a subsidiary of LVIC and, as I describe below, exposed to similar risks.

Background to HICO

- 5.48 HICO is, via intermediate companies, a wholly owned subsidiary of AZH.
- 5.49 HICO was incorporated on 10 March 1999. Its registered office is located in Guildford, Surrey. It was acquired by the Allianz UK Group in January 2020.
- 5.50 HICO is authorised by the PRA and regulated by the FCA, PRA, and the JFSC.
- 5.51 HICO is authorised to underwrite non-life insurance contracts within the UK and Jersey, solely through the broker distribution channel. The primary sources of premium income are from the sale of motor insurance products and household insurance products. Motor insurance products include Private Car, Specialist Car, and Motorcycle.
- 5.52 I understand from HICO that it has undertaken a detailed review for policyholders of policies incepted in the last two years and has found no evidence of policyholders located outside of the UK, Jersey, Guernsey and the Isle of Man. In addition, HICO has reviewed its SFCRs back to 2020 and found no evidence of any policies under any other jurisdictions.
- 5.53 As at 30 September 2025, HICO had approximately 628,000 active policyholders.
- 5.54 The table below sets out a breakdown of the earned premium income by class of business for HICO between 1 January 2025 and 30 September 2025:

Table 5.3: Gross earned premium by class for HICO up to 30 September 2025 (£m)

Class of Business	Operating Unit	GEP	%
Motor	Personal	222.9	76%
Property	Personal	69.5	24%
Other	Personal	2.7	1%
Legal Expenses	Personal	0.1	0%
Total Premium		295.1	

- 5.55 The ‘Other’ category above encompasses the following types of business: Landlord and Home Emergency.

HICO's reinsurance programme

- 5.56 HICO has largely the same reinsurance coverage in place as LVIC, as set out in paragraph 5.37. 77% of HICO's reinsurance cover, by exposure, is with AZ Re. The variable quota share cover provided by AZ Re is provided on a funds withheld basis. What this means in practical terms and its implications on AZI's counterparty risk exposure to AZ Re are discussed from paragraph 5.102 below.
- 5.57 HICO also holds a quota share policy with AZI for its legal expenses business.
- 5.58 The remaining reinsurance protection is supported by a well-diversified panel of external reinsurers, with no exposure materially concentrated in any single counterparty. Of the 28 other reinsurers with greater than 0.1% exposure, 25 are rated at least AA-.
- 5.59 All of HICO's reinsurance cover will be transferred to AZI as part of the Schemes, with the exception of the cover held with AZI which will cease on the Effective Date since AZI cannot reinsure itself.

HICO's risk profile

- 5.60 HICO is weighted towards shorter-tailed business. It writes mostly Motor and Property business, which are generally short-tailed, but with some longer-tailed perils such as injury claims in Motor (which expose the business to legal and regulatory uncertainty), and subsidence for Property. PPOs within Motor further increase uncertainty through exposure to inflation and longevity risk.
- 5.61 Diversification is limited, given the strong concentration in Motor business.
- 5.62 Motor business is the also main driver of HICO's Reserve Risk, owing to its size and relative uncertainty due to its PPOs and injury claims.
- 5.63 HICO mitigates against large losses and PPOs in Motor with excess of loss cover, and further reduces its exposure with quota share reinsurance, in total ceding around half of its Motor gross best estimate Technical Provisions. HICO also participates in the Flood Re programme, unlike AZI, although this is not material to its expected reinsurance recoveries.
- 5.64 The key drivers of HICO's SCR are Reserve Risk, Market Risk and Premium Risk. These risks remain within appetite and are subject to a wide range of stress testing within Allianz UK's ORSA, which I describe further in section 8. A range of additional significant risks, including risks from transformation, people, suppliers and brand are tracked and managed at the Allianz UK level, and all remain stable and within appetite. As a subsidiary of LVIC, under scenarios where HICO would enter financial difficulty, it would benefit from LVIC's parental support, however I have carried out my stress testing in section 8 without relying on this assumption.

Background to FIL

- 5.65 FIL was incorporated on 19 November 1946. Its registered office is located in Guildford, Surrey. It was acquired by the Allianz UK Group in December 2019.
- 5.66 FIL is authorised by the PRA and regulated by the FCA, PRA, and the JFSC.
- 5.67 FIL is a general insurance company, and it operated within the UK, Jersey, Guernsey and the Isle of Man. The principal activity of FIL was the transaction of Home insurance. FIL has also previously underwritten risks relating to sickness & unemployment insurance and pet insurance. FIL ceased to write new business in April 2023 and since that date it has been actively managing the settlement and run-off of the remaining insurance contract liabilities.
- 5.68 FIL has reviewed its SFCRs back to 2020 and found no evidence of any policies under any other jurisdictions.

- 5.69 At its peak, FIL wrote approximately 2.0 million policies on an annual basis. This reduced once the Allianz UK Group took control of FIL in 2019, as policies were renewed into LVIC. There are currently approximately 900 open claims.

FIL's reinsurance programme

- 5.70 FIL has 50% quota share reinsurance cover with AZ Re on all loss exposure prior to going into run-off. In addition, during 2025, FIL put in place a 50% loss portfolio transfer reinsurance cover ("LPT") with AZ Re, which covers all current and future liabilities originating from non-life business underwritten by FIL, with a limit of 200% of the reserves as of the end of 2024 (i.e. a limit of £114m gross, which is significantly in excess of the current gross reserves of £45m). This combination of covers effectively means that 100% of liabilities from FIL are ceded to AZ Re, except for in very adverse scenarios where the 200% limit on the LPT is exhausted.
- 5.71 FIL's reinsurance cover is provided on a funds withheld basis. What this means in practical terms and its implications on AZI's counterparty risk exposure to AZ Re are discussed from paragraph 5.102 below.
- 5.72 The reinsurance applicable to FIL will be transferred to the Transferee under the Schemes.

FIL's risk profile

- 5.73 FIL's portfolio is predominantly Home business, with a small amount of Liability and it has been in run-off since 2023. Since its business is mostly Home, which is generally short-tailed, the remaining exposure is minimal, including just 900 open claims.
- 5.74 Diversification is limited, given the strong concentration in Home business (c. 90% of Technical Provisions).
- 5.75 Reserve Risk does not impact FIL's SCR since 100% of FIL's reserves are ceded.
- 5.76 FIL's SCR is subject to the Absolute Minimum Capital Requirement ("AMCR") (as defined in paragraph 6.10), without which it would be £0.8m lower, meaning that small to medium changes in its risks have no impact on the overall SCR. In the absence of the AMCR, the key drivers of FIL's SCR would be Counterparty Default Risk and Market Risk, and the ORSA also considers Financial Control Failure. Stress testing in the ORSA confirms that FIL remains highly resilient under scenarios stressing these risks, with no credible threat to its projected solvency position.

Background to TIL

- 5.77 TIL is, via intermediate companies, a wholly owned subsidiary of AZH.
- 5.78 TIL was incorporated on 23 December 1907. Its registered office is located in Guildford, Surrey.
- 5.79 TIL is authorised by the PRA and regulated by the FCA and PRA.
- 5.80 TIL underwrote private motor policies through brokers and ceased underwriting activity in 2006. Since then it has been actively managing the settlement and run-off of the remaining insurance contract liabilities.
- 5.81 TIL has reviewed its SFCRs back to 2020 and found no evidence of any policies under any jurisdictions other than the UK, Jersey, Guernsey and the Isle of Man.
- 5.82 There are only three reported claims remaining, two of which are PPOs and one of which has been settled under a Provisional Damages Order ("PDO").

TIL's reinsurance programme

- 5.83 The two PPOs are protected by excess of loss reinsurance with unlimited cover which will transfer as part of the Schemes. This reinsurance is provided by a panel of reinsurers (including AZ Re which provides 45% of the reinsurance cover). 97.5% of the reinsurance exposure is to reinsurers that are rated AA- or above by S&P, making this cover very secure.

TIL's risk profile

- 5.84 TIL's tail exposures are limited to two PPO claims, giving it a small but long-tailed reserve profile.
- 5.85 Diversification is minimal due to the small scale of the run-off portfolio.
- 5.86 The reinsurance of the two PPOs results in TIL ceding over 85% of its Technical Provisions. The influence of Reserve Risk on the SCR is immaterial as a result.
- 5.87 As a result, TIL's main exposure is to Counterparty Default Risk. However, even substantial changes in this risk would not impact the SCR, as it is subject to the AMCR, without which it would be £2.5m lower. Because of this, and TIL's low materiality in the context of Allianz UK, formal stress testing is not performed in the ORSA, but I have performed some testing which I discuss in section 8.

Background to AMSL

- 5.88 AMSL is a service company within the Allianz UK Group which employs almost all staff for the Companies and provides almost all services to the Companies. Following the Schemes, AMSL will continue to employ almost all staff and provide almost all services to AZI. The remaining small number of staff of the Companies are employed by Allianz Engineering Inspection Services Ltd and this will continue following the Schemes.

Background to LVGIG

- 5.89 LVGIG is a services management company within the Allianz UK Group which houses the majority of third-party service contracts required for the running of LVIC, HICO and FIL. It does not employ any staff. LVGIG is also the parent company to LVIC and FIL and, indirectly, to HICO.

Ongoing change programmes in the Allianz UK Group

- 5.90 As well as the Schemes, there are four other significant change programmes ongoing within the Allianz UK Group which are relevant to the Schemes:
- Since the acquisition of LVGIG, the Allianz UK Group has maintained the 'LV=' branding. I understand from Allianz management that a new partnership arrangement has been agreed with Liverpool Victoria Financial Services (which owns the LV= brand) and that this includes a new licence to continue selling general insurance under the LV= brand.
 - Business Master Platform – this is a project which will deliver new applications and ways of working across the commercial business in Allianz UK Group, including AZI but not the Transferors. This

programme is ongoing with the first delivery achieved in mid-2025 and further deliveries throughout 2026.

- Rapid productivity – this is a project to deliver continuous process improvement to drive operational efficiency through the use of automation, AI and Digital capabilities across the Allianz UK Group. It includes new ways for customers to contact the business, continued development of self-service capabilities, enhancing finance processes, technology and organisation, and more. It is expected to be an ongoing programme.
 - Project Columbus – this is a project which has combined the LV= (personal lines) and Allianz UK (commercial lines) claims departments and, over the next two years, will focus on improving customer experience, indemnity and productivity.
 - Project Delta – this is the creation of a new Managing General Agent (i.e. an intermediary which is granted delegated authority to underwrite and manage policies on behalf of insurers) called Slick Cover Limited (“Slick”). Slick was incorporated in February 2026 and is scheduled to begin writing business after the Directions Hearing but before the Effective Date. Slick will write business on behalf of LVIC until the Effective Date, and on behalf of AZI following the Schemes. This is not expected to be a material level of business in the context of LVIC’s pre-Schemes position or AZI’s post-Schemes portfolio.
- 5.91 There is also a change programme to update Allianz UK Group’s Human Resources systems (“HRMS”). As this programme has no bearing on the Schemes, I do not discuss it further. In addition the ‘Simplify’ programme, which will transform the Companies’ financial systems for greater consistency, is scheduled to take effect after the Effective Date and so I do not consider it relevant to this report.
- 5.92 I discuss the change programmes further and their impact on the Transferring Policyholders and the Existing Policyholders in section 11.

Background to AZ Re

Background to AZ Re

- 5.93 Allianz Re Dublin DAC (“AZ Re”) is a reinsurance company within the Allianz SE Group that provides reinsurance support primarily to other Allianz entities. It is regulated by the Central Bank of Ireland and is subject to the Solvency II regime.
- 5.94 Its underwriting portfolio is diversified across proportional and non-proportional property and casualty reinsurance in the UK, western Europe, the US and Australia, covering classes such as medical, motor, property, liability, financial loss, travel, pet and engineering.
- 5.95 Approximately a third of AZ Re’s gross written premium relates to the Companies, with the remainder written for other Allianz entities.

Reinsurance provided by AZ Re to the Companies

- 5.96 AZ Re is the principal reinsurer to all five Companies. Each of the Companies’ exposures to AZ Re, as a proportion of overall reinsurance exposure, is as follows:
- AZI: 97% of AZI’s reinsurance protection is placed with AZ Re, including Motor and Liability excess-of-loss, Property and Engineering excess-of-loss, Cyber quota share and a variable whole-account quota share.
 - LVIC: 97% of LVIC’s reinsurance protection is ceded to AZ Re, including Motor casualty excess-of-loss, Flood Re replacement arrangements, and a variable quota share that cedes roughly half of retained Motor and Property risks.

- HICO: 77% of HICO's reinsurance protection is placed with AZ Re, primarily through Motor casualty excess-of-loss and variable quota share arrangements.
- FIL: FIL is effectively 100% reinsured to AZ Re through a 50% quota share and a 50% loss-portfolio transfer with a limit of 200% of its year-end 2024 reserves.
- TIL: TIL's two remaining PPO claims are protected by an excess-of-loss programme, 45% of which is ceded to AZ Re.

5.97 These arrangements cover the majority of the Companies' largest exposures, including long-tailed Motor bodily injury (including PPOs), Property and Home perils, Liability, and remaining run-off exposures within FIL and TIL

Extent of concentration risk

5.98 The Companies place a substantial proportion of their reinsurance with AZ Re, creating a material concentration of counterparty exposure. However, the effective level of exposure varies across entities due to structural mitigants:

- Funds-withheld arrangements apply to the proportional reinsurance for AZI, LVIC, HICO and FIL. Under these arrangements, the Companies retain the premiums that would otherwise be paid to AZ Re, significantly reducing loss-given-default
- Letter of Credit (LOC) mechanism: AZI, LVIC and HICO benefit from contractual rights requiring AZ Re to procure a LOC if their monitored loss given default exposure exceeds 20% of their respective SCRs.
- TIL's absolute exposure is very small in the context of the wider group, although there are no mitigants in place.

5.99 Accordingly, while the concentration of reinsurance with AZ Re is high in proportional terms, the loss given default is materially mitigated for AZI, LVIC, HICO and FIL.

Likelihood of AZ Re defaulting

5.100 Given the material proportion of risk ceded to AZ Re, its solvency is central to the analysis of policyholder security. Based on information provided to me, I consider the likelihood of an AZ Re default to be remote, for the following reasons:

- As at 31 December 2025, AZ Re held Own Funds of €2.5bn against an SCR of €1.3bn, giving excess capital of approximately €1.3m and a solvency coverage ratio of 198%. This solvency coverage ratio is significantly in excess of regulatory requirements and is above its target capital ratio.
- AZ Re's ORSA projections show solvency ratios remaining above regulatory requirements over the projection horizon, including under stressed underwriting and market conditions, assuming appropriate management actions. Although I cannot disclose the projected solvency ratios, I note that AZ Re maintains a substantial capital buffer in all but the most extreme scenarios considered.
- AZ Re's AA rating reflects S&P's assessment of very strong capitalisation, strong operating performance, and a low-risk investment profile. The default probabilities associated with this rating category (1-in-5000 over one year; 1-in-360 over five years) are consistent with my conclusion that an AZ Re default is remote.
- AZ Re benefits from a Whole-Account Stop-Loss arrangement and catastrophe excess-of-loss protections that provide significant protection against large man-made and natural catastrophe events.

- The stress and scenario testing disclosed within AZ Re's ORSA indicates that only highly extreme, multi-year tail events - such as simultaneous large-scale natural catastrophe losses across multiple geographies combined with an extreme financial market stress and failure of its retrocession to Allianz SE - would materially deplete its Own Funds. These scenarios sit far beyond the calibration of Solvency II capital requirements and I consider them to be remote.
 - AZ Re is subject to the Allianz SE Group's internal capital management, internal model governance, and group-wide risk appetite framework. AZ Re is part of the global operating entity, Allianz Re, whose Functional Board contribute to the oversight and business strategy of AZ Re.
- 5.101 Taken together - AZ Re's solvency strength, forward-looking projections, high credit rating, and diversified global portfolio - I consider the likelihood of an AZ Re default to be remote.

AZI, LVIC, HICO and FIL – Counterparty Risk Exposure to AZ Re

Funds withheld arrangements

- 5.102 For AZI, LVIC, HICO and FIL, the proportional reinsurance covers - including AZI's and LVIC's variable quota share agreements and FIL's quota share and LPT - are written on a funds-withheld basis.
- 5.103 Under these arrangements, AZI, LVIC, HICO and FIL retain the premiums that would ordinarily be paid to AZ Re and hold these amounts on their own balance sheets rather than transferring them to AZ Re. As a result, AZ Re's ability to meet its liabilities to AZI, LVIC, HICO and FIL is much less dependent on its own liquidity at the point claims become due, since the underlying funds have already been retained by the cedants.
- 5.104 This structure materially mitigates counterparty risk because, in the event of an AZ Re default, AZI, LVIC, HICO and FIL would continue to hold the funds withheld and could net these against any reinsurance recoveries due.
- 5.105 The residual risks that remain relate primarily to timing and settlement, but they are limited in scope:
- Operational valuation/timing mismatches: Minor timing or valuation mismatches can arise under funds withheld arrangements because the cedant and reinsurer update balances on different internal timetables (for example, quarterly true-ups of the funds-withheld balance versus monthly updates to claims estimates). These differences are purely operational and short-lived, and do not give rise to the commercial dispute risks seen with third-party reinsurers. Any mismatches are operational in nature, immaterial, and do not tend to relate to disagreement over the validity or quantum of recoveries. Where reinsurance recoveries temporarily exceed the funds withheld, the excess would depend on AZ Re's liquidity until the funds withheld balance is refreshed (which is quarterly), creating a short-lived timing exposure rather than an ongoing credit risk.
 - Group-wide liquidity stress: In an extreme scenario of group-wide liquidity strain, settlement of amounts above the funds withheld balance could be delayed, but this reflects short-term intra-group liquidity management rather than structural counterparty default risk.
- 5.106 Given these mitigants, I would expect a very high proportion of recoveries from the Quota Share reinsurance cover and FIL's loss-portfolio transfer to remain available even in the event of an AZ Re default, because most of the assets backing AZ Re's obligations remain with the cedant entities and are not part of AZ Re's insolvency estate. Only amounts temporarily exceeding the funds-withheld balance would be exposed, and any shortfall would be expected to be small and limited to this excess.

Excess of loss cover provided by AZ Re

- 5.107 Az Re provides a Casualty excess of loss programme which jointly covers AZI, LVIC and HICO. It also provides a separate Catastrophe excess of loss cover to AZI, LVIC and HICO, and Property and Terrorism excess of loss cover to AZI. This provides a much less significant a proportion of the ceded Technical Provisions than the proportional reinsurance discussed above.

Contractual agreement to provide a letter of credit

- 5.108 Further to this, I understand that AZI, LVIC and HICO each benefit from contractual rights which require AZ Re to procure a letter of credit (“LOC”) as collateral if the monitored losses-given-default reinsurance exposure to AZ Re exceeds 20% of AZI’s, LVIC’s, or HICO’s respective SCRs. This mechanism provides an additional safeguard for AZI, LVIC and HICO, as the LOC would provide collateralisation for the portion of reinsurance recoveries that sits above the funds-withheld balance and therefore further mitigates counterparty default risk.
- 5.109 I understand from the Companies that this LOC mechanism has not previously needed to be triggered, but its availability provides an additional layer of protection in the unlikely event that exposure levels rise materially.
- 5.110 I have been informed by the Companies that the obligation for AZ Re to procure a letter of credit in these circumstances forms part of a legally binding contractual arrangement. I have not sought independent legal advice on the enforceability of this provision and therefore do not express a legal opinion on it. However, I consider it reasonable to rely on this mechanism for the purposes of my assessment, noting that it provides a further layer of protection in the remote event that exposure to Allianz Re were to increase materially.
- 5.111 Whilst the issuance ultimately depends on a third-party bank and therefore cannot be guaranteed, given AZ Re’s strong financial position and the scale and credit standing of the Allianz SE Group, I consider it highly likely in practice that AZ Re would be able to procure such a Letter of Credit if required.

Conclusion on the exposure of AZI, LVIC, HICO and FIL

- 5.112 Given the combination of (i) funds-withheld balances; (ii) the LOC mechanism for AZI, LVIC and HICO; and (iii) AZ Re’s strong financial position, I consider the prospect of a material loss of reinsurance recoveries for AZI, LVIC, HICO or FIL in the event of an AZ Re default to be remote.

TIL’s counterparty risk exposure to AZ Re

- 5.113 AZ Re provides the reinsurance cover on TIL’s PPOs via a standard reinsurance arrangement where AZ Re pays recoveries directly in cash as claims arise, rather than through a funds-withheld structure. Unlike the funds-withheld arrangements in place for the other companies, this structure does not provide any material mitigant to the immediate impact of an AZ Re default.
- 5.114 In the event of a default, TIL would become an unsecured creditor of AZ Re’s insolvency estate and would therefore expect to receive some proportion of recoveries, although the eventual recovery rate would be uncertain and could be materially lower than had AZ Re not defaulted.
- 5.115 Given TIL’s limited absolute capital buffer and its dependence on AZ Re in the event of a deterioration in the PPO reserves, even a partial non-recovery in an AZ Re default scenario could rapidly erode its solvency positions in the absence of parental support.

Interaction between the Companies’ tail risks and AZ Re default risk

- 5.116 For the purposes of assessing the Companies’ overall financial strength, it is important to consider whether severe tail events affecting the Companies - such as extreme reserve deteriorations, major UK catastrophe losses, or material market shocks - could likely occur at the same time as a default of AZ Re. The purpose of this section is to assess the extent of any such dependency between these risks and whether it is material for policyholder security.

5.117 In my opinion, there is no material dependency between tail events affecting the Companies and an AZ Re default, for the following reasons

- Different risk drivers: Tail events affecting the Companies arise from UK-specific insurance risks - such as adverse claims development, inflation shocks, PPO deterioration, or extreme UK weather events. These events can be significant for the Companies but they would not, even if severe, be sufficient to threaten AZ Re. An AZ Re default would require a far broader and more extreme combination of stresses across its global portfolio, including severe losses across multiple geographies and lines of business, material investment market stresses and/or failure of its retrocession to Allianz SE.
- AZ Re's diversified global portfolio: While the Companies cede a high proportion of their reinsurance to AZ Re, UK-related exposures form only one component of AZ Re's materially larger and globally diversified book. UK losses alone are therefore not sufficient to deplete AZ Re's capital. A UK extreme stress would therefore need to coincide with large-scale international catastrophe losses and financial-market dislocation before approaching the level of depletion required to threaten AZ Re's solvency.
- Funds-withheld arrangements materially weaken the dependency: For the quota share and LPT arrangements, the Companies retain the funds withheld that economically back the majority of AZ Re's obligations. In a severe UK reserve deterioration scenario, the cashflows due from AZ Re would therefore already be largely secured by assets held by the Companies (subject to the limited timing risks that I discuss in paragraph 5.105). This significantly reduces reliance on AZ Re's solvency at precisely the time that the UK stresses are occurring.
- In addition, the LOC contractual agreement provides a further layer of mitigation for AZI, LVIC and HICO.
- Extreme co-movements would require a remote global event: AZ Re's ORSA indicates that only multi-year, multi-peril global events - well beyond a 1-in-200 Solvency II calibration - would materially deplete its Own Funds. These events would need to coincide simultaneously with an extreme UK insurance shock to create meaningful correlation. The joint probability of both occurring together is therefore remote.
- Residual correlations are not material: Global financial market stresses could, in principle, impact both AZ Re's investment portfolio and inflation-driven reserve deterioration in the UK entities. However, this residual correlation is not material once the funds-withheld structure, the LOC contractual agreement, AZ Re's strong capitalisation, and its diversification across non-UK business are taken into account.

5.118 For these reasons, I conclude that there is no material correlation between stress events that could affect the Companies and an AZ Re default.

Impact of the Schemes on counterparty default risk to AZ Re

5.119 Following the Schemes, all business from LVIC, HICO, FIL and TIL will transfer into AZI, and the corresponding reinsurance arrangements will transfer with it. This consolidation changes the structure of counterparty exposure to AZ Re in several important respects. In this section, I set out how my assessment of how counterparty default risk differs once the Companies are consolidated into AZI.

Concentration of Exposure After the Schemes

5.120 Prior to the Schemes, each of AZI, LVIC, HICO, FIL and TIL has its own exposure to AZ Re. These exposures are material for each company individually.

5.121 Once the Schemes take effect, AZI will become the sole cedant for the entirety of the UK non-life portfolio previously written by the Transferors. All of the existing reinsurance agreements with AZ Re will

transfer to AZI unchanged. The concentration of exposure across multiple UK entities will therefore be replaced by a single consolidated exposure held within AZI.

- 5.122 The overall quantum of exposure to AZ Re does not increase as a result of the Schemes; it is merely consolidated onto one balance sheet. This improves operational simplicity and removes intra-group variation in exposure, but it increases the size of AZI's individual exposure relative to its pre-Schemes position. In the context of the Allianz UK Group, however, the total exposure to AZ Re remains unchanged.

Likelihood of AZ Re Default After the Schemes

- 5.123 The Schemes do not alter any of the underlying factors that determine the likelihood of an AZ Re default. AZ Re's strong solvency ratio, €1.3bn of excess capital, AA credit rating, stress resilience demonstrated in its ORSA and extensive retrocession protections all remain unchanged following the Schemes.
- 5.124 The extreme, multi-year, multi-peril global events that would be required to threaten AZ Re's solvency remain the same before and after the Schemes. Accordingly, I consider the likelihood of an AZ Re default to remain remote following the Schemes.

Loss Given Default mitigants and how they change post-Schemes

- 5.125 The material proportional reinsurance arrangements for AZI, LVIC, HICO and FIL are written on a funds-withheld basis. Post-Schemes, AZI will become the sole holder of all funds-withheld balances, meaning:
- AZI will retain the same aggregate economic security over reinsurance recoveries as the Companies collectively held pre-Schemes.
 - The loss-given-default is mitigated to the same extent as before, and the mechanics of netting withheld balances against recoveries become operationally simpler.

Letter of Credit mechanism

- 5.126 AZI, LVIC and HICO currently each benefit from contractual rights requiring AZ Re to procure a Letter of Credit if exposure exceeds 20% of the SCR of the relevant entity.
- 5.127 After the Schemes, AZI's SCR will be materially larger than the SCRs of the individual Transferors. This means the monitored exposure would need to be higher before exceeding the 20% threshold, so the trigger is less likely to be reached. This reflects AZI's increased scale rather than any reduction in protection.
- 5.128 If the trigger were reached, the LOC required would be larger because it is set at 20% of AZI post-Schemes' higher SCR. This is not a loss of protection: the contractual obligation is unchanged, and the requirement for a larger LOC simply reflects the larger balance sheet of the post-Schemes entity.
- 5.129 While the issuance of any LOC ultimately depends on a third-party bank and therefore cannot be guaranteed - as is the case both before and after the Schemes - I consider it likely that AZ Re would be able to procure the required LOC. Accordingly, the Schemes do not materially increase the risk that the protection provided by the LOC mechanism would not be available if required.

FIL and TIL exposures

- 5.130 FIL's exposure remains very small relative to AZI and it will continue to benefit from the 200% LPT protection. TIL's PPO exposures are immaterial in the context of AZI's consolidated balance sheet, with 97.5% of the PPO reinsurance panel rated AA- or above. Consequently, the post-Schemes impact of FIL and TIL on AZI's counterparty exposure is negligible.

Correlation Between Counterparty Default Risk and UK Insurance Stresses After the Schemes

- 5.131 The consolidation of all business into AZI means that AZI becomes the sole UK entity generating reinsurance recoveries, but the underlying UK insurance risks and AZ Re's global portfolio remain unchanged, so the fundamental drivers of correlation between UK stresses and an AZ Re default do not alter. The multi-entity channel for correlated recoveries is removed, yet the severity of UK stresses required to meaningfully threaten AZ Re stays the same. As a result, the Schemes do not increase either the likelihood or the materiality of correlated tail risks leading to an AZ Re default.

Overall Conclusion

- 5.132 While the Companies have a material concentration of exposure to AZ Re, the combination of:

- AZ Re's strong solvency coverage and AA rating
- the resilience demonstrated in its ORSA
- funds-withheld arrangements that significantly reduce loss-given-default
- the Letter of Credit mechanism
- AZ Re's retrocession protections
- the extreme nature of the scenarios required for a correlated default

mean that the probability of an AZ Re default is remote, and the loss-given-default is materially mitigated for the Companies.

- 5.133 Furthermore, I have concluded that the Schemes will not have an impact on the likelihood of an AZ Re default or the mitigations in place to limit losses in the event of an AZ Re default.

6 Regulatory background

Introduction

- 6.1 The Transferors and the Transferee are UK insurers and therefore subject to the regulatory and supervisory regime in the UK. They are regulated by the PRA and FCA.
- 6.2 In this section, I provide some background on the regulatory regime in the UK as I refer to the regulatory requirements in later sections of this report. I have also included information on Irish regulations as these are relevant to AZ Re.

UK regulatory regime

- 6.3 UK insurers are regulated by the UK regulators, the PRA and the FCA. The PRA is responsible for the prudential regulation of insurance companies whilst the FCA's objective is to ensure that the relevant financial markets function well.

Prudential regulation of UK insurers

- 6.4 Prior to 2024, the majority of UK insurers were subject to a regime called Solvency II which aimed to harmonise insurance regulation across the EU. However, following the UK's withdrawal from the EU, the PRA has implemented reforms to the UK's prudential regime by making a number of changes to Solvency II to move the UK towards a less prescriptive and more principles-based prudential regime (which is being referred to as "Solvency UK"). All of the changes were implemented on or before 31 December 2024.

Overview of Solvency UK

- 6.5 The Solvency UK regime is set around three pillars:
- Pillar 1: the quantitative requirements, i.e. the valuation of assets and liabilities and risk-based capital requirements
 - Pillar 2: the qualitative requirements, including governance and risk management and the Own Risk and Solvency Assessment ("ORSA")
 - Pillar 3: the supervisory reporting and public disclosure requirements.
- 6.6 The three pillars collectively form a coherent approach that allows a consistent approach to understanding and managing risks across the insurance sector in the UK.
- 6.7 The key features of the Solvency UK framework are:
- Market consistent: assets and liabilities are valued at market value, unless no market price exists in which case alternative valuation approaches can be used.
 - Risk-based: higher risks will lead to a higher capital requirement to cover for unexpected losses
 - Proportionate: the regulatory requirements are intended to be applied in a manner that is proportionate to the nature, scale, and complexity of the risks inherent in the insurer's or reinsurer's business.
- 6.8 Below, I have provided a summary of the main features of the Solvency UK regime. It is not intended to be exhaustive but introduces some of the concepts that I refer to later in this report.

Pillar 1

- 6.9 Pillar 1 sets out the rules for the valuation of insurers' assets and liabilities and the rules for determining the risk-based capital requirements.

- Insurers are required to calculate a balance sheet according to the Solvency UK requirements. The majority of the assets and liabilities on the Solvency UK balance sheet are valued at market value. However, liabilities to policyholders (referred to as “Technical Provisions”) are valued in a different way.
- The Gross Technical Provisions sit on the liability side of the Solvency UK balance sheet and consist of a best estimate liability (“BEL”) plus an explicit risk margin. The BEL is usually calculated by making a series of adjustments to the claims reserves that are reported in an insurer’s accounts. The risk margin reflects the cost of holding capital to meet the insurer’s obligations until all claims have been settled.
- To the extent that any insurance business is outwardly reinsured, there will be a corresponding reinsurance recoverable on the asset side of the balance sheet. The Net Technical Provisions correspond to the Gross Technical Provisions less the corresponding reinsurance recoverables.
- The excess of assets over liabilities on the Solvency UK balance sheet (referred to as Basic Own Funds), plus off-balance sheet items that insurers can call up to absorb losses if necessary, are referred to as an insurer’s Own Funds. The Own Funds are assessed and allocated into tiers depending on their eligibility to count towards meeting the insurer’s regulatory capital requirements. It is important to note that even if an insurer does not have sufficient Own Funds to meet its regulatory capital requirements, this does not necessarily mean that it would not be able to settle all the claims in full, although it would likely result in some form of regulatory intervention.

6.10 Solvency UK has a risk-based approach to regulatory capital:

- The Solvency Capital Requirement (SCR) is a risk-based capital requirement intended to represent the amount of capital (i.e. excess assets) that an insurer needs to hold to ensure that it will remain solvent in one year’s time with a probability of at least 99.5%. Insurers must ensure that they have sufficient capital resources (i.e. eligible own funds) to cover the SCR, although in practice the regulators expect insurers to hold a margin above the SCR.
- Insurers may calculate their SCR using the Standard Formula, a prescribed approach which uses stresses and factors in order to calculate the SCR. Alternatively, subject to regulatory approval and meeting a number of prescribed Solvency UK standards, they can calculate the SCR using an Internal Model which is the insurer’s own stochastic capital model which is calibrated by the insurer.
- In addition to the SCR, there is a second regulatory capital requirement known as the Minimum Capital Requirement (“MCR”) which defines the threshold at which supervisory intervention becomes most severe and serves as a minimum level of capital that insurers are required to hold to ensure the ongoing stability and solvency of their operations. It is intended to represent the amount of capital that an insurer needs to hold to ensure that it will remain solvent in one year’s time with a probability of at least 85%. The MCR is subject to a minimum floor, the Absolute Minimum Capital Requirement (“AMCR”), which is £3.5m.
- In case an insurer fails to meet its capital requirements, the PRA may impose enhanced oversight, requiring firms to submit recovery plans outlining steps to restore solvency levels. In addition, the PRA may also impose restrictions on dividend payments, limitations on risk-taking activities, or require capital injections. It may also mandate closer monitoring, stress testing, and stricter governance to ensure the insurer’s compliance and financial recovery. The PRA can ultimately decide to close the insurer if the insurer is unable to deliver on recovery plans. These regulatory interventions aim to safeguard policyholders and maintain confidence in the insurance sector. These interventions start when the SCR is breached but become more severe if the MCR is breached.

Pillar 2

- 6.11 Pillar 2 centres on the qualitative aspects of insurance regulation. Insurers are required to put in place effective systems of risk management and governance, including risk management policies, capital management policies and risk appetite statements, to ensure that robust processes are in place to identify, evaluate, monitor and address risks.
- 6.12 Insurers are also required to conduct an ORSA on at least an annual basis or whenever there is a material change to the insurer's risk profile. The ORSA includes an assessment of the insurer's current and future risk profile and the level of capital the insurer expects to require over the medium term (typically the next three to five years is considered).

Pillar 3

- 6.13 Pillar 3 concerns disclosure and reporting requirements which are designed to ensure that the PRA has the information it needs for the purposes of supervision and to aid market discipline and transparency within the insurance industry.
- 6.14 Insurers are required to provide the PRA with financial and other quantitative information on a quarterly basis in a standardised reporting format called Insurance Reporting Templates ("IRTs"). In addition, each insurer is required to publish an annual SFCR which provides detailed information about its solvency position as well as its risk profile and governance arrangements. The SFCR includes a subset of the IRTs, some of which are subject to external audit.

Model Change

- 6.15 Insurers which use an Internal Model to calculate their SCRs and wish to make material changes to those models must first obtain the approval of the PRA. Such changes are known as Major Model Changes ("MMC"). The MMC process is required both when a single model change would result in a material difference, or when an accumulation of minor changes would. The quantitative and qualitative indicators for determining whether a change or set of changes constitutes an MMC must be set by the insurers, but must be justified to the PRA. An MMC approval is also required when the scope of an Internal Model is extended in certain ways.
- 6.16 In order to obtain the PRA's approval for an MMC, it is necessary for an insurer to get the Board's approval, have an independent party validate the change and provide detailed documentation on the nature, impact and governance of the change.
- 6.17 I discuss the MMC in more detail in paragraphs 8.24 to 8.40.

Statutory reporting for UK insurers

- 6.18 Statutory reporting by insurers in the UK may be performed on a Generally Accepted Accounting Practice in the UK ("UK GAAP") basis or an International Financial Reporting Standard ("IFRS") basis. Below I provide introductions to these bases which are not exhaustive, but are intended to introduce some of the concepts I refer to later in the report.

IFRS 17

- 6.19 IFRS 17 is the international accounting standard specific to insurance contracts. UK insurers may choose to or may be required to report on this basis. The goal of IFRS 17 is for financial information to provide useful insight into the features specific to insurance contracts, such as the variability of cashflows over long periods.

- 6.20 IFRS 17 separates out non-insurance components from insurance contracts (such as embedded derivatives), then separates groups of contracts by term, complexity and profitability and applies appropriate rules to each group. For each group, contracts are measured at a risk-adjusted present value of their future cashflows and a contractual service margin to represent the unearned profit in the contract. Profit is then recognised over the period for which the insurer provides contractual services, or immediately if loss-making.

UK GAAP

- 6.21 UK GAAP is a collection of accounting standards that is mandatory for businesses in the UK which do not use IFRS. The standards are tiered so that the complexity of the requirements is proportionate to the size, type, and group-membership status of the entity.
- 6.22 UK GAAP includes requirements for valuation methods, production and presentation of financial statements, accounting treatment of types of assets and liabilities. It is different in many respects from IFRS, not requiring a contractual service margin or risk adjustment, having simpler disclosure requirements, and being overall simpler to deploy. There are also many different approaches to accounting treatment of accounting items; as an example, UK GAAP amortises goodwill over its useful life, rather than the IFRS approach of testing the value of the goodwill.

Other insurance regulations

Capital Extraction

- 6.23 Insurers that are not in run-off are able to extract capital from the business without a prior no-further-questions outcome from the PRA, except where a proposed dividend would take the insurer close to its risk appetite. However, insurers that are in run-off require a no-further-questions outcome from the PRA to extract capital from the business, including paying dividends to parent companies. The reason for this is because capital extractions for insurers undergoing run-off inevitably weaken the level of protection available to their policyholders and, compared to insurers writing live business, run-off insurers tend to have more limited access to further capital and fewer management actions available to them to restore capital levels if the need arises.
- 6.24 The PRA expects insurers to maintain an adequate level of capital above the SCR before and after the extraction of capital. In particular, the PRA expects run-off insurers to demonstrate that they will maintain a sufficient level of capital after the extraction of capital to ensure that they can run-off the business in an orderly fashion, including under adverse conditions.

Policyholder protection

Security under wind up

- 6.25 The winding up of an insurance undertaking is governed by the Insurers (Reorganisation and Winding Up) Regulations 2004 in the UK. Under these regulations, direct insurance claims take precedence over other claims on the insurance undertaking with the exception of certain preferential claims (for example, claims by employees, rights in rem etc) in the event that an insurer is wound up. However, reinsurance claims rank equally with all other unsecured/non-preferential creditors.

Financial Services Compensation Scheme

- 6.26 The Financial Services Compensation Scheme (FSCS) is the compensation fund of last resort for customers of authorised financial services firms. It is a statutory scheme funded by levies on firms

authorised by the PRA and the FCA. It provides compensation to individual holders of policies issued by UK insurers in the UK or another EEA state who are eligible for compensation under the FSCS in the event of an insurer's default.

- 6.27 Most private policyholders, small businesses and charities are eligible for protection from the FSCS, in the event that an insurer is unable to meet its liabilities. The FSCS will pay 100% of any claim incurred for compulsory insurance (for example, motor third party liability insurance) and 90% of the claim incurred for non-compulsory insurance, without any limit on the amount payable. No protection is available for goods in transit, marine, aviation and credit insurance and contracts of reinsurance are also not protected.
- 6.28 I discuss access to the FSCS in paragraphs 9.25, 9.36, 9.49, 9.63 and 9.70.

Financial Ombudsman Service

- 6.29 The Financial Ombudsman Service ("FOS") was set up as an independent public body. Its job is to resolve individual disputes between consumers and financial services businesses. In order to access the FOS, it is necessary for the insurance policy to have been administered from within the UK.
- 6.30 Eligible claimants are defined as:
- Consumers, which for these purposes means natural persons acting for purposes outside their trade, business or profession
 - Micro-enterprises, which means any enterprise (being a person, irrespective of legal form, engaged in an economic activity) which employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million
 - Charities which have an annual income of less than £1 million
 - Trustees of a trust which has a net asset value of less than £1 million

Prudential regulation for Irish insurers

- 6.31 Irish insurers are regulated by the CBI. This includes AZ Re, as discussed in section 1.
- 6.32 They are subject to Solvency II which aimed to harmonise insurance regulation across the EU. This has many of the same features as Solvency UK, and as discussed in paragraph 6.4, UK insurers were subject to Solvency II until changes were made following the UK's withdrawal from the EU.
- 6.33 In particular, the Pillar 1, 2 and 3 requirements are largely the same between Solvency II and Solvency UK, with some differences in specific calculations or implementations.

7 Claims Reserves

- 7.1 In this section, I discuss the claims reserve strength of the Existing Portfolio and each of the Transferring Portfolios. In doing so, I have considered:
- The governance processes relating to the claims reserves of each of the Companies
 - The undiscounted actuarial best estimate claims reserves for the Existing Portfolio and for each of the Transferring Portfolios
 - The adjustments applied to the undiscounted claims reserves to determine the claims reserves under IFRS 17 for the Existing Portfolio and the Transferring LVIC, HICO and TIL Portfolios
 - The UK GAAP claims reserves for the Transferring FIL Portfolio – UK GAAP being used instead of IFRS 17 for FIL – which are equal to the undiscounted actuarial best estimate claims reserves plus a management margin, and the Companies' translation of these UK GAAP reserves onto an IFRS 17 basis
 - The adjustments applied to the undiscounted claims reserves to determine the Solvency UK Technical Provisions for the Existing Portfolio and each of the Transferring Portfolios.
- 7.2 For my consideration of governance, I have reviewed reserving process sign-off documentation and the latest Actuarial Function report and spoken to the individuals responsible for reserving.
- 7.3 For my consideration of the reserving results, I have reviewed the most recent available actuarial reserve reviews, though not their detailed workings, – on the undiscounted claims reserves and the adjustments made for IFRS 17 and Solvency UK – by each of the Companies. For my Supplementary Report, I will consider claims movements since these reserve reviews and any further actuarial reserve reviews which become available following the completion of this report.

Conclusion

- 7.4 My view is that the methodology and assumptions used to calculate the IFRS 17 (for AZI, LVIC, HICO & TIL) and UK GAAP (for FIL) reserves, and the Solvency UK Technical Provisions for each of the Companies, appear to be appropriate and robust, for the following reasons:
- Based on my experience and my knowledge of market practice, the methodology and assumptions used by the Companies appear reasonable
 - Based on walkthroughs with members of the team responsible for the respective calculations, the processes followed in calculating undiscounted reserves, IFRS 17 reserves and Solvency UK Technical Provisions, are robust and in line with market practice.
 - There are sufficiently experienced individuals conducting the analyses
 - There are several layers of review performed, giving the opportunity for a number of people to challenge the analysis and results
 - The reserving methodology and assumptions are subject to external audit, internal review and ad hoc external reviews by other third parties, and there are no outstanding findings from these
- 7.5 I have also performed a reasonableness check on the IFRS 17 reserves and Solvency UK Technical Provisions results for each of the Companies (including the translation of FIL reserves from UK GAAP to IFRS 17), and I have not observed any unexpected features of these results which the Companies have not been able to explain to my satisfaction.
- 7.6 It follows that I believe the IFRS 17 and UK GAAP reserves and Solvency UK Technical Provisions have been calculated in an appropriate way and appear to be reasonable.
- 7.7 I further conclude that the planned changes to the reserving processes, as discussed in paragraphs 7.32 to 7.33, 7.47 to 7.49 and 7.61 to 7.67, both before and following the Effective Date, appear reasonable and I have no reason to believe at this stage that they would lead to a material change in the

appropriateness of the reserves of each of the Companies. Moreover, where these changes are planned regardless of whether the Schemes are effected or not, which applies to many of the changes, their potential impact should not have a bearing on whether or not the Schemes should proceed.

Governance Process

- 7.8 The reserving governance process for each of the Companies is largely aligned, and I have noted below any differences in the processes which I consider relevant to the Schemes.
- 7.9 Reserving for AZI, LVIC, HICO and TIL, and the IFRS 17 and Solvency UK adjustments, are performed by the same team for all of these entities, using similar processes. The reserving processes are then performed by different sub-teams within this team depending on the type of business being reserved for. Reserving and Solvency UK adjustments are performed by a separate sub-team for FIL, using separate processes.
- 7.10 The reserving team undertakes a full reserving process quarterly with results reported upwards to AZH's shareholders, with actual versus expected reviews of the reserves carried out on a monthly basis.
- 7.11 I understand from the Companies that they seek input from many areas of the business throughout the reserving process including 'Smart Circles', in which experts from the claims, underwriting and pricing teams discuss key assumptions with the reserving team such as inflation and key changes such as to pricing or claims patterns.
- 7.12 The undiscounted reserves are subject to the following review:
- A doer, reviewer and senior reviewer structure within each sub-team
 - Review by the Chief Actuary
 - Briefing sessions with the managing directors of each of the Companies
 - Review by its Reserving Committee, Financial Results Forum and Financial Reporting and Disclosure Committee.
- 7.13 The IFRS 17 reserves and Solvency UK Technical Provisions are in turn subject to similar layers of review, including three committees and forums in addition to those named above, before being reported to stakeholders and shareholders.

Audits and independent reviews of the reserves and reserving processes

External audit

- 7.14 One external auditor reviews the full reserving process for AZI, LVIC, HICO and TIL; a different auditor reviews FIL.
- AZI, LVIC, HICO, TIL**
- 7.15 The undiscounted reserves for AZI, LVIC, HICO and TIL are reviewed by their external auditor once a year. The external audit review comprises of independent projections, methodology and assumptions reviews and reviews of key indicators.
- 7.16 The IFRS 17 reserve methodology and results for AZI, LVIC, HICO and TIL are reviewed by their external auditor annually. The IFRS 17 Allianz SE Group approved reserving model was reviewed at its implementation for AZI and TIL in 2022, but is not included in the annual audit. In 2024, LVIC and HICO migrated to this model and the controls, processes, inputs and outputs of this migration were externally audited.

- 7.17 The Solvency UK Technical Provisions are reviewed by the external auditor annually, not including the risk margin for AZI since this is based on the AZI's Internal Model. TIL's Technical Provisions are not included in the external audit because of the size of TIL being below the external audit threshold.
- 7.18 There were no outstanding material issues identified by the auditor in the most recent audit as at 31 December 2024.

FIL

- 7.19 The most recent completed external audit, as at September 2024, focused on the valuation of the IBNR claim reserves, the valuation of reported claim estimates and the potential for management override of controls. The audit reported one outstanding actuarial control deficiency around potential diversification benefit being embedded in the aggregation of subset accounts into the main book, leading to a recommendation to continue to monitor the subsidence book of business in isolation from the main book. I understand from FIL that, since June 2025, FIL has been continuing to monitor this area as part of business-as-usual processes. There are therefore no outstanding material issues that were identified by the auditor in the most recent audit.

External reserve reviews by other third parties

- 7.20 The Allianz SE Group can also order the Companies to seek ad-hoc reviews by external third parties if it has concerns. This included a recent review of the Companies' reserve strength that was performed by a third-party actuarial consultancy which found that the Companies were holding adequate claims reserves.

Internal review

- 7.21 Internal control checklists are completed during the review processes described above. These are subject to separate, independent internal audits and are monitored by an Allianz UK Group risk team who report to the Financial Reporting and Disclosure Committee.
- 7.22 There are also internal audits of the reserving process and governance every three years. The most recent of these was conducted in 2023 for the reserving of AZP (as defined below). All findings from previous internal audit reviews have all been addressed and closed.
- 7.23 The Allianz SE Group also performs actuarial reviews at least every three years.

Undiscounted Claims Reserves

Methodology

- 7.24 The claims reserving calculations are performed at a line of business ("LoB") level, by different individuals for each group of LoBs. The LoB groups span across multiple entities, although each LoB within a group is in respect of one entity. The LoB groups are Motor, Property (including Legal), Liability, Specialty, and Other (which covers PPO, Assistance, Travel Medical Expenses and various run-off LoBs). This approach allows the individuals to be responsible for multiple LoBs with similar risk characteristics irrespective of legal entity. Following the Schemes, I understand from AZI that this approach will be maintained, except that all LoB groups will sit under one entity.
- 7.25 In addition, certain of these individuals are responsible for each of the operating units: Personal Lines ("AZP"); Commercial Lines ("AZC"); and Specialty Lines ("AZS"). These individuals are responsible for representing aggregate AZC, AZP and AZS respectively at forums and committees.
- 7.26 The undiscounted reserves are calculated using standard actuarial methods, with the methods employed as appropriate for the different LoBs depending on the data available. These methods include:

- Triangle based methods based on paid and incurred claims
 - Exposure based methods such as burning cost or expected loss ratio
 - Combinations of the triangle-based methods and exposure-based methods, such as the Bornhuetter-Ferguson method
 - Frequency-severity methods
 - Projecting future claim notifications
 - Overlays to account for exceptional circumstances, such as surge years (meaning years in which environmental conditions make subsidence events more likely)
 - Cashflow modelling for PPOs.
- 7.27 Past inflation is allowed for by on-levelling data from previous years. Future inflation is allowed for in AZC by applying inflation assumptions to case estimates and employing an excess inflation reserve to deal with periods of high inflation; and in AZP by already including inflation assumptions in case estimates using a dynamic factor model on the claim numbers,
- 7.28 For each LoB, the analysis is conducted at a more granular level. In most cases losses are segmented between attritional, large and catastrophe. There are some exceptions for certain classes where there are segmentations between types of peril where it is appropriate to do so.
- 7.29 Various checks are carried out at each stage of the process, feeding into the governance process described above. These include checks performed by the teams providing the data, automatic checks performed by the reserving software, additional checks performed by the reserving team and any further checks prescribed by the internal controls checklist. Diagnostic checks, including a comparison of actual with expected figures, are carried out by the reserving team.
- 7.30 Reinsurance recoveries are estimated for each LoB using a number of commonly used approaches depending on the relevant details of the class and the data available.
- 7.31 Based on my review of documentation provided to me by the Companies, walkthroughs held with members of the teams who carry out the reserving process and my experience of market practice, I am comfortable that the approach is appropriate, robust and in line with processes regularly used elsewhere.

Planned changes to methodology

- 7.32 I understand from the Companies that part of the ongoing change programmes, discussed in section 5.90 and further in section 11, will include a transformation of the reserving process. The intention of this is to implement a more consistent approach to reserving across the different LoB groups, which will allow for a more efficient way of working, and more consistency in methodology and setting of assumptions, where appropriate. The vast majority of this implementation will happen regardless of whether the Schemes become effective. Assuming the Schemes do become effective, then AZI has informed me that it may look to merge similar LoBs which currently sit under separate legal entities in order to further improve efficiency in the reserving process.
- 7.33 Based on the discussions I have held, I do not believe there will be any changes to the reserving results arising from the reserving transformation that will be material. However, as noted the majority of changes planned are not as a result of, dependent on, or in anticipation of the Schemes, and therefore should not have a bearing on whether or not the Schemes should proceed. I will provide an update on the status of the change programmes and any impact they have on reserves in my Supplementary Report.

Results

- 7.34 The table below presents the undiscounted claims reserves for each of the Companies as at 30 September 2025, by LoB group, on gross of reinsurance and net of reinsurance bases, and a projection of the undiscounted reserves of AZI following the Schemes as if the Schemes had been effected at 30 September 2025. Note that the AZI following the Schemes figures presented here are the sum of the pre-Schemes reserves of the Companies. For the avoidance of doubt, the reserves of AZI below do not include those for TIL, its subsidiary, nor do the reserves of LVIC include those for HICO.

Table 7.1: Undiscounted claims reserves for AZI, LVIC, HICO, FIL and TIL as at 30 September 2025

£m	AZI	LVIC	HICO	FIL	TIL	AZI post-Schemes
Gross of reinsurance						
Motor	1,126.3	1,525.5	670.9	0.0	7.8	3,330.5
Property	306.3	213.6	52.0	0.0	0.0	571.8
Liability	591.9	5.1	0.0	4.8	0.0	601.8
Other*	113.9	11.5	1.2	38.5	0.0	165.1
Small Medium Companies	148.7	0.0	0.0	0.0	0.0	148.7
Pet	72.0	0.0	0.0	0.0	0.0	72.0
Engineering	61.6	0.0	0.0	0.0	0.0	61.6
Legal Expenses	20.5	5.0	0.1	0.0	0.0	25.7
Total	2,441.3	1,760.7	724.2	43.3	7.8	4,977.3
Reinsurance Recoveries						
Motor	621.0	783.0	420.9	0.0	6.7	1,831.5
Property	208.1	87.5	22.2	0.0	0.0	317.7
Liability	245.3	2.3	0.0	4.8	0.0	252.3
Other*	68.6	4.6	0.5	38.5	0.0	112.3
Small Medium Companies	79.0	0.0	0.0	0.0	0.0	79.0
Pet	10.8	0.0	0.0	0.0	0.0	10.8
Engineering	24.2	0.0	0.0	0.0	0.0	24.2
Legal Expenses	8.1	2.0	0.1	0.0	0.0	10.2
Total	1,265.2	879.3	443.7	43.3	6.7	2,638.2
Net of reinsurance						
Motor	505.3	742.5	250.0	0.0	1.2	1,499.0
Property	98.2	126.1	29.8	0.0	0.0	254.1
Liability	346.6	2.8	0.0	0.0	0.0	349.4
Other*	45.2	6.9	0.7	0.0	0.0	52.9
Small Medium Companies	69.7	0.0	0.0	0.0	0.0	69.7
Pet	61.2	0.0	0.0	0.0	0.0	61.2
Engineering	37.4	0.0	0.0	0.0	0.0	37.4
Legal Expenses	12.5	3.0	0.0	0.0	0.0	15.5
Total	1,176.1	881.4	280.5	0.0	1.2	2,339.1

* The 'Other' category in this table includes the Home, Travel, Terrorism, Musical Instrument, Personal Accident, Financial, Marine, Road Rescue, and Landlord lines of business.

Observations

- 7.35 The most material classes overall are Motor, Property and Liability, which are largely commensurate with the size of these classes, based on gross earned premium, which I presented in tables 5.1 to 5.3.

- 7.36 The ceded reserves appear reasonable to me given the following observations:
- FIL cedes 100% of its gross reserves, leaving it with no net reserves on an undiscounted basis, as expected given the combination of 50% quota share cover and 50% loss portfolio transfer.
 - TIL cedes 85% of its gross reserves, corresponding to its excess of loss reinsurance with unlimited cover.
 - HICO cedes 100% of its Legal Expenses gross reserves, corresponding to its 100% quota share cover of this business.
 - For all other business of the Companies, around 40-60% of gross reserves are ceded, which appears reasonable to me, given the information on reinsurance cover I have reviewed.
- 7.37 There are no aspects of these reserves which appear to me to be unreasonable.

Conclusion

- 7.38 I am satisfied that the undiscounted reserves presented above are reasonable based on the following:
- Based on my experience and my knowledge of market practice, the methodology and assumptions used by the Companies appear reasonable
 - Based on walkthroughs with members of the team responsible for the respective calculations, the processes followed in calculating undiscounted reserves are robust and in line with market practice.
 - There are sufficiently experienced individuals conducting the analyses
 - There are several layers of review performed, giving the opportunity for a number of people to challenge the analysis and results
 - The reserving methodology and assumptions are subject to external audit, internal review and ad-hoc external reviews by other third parties, and there are no outstanding findings from these.

IFRS17 and UK GAAP Reserves

Methodology

AZI, LVIC, HICO, TIL

- 7.39 Once the undiscounted reserves results and cashflow patterns have been derived, and a suite of data checks completed, the IFRS 17 reserves for AZI, LVIC, HICO and TIL are calculated by:
- Estimating the Liability for Incurred Claims:
 - Calculating the cashflows
 - Discounting the cashflows
 - Calculating a risk adjustment
 - Estimating the Liability for Remaining Coverage:
 - For certain long-tailed contracts, applying a General Measurement Model:
 - Calculating the cashflows
 - Discounting the cashflows
 - Calculating a risk adjustment
 - Calculating a Contractual Service Margin

- For the majority of contracts, including long-tailed contracts where there is no material deviation from the General Measurement Model result, applying a simpler Premium Allocation Approach:
 - Using premiums received, rather than projected cashflows
 - Not calculating a risk adjustment or a Contractual Service Margin

7.40 The individuals responsible for reserving test the eligibility of contracts for the Premium Allocation Approach annually. This eligibility depends on the length of the contract (i.e. one year or shorter), and conformity with Allianz SE Group accepted thresholds for the difference between the LRC as calculated by each approach.

FIL

7.41 FIL's reserves are currently calculated on a UK GAAP basis as a continuation of practices prior to FIL's acquisition into the Allianz UK Group. The UK GAAP reserves for FIL are equal to the undiscounted reserves with a management margin applied.

7.42 For the purposes of comparison to the other Companies, these reserves have been translated to an IFRS 17 basis by the FIL reserving team, using the same methodology as described above for the other Companies, the results of which are shown in the following table.

Table 7.2: Comparison of FIL's reserves as at 30 September 2025 on UK GAAP and IFRS 17 bases

£m	UK GAAP	IFRS 17	Difference
Gross of Reinsurance	43.3	40.8	-2.5
Reinsurance Recoveries	43.3	40.8	-2.5
Net of reinsurance	-0	0	0

7.43 These figures have been calculated using the methodology already employed for calculating the IFRS 17 reserves of the other Transferors, as discussed above, the resultant IFRS 17 figures appear reasonable to me.

7.44 This change is purely presentational and does not change FIL's estimates of its claims, nor is its capital position, since this relies on Solvency UK Technical Provisions. As expected, the net reserves remain at 0, due to the combination of the 50% Loss Portfolio Transfer and 50% Whole Account Quota Share cover. Also, the difference in gross reserves is £2.5m which in the context of AZI's IFRS 17 reserves following the Schemes is around 0.05%.

7.45 Given that this translation does not affect capital, has a very small gross impact and no net impact, it is not material to my conclusions. Given also that it has been calculated using acceptable methods, and that the figures appear reasonable, I am satisfied that the translation is appropriate for the purposes of this report.

Conclusion

7.46 Based on my review of documentation describing the above approach, walkthroughs held with members of the teams who carry it out and my experience of market practice, I am satisfied that the approach to calculating IFRS 17 and UK GAAP reserves is appropriate, robust and in line with processes regularly used elsewhere. I am also satisfied that the translation of FIL's reserves to an IFRS 17 basis is appropriate for use in this report, as discussed above.

Planned changes to methodology

7.47 I understand from the Companies that there are plans for the calculation of FIL's reserves to be updated from UK GAAP to an IFRS 17 basis, with the risk adjustment to be based on Solvency UK Standard Formula outputs. This change will bring FIL in line with the other Transferors and therefore will make managing these entities together easier. This change is dependent on the Schemes being approved.

The impact of this change as if it were effected as at 30 September 2025 has been discussed in paragraphs 7.41 to 7.45, and I concluded that it appeared reasonable.

- 7.48 Currently, the IFRS17 risk adjustment figures for LVIC, HICO and TIL are calculated using outputs derived from the Solvency UK Standard Formula. If the Schemes become effective, this approach will be updated so that the risk adjustments for the business within LVIC, HICO and TIL will be based on outputs from AZI's post-Schemes Internal Model, consistent with the current approach for AZI. The same update will apply to reserving for the business within FIL once FIL's reserving has been updated from UK GAAP to IFRS 17. I believe this change to be reasonable because using an Internal Model will allow features of the Transferors to be reflected more accurately than is possible using the Standard Formula – and therefore I expect that the resultant risk adjustment will be a better reflection of the Transferors' risk.
- 7.49 There are no other planned changes to the IFRS 17 reserving methodology.

Results

- 7.50 I have included a table below showing the IFRS 17 reserves of the Companies as at 30 September 2025, and the reserves of AZI post-Schemes as if the Schemes had been effected at 30 September 2025. For the avoidance of doubt, the reserves of AZI below do not include those for TIL, its subsidiary, nor do the reserves of LVIC include those for HICO.

Table 7.3: IFRS 17 reserves for the Companies as at 30 September 2025

£m	AZI	LVIC	HICO	FIL	TIL	pre-Schemes Total	AZI post-Schemes
Gross of reinsurance	2,223.1	2,015.4	629.3	40.8	4.0	4,912.7	4,879.2
Reinsurance Recoveries	214.2	185.5	136.8	40.8	3.6	580.8	562.6
Net of reinsurance	2,009.0	1,829.9	492.6	0.0	0.5	4,331.9	4,316.6

Observations

- 7.51 The AZI post-Schemes reserves are equal to the sum of the reserves for the Companies on a pre-Schemes basis, but with adjustments that reflect the expected reduction in the risk adjustment due to calculating the risk adjustment for the Transferring Portfolios using the AZI post-Schemes Internal Model. The key changes are due to the Transferring Portfolios moving from a Standard Formula capital calculation to the AZI post-Schemes Internal Model, which results in:
- Increased diversification since the Internal Model lines of business and correlations between them are more granular than under the Standard Formula. For instance, some diversification between Retail Motor and Broker Motor, which is not captured in the Standard Formula
 - Reduced risk capital charges for Motor Third Party business which better reflect the risk profile of the business
- 7.52 These adjustments result in post-Schemes gross IFRS 17 reserves which are £33.5m (0.7%) lower and net IFRS 17 reserves which are £15.3m (0.4%) lower post-Schemes than the total reserves pre-Schemes. Therefore, the adjustments are not material in the context of the Schemes.
- 7.53 I am satisfied that these adjustments are reasonable as (a) the differences to AZI post-Schemes from the sum of the Companies pre-Schemes are small, and (b) as discussed in paragraph 7.48 above, I believe the risk adjustment calculated using Internal Model outputs will provide a more accurate reflection of the risks associated with the Transferring Portfolio.

Conclusion

- 7.54 Based on my reviews of the governance, audit results, methodology and assumptions, processes and results, I am satisfied that the IFRS 17 reserves presented above are reasonable.

Solvency UK Technical Provisions

Methodology

- 7.55 The claims provisions, premium provisions and risk margin – the sum of which makes the Solvency UK Technical Provisions – are calculated separately for each LoB, both gross and net of reinsurance recoveries. This is currently performed by separate sub-teams: one for all of AZI, LVIC, HICO and TIL, and one for FIL.

AZI, TIL, LVIC, HICO

- 7.56 Once the undiscounted claims reserves have been derived, the claims provisions are calculated by adjusting for the following:
- Additional expenses not already included in the undiscounted claims reserves
 - Events Not In Data (“ENID”s).
 - Future premiums that are not overdue
 - Reinsurer default risk (for net reserves only)
 - Discounting the future cashflows to present value
- 7.57 Using the unearned premium reserve as an exposure measure, the premium provisions are calculated by adjusting for the following:
- Mid-term adjustments/cancellations
 - Written but not incepted business
 - Assumptions for future loss ratios, expenses, profits and levies
 - ENIDs
 - Reinsurer default risk
 - Discounting the future cashflows to present value
- 7.58 The risk margin calculation involves calculating capital requirements for non-hedgeable risks from the AZI Internal Model for AZI, and from the Standard Formula calculations for LVIC, HICO and TIL, projecting capital requirements over the run of the liabilities, applying cost of capital and discounting in line with Solvency UK guidance.

FIL

- 7.59 The Solvency UK Technical Provisions calculations for FIL do not include premium provisions as FIL is in run-off. The process is otherwise similar to the process for LVIC and HICO, except that ENIDs are allowed for as a fixed margin of the UK GAAP reserves, set using expert judgement and signed-off by the Chief Actuary; and future expenses are allowed for using a fixed ratio of the future paid payment pattern.

Conclusion

- 7.60 Based on my review of documentation describing the above approach, walkthroughs held with members of the teams who carry it out and my experience of market practice, I am comfortable that the approach is appropriate, robust and in line with processes regularly used elsewhere.

Changes to methodology after Q3 2025

Change to treatment of Insurance Premium Tax payables as at Q4 2025

- 7.61 Insurance Premium Tax ("IPT") is collected by insurers from policyholders and subsequently passed on to the relevant tax authority. Where IPT has been collected but not yet passed on ("IPT Payables"), this is recorded as a liability on insurers' balance sheets.
- 7.62 I have been informed by the Companies that a methodology change has been introduced from Q4 2025 for AZI, LVIC and HICO in respect of the treatment of IPT Payables under Solvency UK (this does not affect FIL or TIL, which no longer write new business).
- 7.63 Up to and including Q3 2025, IPT Payables were presented as other liabilities on the Solvency UK balance sheet (i.e. not within the Solvency UK Technical Provisions). From Q4 2025 onwards, these balances will instead be included within the premium provisions component of the Solvency UK Technical Provisions.
- 7.64 This change results in a numerically significant increase in the reported Technical Provisions for AZI, LVIC and HICO. However, because the reclassification increases Technical Provisions by the same amount that it reduces other liabilities, there is no impact on total liabilities, and therefore no impact on Own Funds or the financial strength of these entities. It is purely a change to how the liabilities are classified on the Solvency UK balance sheet.
- 7.65 Given that the change has no impact on Own Funds or on any aspect of my assessment of policyholder security, I have not amended the analysis in this report, which is based on Q3 2025 figures. I will, however, discuss this further in my Supplementary Report, as the figures that I will use for that report will incorporate this methodology change.

Planned changes to Technical Provisions processes

- 7.66 I understand from the Companies that they plan, prior to the Effective Date, to transfer the reserving processes for each entity onto a central software solution, and that this is planned to go ahead whether or not the Schemes become effective. Following this and following the Effective Date, the processes for calculating Technical Provisions are to be made the same across all LoBs, but the methodology used will not change. Given that the methodology of the calculations will not change, I am satisfied that this change will not have an impact.

Post-Schemes Technical Provisions

- 7.67 Given the above, the AZI post-Schemes Best Estimate Technical Provisions are expected to be the same as the total of AZI's, LVIC's and FIL's Technical Provisions pre-Schemes (HICO's being included in LVIC as its subsidiary, and TIL's in AZI as its subsidiary). The Risk Margin is expected to be lower than the sum of the Companies' pre-Schemes Risk Margins. This is due to the Transferring Portfolios moving to the Internal Model (provided the major model change is approved) and to the combining of the Companies into one larger entity, both of which lead to a greater diversification benefit, which is what I would expect. I also do not believe this change will be material, as the total of the Risk Margins currently accounts for around 1% of total Solvency UK liabilities across the Companies and this is expected to reduce post-Schemes.

Results

7.68 The table below shows the Solvency UK Technical Provisions for the Companies pre-Schemes as at 30 September, and for AZI post-Schemes as at the same date, as if the Schemes had been effected on this date. The Technical Provisions are presented on a legal entity level, so the Technical Provisions for AZI include those for FIL, its subsidiary, and likewise the Technical Provisions for LVIC include those for HICO.

Table 7.4: Solvency UK Technical Provisions for the Companies as at 30 September 2025

£m	AZI	LVIC	HICO	FIL	TIL	pre-Schemes Total	AZI post-Schemes
Gross							
Claims Provisions	1,992.5	1,541.2	545.4	45.4	4.4	4,128.9	4,128.9
Premium Provisions	5.1	379.7	59.5	-	-	444.3	444.3
Total Best Estimate	1,997.6	1,920.9	604.9	45.4	4.4	4,573.1	4,573.1
Ceded							
Claims Provisions	985.7	716.6	296.8	47.6	3.7	2,050.5	2,050.5
Premium Provisions	256.7	280.8	33.6	-	-	571.2	571.2
Total Best Estimate	1,242.4	997.4	330.5	47.6	3.7	2,621.7	2,621.7
Net							
Claims Provisions	1,006.8	824.6	248.5	-2.2	0.6	2,078.4	2,078.4
Premium Provisions	-251.7	98.8	25.9	-	-	-126.9	-126.9
Total Best Estimate	755.2	923.4	274.4	-2.2	0.6	1,951.4	1,951.4
Risk Margin	38.1	29.2	8.7	0.1	0.0	76.1	59.5
Technical Provisions	793.3	952.6	283.1	-2.1	0.6	2,027.5	2,010.9

Observations

- 7.69 I note that AZI's pre-Schemes and post-Schemes net premium provisions are negative. This is partly due to the expected future premiums being high relative to the gross claims and expenses for some lines of business. In addition, AZI's Whole Account Quota Share cover reduces net claims but has no corresponding future reinsurance premium, since this has already been paid.
- 7.70 I also note that FIL's total net Technical Provisions are negative, which I understand from the Companies is partly because FIL is 100% reinsured, and partly because of a reporting lag of around a quarter for a large contract on a Funds Transferred Basis.
- 7.71 The projected AZI post-Schemes Technical Provisions have been calculated as the sum of the Companies' Technical Provisions pre-Schemes. The only adjustment to these calculations is in respect of the risk margin, which has been reduced by £16.5m from the pre-Schemes sum, reflecting the greater diversification in the larger post-Schemes business.
- 7.72 The observations above have been explained to my satisfaction, and I do not observe any other features of these results which do not seem reasonable to me. I have also reconciled these Technical Provisions with the Solvency II balance sheets provided by the Companies. Therefore, I believe they are reasonable.

Conclusion

- 7.73 I am satisfied that the Technical Provisions presented above are reasonable for the following reasons:
- Based on my experience and my knowledge of market practice, the methodology and assumptions used by the Companies appear reasonable
 - Based on walkthroughs with members of the team responsible for the respective calculations, the processes followed in calculating Solvency UK Technical Provisions, are robust and in line with market practice.
 - There are sufficiently experienced individuals conducting the analyses
 - There are several layers of review performed, giving the opportunity for a number of people to challenge the analysis and results
 - The reserving methodology and assumptions are subject to external audit, internal review and ad-hoc external reviews by other third parties, and there are no outstanding findings from these.

8 Capital Requirements

- 8.1 In considering the solvency position of each of the Companies, I have considered the following:
- The capital strategies of the Companies including their risk appetites and access to capital
 - The position of the Companies in respect of their regulatory capital requirements both before and after the Schemes
 - The latest Allianz UK Group ORSA report, which gives the Allianz UK Group's own view of each of the Companies' capital requirements, which may differ from regulatory capital requirements
 - My own stress testing of AZI's post-Schemes capital position to assess the likelihood of it not being able to meet its liabilities over the course of the run-off of its post-Schemes liabilities, and my own stress testing of each of the Companies' pre-Schemes capital positions for comparison
- 8.2 It should be noted that one of the key limitations of the SCR is that it only represents the amount of capital that a firm is required to hold over the next year. When considering policyholder security, it is also important to consider whether a firm will have enough assets to meet its liabilities over the course of the run-off of the business, or at least whether the risk of that not being the case is remote. This is of particular importance for FIL and TIL as both are in run-off and do not therefore have the option to maintain their capital position through the selling of new business.
- 8.3 As a result, whilst in this section I do consider the SCR for each firm and the coverage of its Own Funds above the SCR, I also conduct my own stress testing to assess the likelihood of each firm not being able to meet its liabilities over the course of the run-off of the liabilities both prior to and following the Schemes.

Capital strategy

Risk appetite

- 8.4 Each of the Companies (except for TIL, see paragraph 8.8) has a target "solvency coverage ratio" which represents the lowest solvency coverage ratio that they would hold to remain within their risk appetite. However, I have been informed by the Companies that, in practice, they seek to hold a buffer above the target ratio.
- 8.5 The target solvency coverage ratios for each entity are assessed annually, for their suitability and approved by the respective board. If the solvency coverage ratios for AZI, LVIC, HICO or FIL were to fall below their respective targets, action would be taken by the respective board to restore them to at least the target level.
- 8.6 The Allianz UK Group operates a "Combined Board" for AZH, AZI, LVIC, and HICO, while FIL has a separate Board (the "FIL Board") that is responsible solely for the oversight of external reporting of FIL. The Combined Board has established a target solvency coverage ratio of 130% for each of AZI, LVIC and HICO. This target is set by considering the solvency coverage ratio which would allow each entity to withstand between a 1-in-5-year and a 1-in-10-year loss event while maintaining a solvency coverage ratio above 100%. It is checked for reasonableness against the recent actual solvency coverage ratios and against the Allianz SE Group methodology.
- 8.7 The FIL Board has established a target solvency coverage ratio of 200% for FIL. This target was set as a matter of expert judgement and reflects the run-off nature and small size of FIL and, resulting from this, the relative vulnerability of its solvency coverage ratio to adverse events.
- 8.8 There is no target solvency coverage ratio set for TIL. This is because, due to its small size, TIL's SCR is below the Solvency UK AMCR of £3.5m, and therefore its capital requirements are set to that minimum floor of £3.5m. When the capital requirement is subject to that floor, I would normally expect a target to be set for the ratio of the capital requirement to Own Funds. While I do not think this is a material issue for TIL given that its solvency coverage ratio as at 30 September 2025 is 255%, I believe

it is a benefit of the Schemes for the Transferring TIL Policyholders in terms of risk management that they will be moving into an entity with a defined target solvency coverage ratio.

- 8.9 I understand from the Companies that the target solvency coverage ratio for AZI post-Schemes will be approved by the Allianz UK Group Board as part of the approval of the Allianz UK Group Risk Strategy and Appetite Policy in the fourth quarter of 2026, and it therefore cannot be confirmed yet. However, the Companies have informed me that the target is expected to be at least 130% given that this is the current target ratio for AZI, LVIC and HICO which make up the majority of the Transferring Portfolio. I have assumed a value of 130% for AZI's post Scheme target solvency coverage ratio and refer to this throughout this report as the "Assumed Target Ratio".

Access to capital

- 8.10 The Allianz UK Recovery and Resolution Plan sets out the options available to the Companies in the event that their solvency coverage ratios fall below their respective target levels. These include:
- Rebalancing capital between the Companies
 - An agreement to withhold the payment of any dividends to AZH
 - A capital injection from AZH
 - A capital injection from Allianz SE.
- 8.11 The plan also lists several recovery options which are not direct capital injections, such as alteration of reinsurance arrangements, investments, corporate plan, expenses and issuing of debt.
- 8.12 These options will remain open to AZI post-Schemes, with the exception of the option to rebalance capital between the Companies. I have been informed by AZI that the Schemes will not have an impact on the capacity or willingness of AZH and Allianz SE to inject capital.
- 8.13 The systems of governance of all of the Companies currently require that they may only issue dividends subject to receipt of correspondence from the PRA stating that it has no further questions. This will remain the case for AZI following the Schemes.
- 8.14 Based on the information available to me, I have no reason to expect that Allianz UK Group or Allianz SE Group would withhold support from FIL or TIL prior to the Schemes. However, FIL and TIL are small run off entities and are not central to the strategic priorities of the wider Allianz Group. In my experience, parental support within large insurance groups is typically primarily focused on major live insurers that are integral to the group's ongoing strategy rather than on small run off companies. In respect of ongoing group support, I consider it a benefit of the Schemes for the Transferring FIL Policyholders and the Transferring TIL Policyholders that they will transfer to the predominant live insurer within the Allianz UK Group, which is integral to the Group's ongoing strategy.

Solvent Exit Planning

- 8.15 The Companies have informed me that they are each in the process of creating papers covering the Solvent Exit requirements coming into force in July 2026. The Solvent Exit Analysis will not cover FIL or TIL as run-off entities are out of scope. Accordingly, the Transferring FIL Policyholders and the Transferring TIL Policyholders will, following the Schemes, be policyholders of an insurer that is within scope of Solvent Exit Planning. I consider this to be a benefit of the Schemes for the Transferring FIL Policyholders and the Transferring TIL Policyholders from a regulatory planning perspective.
- 8.16 I will revisit this topic in my Supplementary Report.

Regulatory capital requirements

- 8.17 AZI calculates its SCR using the Allianz UK Group Internal Model, which uses a blend of model components managed locally by Allianz UK's Risk Function and managed centrally by Allianz SE. AZI also maintains a Standard Formula view of its capital requirements for the purposes of model drift monitoring, regulatory submissions and comparison.
- 8.18 The SCRs for LVIC, HICO, FIL and TIL are calculated using the Standard Formula.
- 8.19 The following key risks are modelled within the Companies' calculations of their respective SCRs:
- **P/C Premium & Reserve / Underwriting risk** – the risk that premiums received for the business written in the following 12 months will not be sufficient to cover future claims and related costs arising from that business and the risk that reserves held are insufficient to meet future claims and related costs. This includes the risk that PPO payments are higher than expected due to increased longevity (AZI models this under Reserve Risk but the other companies model PPOs under longevity risk within the Standard Formula) and the risk that losses from catastrophe events differ from expectations
 - **Market risk** – the risk of adverse changes in net asset value as a result of movements in market risk variables such as interest rates, inflation rates, exchange rates, etc.
 - **Counterparty default / credit risk** – the risk of a reduction in net assets due to the credit quality downgrade of a counterparty, and the risk of a counterparty not fulfilling its contractual obligations
 - **Operational risk** – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events
 - **Business risk** – the risk that levels of new and renewal business are lower than expected and therefore fixed expenses are relatively greater as a proportion of premium than planned. AZI models this in its Internal Model. Business risk is not captured in the SCR calculations of the Transferors.

In respect of the Transferring LVIC and HICO Policyholders, who are exposed to ongoing new and renewal business risks, I consider it a benefit of the Schemes that they will transfer to an insurer that explicitly models and manages business risk within its capital framework.

In contrast, following the Schemes, the Transferring FIL and TIL Policyholders, will be insured by an entity that is exposed to business risk, whereas they are currently within entities in run-off. This indicates an adverse impact of the Schemes on these Transferring Policyholders. However, I do not consider this change to give rise to a material adverse impact because AZI explicitly models and capitalises business risk within its Internal Model and has materially stronger absolute capital resources.

- **Longevity risk** – the risk, for AZI only, that payments to the Allianz Retirement Death Benefits Fund are higher than expected due to increased longevity, which I note is currently negligible to AZI, owing to a pension fund buy-in in 2024. Also, the risk for all of the Companies that PPO payments are higher than expected due to increased longevity.

AZI's SCR calculation

Appropriateness of the Internal Model for AZI

- 8.20 The Allianz UK Board signs off on the appropriateness of the use of the Internal Model to calculate AZI's SCR and MCR annually, supported by an annual validation report and a recommendation from the Model Committee and Risk Committee. The annual validation report is produced by Allianz UK's Second Line Risk Function on behalf of the Allianz UK CRO; it reports the results of the Internal Model validation that is performed by the Allianz UK Second Line Risk Function and Allianz SE Group teams

including the Allianz SE Independent Validation Unit. The most recent review by the Allianz UK Board, dated March 2025, found that the Internal Model is 'Fully Appropriate' for use by AZI. I have considered the evidence contained in the most recent validation report (dated March 2025) in coming to my conclusions below.

- 8.21 I have considered the methodology employed for validating each risk in the list in paragraph 8.19. However I have not reviewed the detailed calculations or assumptions utilised to perform the validation testing. I considered this approach to be commensurate with my role on this transfer. Based on my extensive experience of Internal Model validation exercises, I consider the types and level of tests carried out to be satisfactory. This is consistent with the results of a 2024 internal audit of AZI's Internal Model validation process. Based on the validation results, I consider the approach used to perform the Internal Model calculations for AZI to be reasonable and proportionate to the scale and complexity of its operations.
- 8.22 As is to be expected, there are a number of limitations of the Internal Model that have been highlighted in the validation report. All but one of these limitations are of low materiality, with one medium materiality limitation identified relating to the allowance for expected profit which results in a 4% overstatement of AZI's SCR. Therefore, there is nothing in the validation report that leads me to consider that the SCR for AZI, as derived by the Internal Model, is materially understated.
- 8.23 I have reviewed the CVs of the individuals that are responsible for governing the Internal Model. Based on these CVs and my interactions with the individuals who run the model, I am satisfied that the capital teams at Allianz SE and the Allianz UK Group have the necessary experience and expertise to develop and maintain an Internal Model and for me to rely on their work. In addition, I have reviewed the CV of the person responsible for validation, Allianz UK's CRO. Based on that review, I am satisfied that they have the necessary experience and expertise to take responsibility for the validation of an Internal Model and for me to rely on their work.

Proposed changes to AZI's SCR calculation

- 8.24 Following the Schemes, AZI will continue to calculate its SCR using an Internal Model.
- 8.25 I understand from the Companies that the Internal Model methodology will not be changing as a direct result of the Schemes except for the inclusion of the Transferring Portfolios.
- 8.26 In addition, AZI is considering a change to allow for expected profit in the calculation of the SCR. This change is being considered regardless of whether the Schemes are approved.
- 8.27 Each of these changes will constitute an MMC (as defined in paragraphs 6.15 to 6.16) under AZI's model change policy. I discuss the MMC process and the specific changes below.

MMC to add Transferring Portfolios

- 8.28 I understand from the Companies that the number of modelled lines of business ("LoBs") will move from 21 to 29 and four existing LoBs will take on business from the Transferring Portfolios; the added and amended LoBs will be (re)calibrated, but no changes in methodology are required. The asset portfolio will grow, but there will be no new asset types, so no new methodology is required. Operational risk will be reassessed using a scenario analysis approach on the expanded exposure to operational risks, with no new methodology, simply an updated parameterisation.
- 8.29 The draft MMC in respect of this change was submitted by AZI to the PRA in September 2025, with the main submission submitted in March 2026. The PRA is legally required to provide its decision on an MMC within six months of the main submission, provided that the PRA deems the submission to be "complete". Therefore, based on the planned timetable, PRA permission (or otherwise) of the MMC will be provided prior to the Effective Date. I will consider this further in my Supplementary Report.
- 8.30 If the model change is permitted by the PRA in advance of the Effective Date, the updated Internal Model will be available to calculate the capital requirements for AZI (including the Transferring Portfolios) immediately following the Effective Date.

- 8.31 There exists the possibility that the PRA identifies potential issues or limitations with the proposed changes to the model and either requires Allianz UK to introduce safeguards to mitigate these issues (affecting some aspect of model use or introducing a capital add-on in the model calculations) or requires Allianz UK to reduce the scope of the model to exclude calculations for certain sub-risks or lines of business, and instead perform these parts of the SCR calculation using a Standard Formula approach.
- 8.32 I have reviewed a draft of Allianz UK's contingency plan covering these eventualities. The plan sets out the possibilities above and confirms that Allianz UK would engage with the PRA to address any concerns which arise. The plan confirms that the Schemes are intended to proceed whether or not such contingencies are required, and that the safeguards or reduction in scope would be integrated into the model so that the SCR calculations for AZI can be performed following the Effective Date. A further transitional plan would be developed to address the model deficiencies in question with the aim of restoring the model scope to cover the whole of AZI post-Schemes.
- 8.33 I consider the draft contingency plan to be reasonable, and I am satisfied that if the PRA does identify a limitation with the proposed model, Allianz UK will take action that will allow the Schemes to proceed without materially adversely impacting policyholders. In these circumstances, the imposition of a capital add-on or partial use of the Standard Formula could result in the SCR for AZI post-Schemes being higher than currently projected. I consider this to represent a potential adverse impact of the Schemes. However, given that AZI's post-Schemes solvency capital ratio is currently projected to be comfortably in excess of its Assumed Target Ratio, I consider it very unlikely that this would adversely affect the security of policyholders compared to a scenario in which no MMC contingency were required.

Potential MMC to include an allowance for expected profit

- 8.34 The Companies have informed me that AZI's Internal Model does not include an allowance for expected profit in the calculation of the SCR and that this is out of line with the approach typically taken by UK general insurance companies
- 8.35 AZI is therefore considering updating its methodology and this change would constitute another MMC. I understand from the Companies that that this change would be considered whether the Schemes were going ahead or not.
- 8.36 The Companies consider the current approach to overstate AZI's SCR, and would therefore expect this model change to lead to a reduction of AZI's SCR and a strengthening of AZI's coverage ratio both before and after the Schemes. This change was not included in the draft MMC application to the PRA but was included in the final submission package to the PRA in March 2026. I will provide an update on this in my Supplementary Report.
- 8.37 I consider this to represent a potential benefit in terms of AZI's solvency position. However, as this change would be considered irrespective of whether the Schemes proceed, I do not consider it to be a benefit arising from the Schemes, nor do I consider it to be material to my overall assessment of the Schemes or to policyholder security.

Appropriateness of AZI's SCR following the Schemes

- 8.38 As discussed in section 6, MMCs are subject to a rigorous review process, which includes review and validation within AZI, following which a submission is made to the PRA for approval. Until PRA approval is given, the updated model cannot be used to calculate AZI's capital requirements.
- 8.39 There are model governance standards at both an Allianz UK Group level and an Allianz SE Group level. Changes to the Internal Model used for AZI will be subject to these standards and will, depending on how the changes are classified, be subject to approval by the Model Committee, the Risk Committee and/or the Combined Board.
- 8.40 Having reviewed the model governance standards and considered the levels of oversight to which the model change will be subject, I am comfortable at this stage that the AZI Internal Model following the Schemes will be appropriate for calculation of AZI's expanded post-Schemes regulatory capital

requirements. I will provide an update on the status and permission of the model change in my Supplementary Report.

LVIC, HICO, FIL and TIL's SCR calculations

- 8.41 LVIC, HICO, FIL and TIL calculate their respective SCRs using the Standard Formula. Allianz UK's assessment of Standard Formula appropriateness for each of LVIC, HICO, FIL and TIL is set out in the Allianz UK Group ORSA.
- 8.42 Up to 2023, the Allianz UK Internal Model was adapted to the risk profiles of LVIC and HICO to provide proxy Unapproved Capital Model results for each of LVIC and HICO – I note that these results are from capital models not approved by the PRA and are intended purely as an indicative guide for comparing the Standard Formula results. The assessment of Standard Formula appropriateness was then based on a qualitative and quantitative comparison of the Standard Formula results to these Unapproved Capital Model results. In preparation for the Schemes, the Allianz UK Internal Model has been adapted, and the Unapproved Capital Models have been decommissioned. Therefore, the most recent assessments of Standard Formula appropriateness for LVIC and HICO were based on qualitative reasoning and historical quantitative comparisons, which I comment on below.
- 8.43 Analogous comparisons to Unapproved Capital Model results were not performed for FIL and TIL due to their low materiality, so the assessments of Standard Formula appropriateness are purely qualitative. I also comment on these below.

LVIC and HICO

- 8.44 The year-end 2024 ORSA notes several key limitations in the use of the Standard Formula for modelling LVIC's and HICO's risk profiles but goes on to argue that these limitations have historically offset and resulted in a Standard Formula SCR which closely matches the Unapproved Capital Model results.
- 8.45 The last comparison of Standard Formula to Unapproved Capital Model results was performed as at 30 September 2023:
- For LVIC, the Unapproved Capital Model produced an SCR of £388m, while the Standard Formula SCR was £411m, which is a 6% difference. I understand from the Companies that the Standard Formula SCR is on a participation basis (HICO is treated as a participation on LVIC's balance sheet, under investments) whereas the Unapproved Capital Model was on a look-through basis (the individual assets and liabilities of HICO were explicitly included on LVIC's balance sheet).
 - For HICO, the Unapproved Capital Model produced an SCR of £144m, while the Standard Formula SCR was £132m, which is an 8% difference.
- 8.46 This Unapproved Capital Model use was subject to various limitations, which were accepted due to the usage of the modelling for monitoring rather than regulatory or reporting purposes. Considering these limitations, I am satisfied that the relative closeness of the 2023 comparative SCRs supports the conclusion that the Standard Formula SCRs for LVIC and HICO were appropriate at that time.
- 8.47 Given there have been no material changes to LVIC's or HICO's risk profiles since the last assessment, and that the Standard Formula view and Unapproved Capital Model views have been shown to match relatively closely historically, I am satisfied that the Standard Formula remains appropriate for the calculation of LVIC and HICO's regulatory capital requirements. However, I note that calculating their capital requirements using an Internal Model, as will be the case following the Schemes, will be more suitable to their level of complexity, will more closely reflect the risks relating to the LVIC and HICO businesses, and will likely avoid most of the current limitations arising from the use of the Standard Formula. I consider this to be a benefit of the Schemes for the Transferring LVIC and HICO Policyholders.

FIL

- 8.48 It was noted in the 2023 FIL ORSA that the Standard Formula was potentially understating FIL's reserve risk. In the 2024 ORSA, FIL makes the argument that this issue has been mitigated as the Standard Formula calculation of FIL's SCR now takes into account the 50% loss portfolio transfer reinsurance cover with AZ Re and the SCR is now driven by Market, Credit, and Operational risk rather than by Reserve Risk. The ORSA argues that these risks are aligned to the residual risks within FIL, as indicated by the stress and scenario testing that FIL has performed in its ORSA.
- 8.49 FIL's SCR was £2.7m at 30 September 2025 before the application of the £3.5m MCR floor, therefore the floor is applied making the SCR £3.5m. I understand from FIL that, because of its low materiality, a Unapproved Capital Model run was not performed for it, but given the risk drivers and the fact that FIL is in run-off, I do not expect another assessment of the SCR would give a very different result. Therefore, and because the regulatory capital requirement on FIL is its MCR, the appropriateness of the Standard Formula for FIL is not relevant to the question of FIL's regulatory capital position.
- 8.50 Nevertheless, following the Schemes, the capital requirements in respect of FIL's business will be determined within AZI's Internal Model, which will more closely reflect the underlying risks of the FIL portfolio than the MCR-driven Standard Formula outcome applicable to FIL on a standalone basis. Prior to the Schemes, FIL's regulatory capital requirement is constrained by the MCR floor, which represents a minimum regulatory requirement and is not sensitive to the detailed risk characteristics of the portfolio. In addition, FIL is in run-off and its risk profile is therefore static and expected to reduce over time.
- 8.51 As a result, while the inclusion of FIL's business within AZI's Internal Model post-Schemes allows the risks of the portfolio to be more appropriately identified and managed, this does not give rise to a meaningful change in policyholder outcomes. I therefore consider this to be a benefit of the Schemes for the Transferring FIL Policyholders, but not one that is material to policyholder security or to my overall assessment of the Schemes.

TIL

- 8.52 The SCR for TIL as at 30 June 2025 was £1.1m before the application of the £3.5m MCR floor, therefore the floor is applied making the SCR £3.5m. Even if a Unapproved Capital Model were to give a quite different SCR, it is highly unlikely that this would exceed the MCR given the size of the shortfall. Therefore, I am comfortable that the regulatory capital requirement on TIL is its MCR, and therefore the appropriateness of the Standard Formula for TIL is not relevant to the question of TIL's regulatory capital position.
- 8.53 Nevertheless, following the Schemes, the capital requirements in respect of TIL's business will be determined within AZI's Internal Model, which will more closely reflect the underlying risks of the TIL portfolio than the MCR-driven Standard Formula outcome applicable to TIL on a standalone basis. Prior to the Schemes, TIL's regulatory capital requirement is constrained by the MCR floor, which represents a minimum regulatory requirement and is not sensitive to the detailed risk characteristics of the portfolio. In addition, TIL is in run-off and its risk profile is therefore static and expected to reduce over time.
- 8.54 As a result, the inclusion of TIL's business within AZI's Internal Model post-Schemes allows the risks of the portfolio to be more appropriately identified and managed. I therefore consider this to be a benefit of the Schemes for the Transferring TIL Policyholders.

Impact of the Schemes on capital position

Solvency UK balance sheets

- 8.55 In this section, I compare the Solvency UK balance sheets for each of the Companies with the post-Schemes balance sheet for AZI as at 30 September 2025, assuming the Schemes had been effected on that date. Before presenting these comparisons, I set out how the pre-Schemes balance

sheets for AZI and FIL were derived, and how the post-Schemes balance sheet for AZI was constructed.

- 8.56 I have considered the approach used by the Companies to calculate the Solvency UK balance sheets, including the Technical Provisions and risk margin, and consider the approach to be in line with that generally used in the market. I have also reviewed the approach taken by AZI to project its post-Schemes balance sheet, through discussions with the team performing the projections, and believe the approach taken to be reasonable. I also did not observe any results above that are outside my expectations and which could not be adequately explained by the Companies. In addition I have confirmed that the results are consistent with the other figures in this report. It follows that I believe the results presented below to be reasonable.

Construction of pre- and post-Schemes balance sheets

AZI pre-Schemes balance sheet

8.57 The table below sets out the calculation of AZI’s financial position immediately prior to the Schemes that I have used for my analysis.

Table 8.1: Derivation of AZI pre-Schemes balance sheet at 30 September 2025

	Actual	Adjustments	Adjusted AZI
Assets:			
Investments	2,876.6	-105.0	2,771.6
Cash	17.3	-	17.3
Reinsurers’ share of Technical Provisions	1,242.4	-	1,242.4
Insurance and other receivables	119.8	-	119.8
Other assets	48.1	-	48.1
Total assets	4,304.2	-105.0	4,199.2
Liabilities:			
Gross best estimate Technical Provisions	1,997.6	-	1,997.6
Risk margin	38.1	-	38.1
Other liabilities	1,497.0	-	1,497.0
Total liabilities	3,532.7	-	3,532.7
Own Funds:			
Net assets	771.5	-105.0	666.5
Ancillary Own Funds	-	-	-
Total Eligible Own Funds	771.5	-105.0	666.5
Coverage Ratios:			
Solvency Capital Requirement (SCR)	474.1	-	474.1
Solvency coverage	297.5	-105.0	192.5
Solvency coverage ratio	163%	-22%	141%

8.58 As I discussed in paragraph 4.39, for the purposes of my analysis, I have taken AZI’s Q3 2025 financial position and adjusted it to reflect the impact of the £105m dividend paid in Q4 2025. This produces an adjusted Q3 position that, in my view, better reflects AZI’s foreseeable financial position immediately prior to the Schemes. The SCR has not been recalculated to reflect this adjustment. I consider this appropriate because the impact on the SCR would be small, any recalculated SCR would be lower (and therefore the resulting 141% solvency ratio presented here is conservative), and the effort required to recalculate the SCR would be disproportionate to the limited additional precision gained.

8.59 The pre-Schemes solvency coverage ratio for AZI that I have used in my analysis (141%) is lower than those that have been reported by AZI over the past few years (generally between 150-170%). This should not be interpreted as meaning that AZI has experienced a material reduction in its financial strength – it represents a temporary point-in-time position and is a direct consequence of the adjustment that I have made for the dividend paid out in Q4 2025. Prior to the adjustment I made for the dividend,

AZI's solvency ratio at Q3 2025 was 163% which is not out of line with AZI's reported solvency ratios over the past few years.

FIL's pre-Schemes balance sheet

8.60 The table below sets out the calculation of FIL's financial position immediately prior to the Schemes that I have used for my analysis.

Table 8.2: Derivation of FIL's pre-Schemes balance sheet at 30 September 2025

	Actual	Adjustments	Adjusted AZI
Assets:			
Investments	15.2	-	15.2
Cash	0.4	-	0.4
Reinsurers' share of Technical Provisions	47.6	-	47.6
Insurance and other receivables	7.9	-	7.9
Other assets	27.9	-20.0	7.9
Total assets	99.1	-20.0	79.1
Liabilities:			
Gross best estimate Technical Provisions	45.4	-	45.4
Risk margin	0.1	-	0.1
Other liabilities	15.7	-	15.7
Total liabilities	61.2	-	61.2
Own Funds:			
Net assets	37.9	-20.0	17.9
Ancillary Own Funds	-4.4	-	-4.4
Total Eligible Own Funds	33.5	-20.0	13.5
Coverage Ratios:			
Solvency Capital Requirement (SCR)	3.5	-	3.5
Solvency coverage	30.0	-20.0	10.0
Solvency coverage ratio	958%	-571%	387%

8.61 As I discussed in paragraph 4.39, FIL paid a £20m dividend at the end of 2025. For the purposes of my analysis, the FIL balance sheet has been adjusted to reflect the position had this dividend been paid at 30 September 2025. I consider that the 387% solvency ratio more appropriately reflects FIL's financial position immediately prior to the Schemes than the 958% solvency ratio it actually held at Q3 2025.

AZI post-Schemes balance sheet

8.62 The post-Schemes balance sheet for AZI has been produced by aggregating the Companies' pre-Schemes balance sheets and then applying adjustments to reflect the effects of the Schemes:

Table 8.3: Derivation of AZI post-Schemes balance sheet as if Schemes had become effective at 30 September 2025

	Total pre-Schemes*	Impact of Schemes	AZI post-Schemes
Assets:			
Investments	5,811.8	-130.0	5,681.8
Cash	43.0	-10.5	32.5
Reinsurers' share of Technical Provisions	2,621.7	-	2,621.7
Insurance and other receivables	181.2	-	181.2
Other assets	183.7	-	183.7
Total assets	8,841.4	-140.5	8,700.9
Liabilities:			
Gross best estimate Technical Provisions	4,573.2	-	4,573.2
Risk margin	76.0	-16.5	59.5
Other liabilities	2,746.2	4.1	2,750.3
Total liabilities	7,395.4	-12.4	7,383.0
Own Funds:			
Net assets	1,446.1	-128.1	1,318.0
Ancillary Own Funds	-4.4	4.4	-
Total Eligible Own Funds	1,441.7	-123.7	1,318.0
Coverage Ratios:			
Solvency Capital Requirement (SCR)	1,018.3	-125.3	893.0
Solvency coverage	423.4	1.5	425.0
Solvency coverage ratio	142%	6%	148%

* using the adjusted pre-Scheme balance sheets for AZI and FIL

8.63 I have calculated the pre-Schemes total as the sum of the balance sheets for each of the Companies. The following should be noted:

- Since the Companies' balance sheets are each presented at a legal entity level, this means that TIL is treated as a participation on AZI's balance sheet (TIL's EOF are included within AZI's investments) and similarly HICO is treated as a participation on LVIC's balance sheet (HICO's EOF are included within LVIC's investments). To avoid double-counting when deriving the consolidated total balance sheets pre-Schemes, I have summed the investments of AZI, LVIC, HICO, FIL and TIL, and then subtracted the EOF of HICO and TIL.
- The adjusted pre-Schemes financial positions have been used for AZI and FIL, reflecting the dividends that were paid in December 2025.
- The total pre-Schemes SCR has been calculated by summing the SCRs for AZI, LVIC and FIL, again to avoid double counting.

8.64 The following adjustments have then been made to derive the AZI post-Schemes balance sheet:

- The investments for AZI post-Schemes have been reduced by £130m. This reflects the Part VII Driven Capital Release and therefore a loss of assets from the Allianz UK Group's capital structure

as a consequence of the Schemes. If viewed in isolation, this reduction could be perceived as having an adverse impact on policyholder security. However, this reduction is fully reflected in AZI's post-Schemes capital position on which my analysis of policyholder security has been performed. Accordingly, while assets do leave the Allianz UK Group's capital structure, this does not give rise to an incremental impact on policyholder security beyond that already allowed for in my assessment, nor is it material to my overall conclusions on the Schemes.

- AZI post-Schemes' cash is £10.5m lower than the total cash of the Companies prior to the Schemes. This is because £3.5m will remain in each of LVIC, HICO and FIL following the Schemes and will not transfer to AZI (the £3.5m that will remain within TIL following the Schemes will continue to count towards AZI post-Schemes assets as TIL is a subsidiary of AZI)
- The risk margin for AZI post-Schemes is £16.5m less than the pre-Schemes total. The reduction in the risk margin post-Schemes arises from increased diversification within a larger combined entity and reflects the PRA-prescribed methodology for calculating the risk margin. The reduction does not indicate a diminution in the risks underlying the Transferred Business, nor does it reduce the level of protection afforded to policyholders. The risk margin is a component of the Technical Provisions reflecting the theoretical cost of transferring liabilities to a reference undertaking; it is not itself a loss-absorbing capital buffer. Where diversification benefits are permissible under regulation, a lower risk margin reflects the broader risk-bearing capacity of AZI post-Schemes rather than weaker policyholder security. Accordingly, I do not consider the lower risk margin post-Schemes to constitute an adverse impact on policyholders.
- FIL has negative ancillary own funds. This reflects the treatment of £4.4m in deferred tax assets not being eligible to meet the MCR. Since this limitation falls away in AZI post-Schemes, these assets are no longer removed from the EOF, hence the ancillary assets for AZI post-Schemes are nil. This negative ancillary asset has moved to become a positive liability under 'Other Liabilities' for AZI post-Schemes, though at a reduced value (£4.1m) since it is offsetting the Risk Margin, which is reducing.
- The SCR for AZI post-Schemes has been calculated using the AZI Internal Model, with inputs updated to reflect the post-Schemes position. However, the SCR has not been recalculated to reflect the reduction in investments following the £130.0m Part VII Driven Capital Release. I consider this appropriate because the impact on the SCR would be small, any recalculated SCR would be lower (and therefore the SCR presented here is conservative), and the effort required to recalculate the SCR would be disproportionate to the limited additional precision gained.
- The SCR of £893.0m for AZI post-Schemes is notably lower than the sum of the AZI, LVIC and FIL SCRs (£1,018.3m). This aligns with my expectations for three reasons:
 - Firstly, the pre-Schemes SCRs for LVIC and FIL were calculated using the Standard Formula. My understanding, as discussed in paragraphs 8.41 to 8.47, is that the Unapproved Capital Model used for LVIC produced lower SCRs than the Standard Formula.
 - Secondly, more diversification is normally possible within a single larger entity than within separate smaller entities. I consider the size of the reduction in SCR (£125m, 12%) to be reasonable as a consequence of this, especially considering that LVIC and HICO write mostly Personal lines business while AZI writes Commercial and Specialty business, which will result in greater diversification being possible.
 - Thirdly, the AMCR has acted to increase the SCRs of FIL and TIL (and therefore the portion of AZI which accounts for TIL) pre-Schemes, since they are small entities and the floor kicks in. AZI's post-Schemes SCR will be much larger and so will not be impacted by the AMCR, and therefore will not be increased by this effect. As a consequence of this, the post-Schemes SCR will be slightly lower than the pre-Schemes Total. This is a result of replacing multiple entities of varying sizes with one larger entity.

- Overall, the reduction in the post-Schemes SCR reflects the use of a more risk-sensitive Internal Model, increased diversification within a single larger entity, and the removal of non-risk-based capital floors that apply to small standalone entities. While this results in a lower aggregate SCR post-Schemes, it does not represent a reduction in the underlying protection afforded to policyholders. I consider this to represent a benefit of the Schemes due to a more proportionate and risk-based assessment of regulatory capital.
- All other items on the AZI post-Schemes balance sheet are either unadjusted from the pre-Schemes position, or follow as a consequence of the adjustments described above.
- I understand from the Companies that, other than the 'deposits from reinsurers' item noted below in paragraph 8.71, and the updates to the risk margin and the change to a single calculation platform noted in paragraphs 7.61 to 7.67, the approach used to calculate the Solvency UK balance sheets will not change following the Scheme.

8.65 The consequence of the adjustments set out above is that AZI post-Schemes solvency ratio is projected to be 148%, and it is this financial position that I have used as the base case for my analysis of AZI's financial position following the Schemes. Although I am required to base my analysis on the latest reasonably foreseeable information available - hence the use of the 148% ratio - I consider this figure to be potentially conservative for two main reasons:

- Potential conservatism in AZI's pre-Schemes balance sheet: The AZI post-Schemes balance sheet has been derived by adjusting and aggregating the pre-Schemes balance sheets of all Companies (with AZI and FIL adjusted for the December 2025 dividends). Any conservatism inherent in AZI's pre-Scheme financial position (see paragraph 8.59) will therefore, by definition, also be reflected in the post-Schemes financial position.
- Assumed full payment of the Part VII Driven Capital Release: The projected 148% solvency ratio assumes that the estimated £130m Part VII Driven Capital Release will be paid out in full as a dividend following the Schemes. AZI has not committed to paying this dividend, and would not do so until after the Schemes have become effective. Any such dividend would require a management recommendation, approval by the AZI Board, and a "no further questions" outcome from the PRA - meaning the PRA would need to be satisfied with AZI's post-Schemes financial position after the proposed dividend at the point the dividend is proposed in order to provide that non-objection. If the capital release is not paid out in full, AZI's post-Schemes solvency ratio would be higher than 148% (if no dividend is paid at all, its post-Schemes solvency ratio would be 162%).

Comparison of pre- and post-Schemes balance sheets

8.66 Now that I have shown how the pre-Scheme and post-Scheme financial positions have been derived, I compare the Solvency UK balance sheets for each of the Companies with the post-Schemes balance sheet for AZI as at 30 September 2025, assuming the Schemes had become effective on that date.

8.67 Note that the balance sheets are presented on the following basis:

- They are presented at a legal entity level. This means that the investments of AZI include the EOF of its subsidiary, TIL. Similarly, the investments of LVIC include the EOF of its subsidiary, HICO.
- The balance sheets presented below do not reflect any further dividends or other capital actions since none are currently planned or committed for 2026. I will revisit this analysis in my Supplementary Report if this changes.
- The AZI pre- and post-Schemes SCRs are calculated using AZI's approved Internal Model, whereas the SCRs of LVIC, HICO, FIL and TIL are calculated using the Standard Formula. While both approaches aim to determine the amount of capital an insurer needs to hold to remain solvent over the next year with 99.5% confidence, the Internal Model is more risk-sensitive and captures AZI-specific risk drivers and diversification effects (as discussed previously, I consider this to be a benefit of the Schemes). As a result, the solvency ratios of LVIC, HICO, FIL and TIL are not directly comparable on a percentage basis to those of AZI. Indeed, where solvency ratios appear similar on

an Internal Model and Standard Formula basis, this typically indicates that the Internal Model position is stronger, because the Standard Formula does not fully capture entity-specific risks or diversification in the same way.

AZI pre-Schemes vs AZI post-Schemes

8.68 The table below compares the Solvency UK balance sheet for AZI pre-Schemes relative to the balance sheet for AZI post-Schemes as at 30 September 2025, as if the Schemes had become effective at this date.

Table 8.4: Solvency UK balance sheets as at 30 September 2025 (£m)

	AZI	AZI post-Schemes	Difference
Assets:			
Investments	2,771.6	5,681.8	2,910.3
Cash	17.3	32.5	15.2
Reinsurers' share of Technical Provisions	1,242.4	2,621.7	1,379.3
Insurance and other receivables	119.8	181.2	61.4
Other assets	48.1	183.7	135.6
Total assets	4,199.2	8,700.9	4,501.7
Liabilities:			
Gross best estimate Technical Provisions	1,997.6	4,573.2	2,575.5
Risk margin	38.1	59.5	21.4
Other liabilities	1,497.0	2,750.3	1,253.4
Total liabilities	3,532.7	7,383.0	3,850.3
Own Funds:			
Net assets	666.5	1,318.0	651.4
Ancillary Own Funds	-	-	-
Total Eligible Own Funds	666.5	1,318.0	651.4
Coverage Ratios:			
Solvency Capital Requirement (SCR)	474.1	893.0	418.9
Solvency coverage	192.5	425.0	232.5
Solvency coverage ratio	141%	148%	7%

8.69 I have the following observations:

- The projected solvency coverage ratio for AZI following the Schemes is 148%, which is comfortably above the Assumed Target Ratio of 130%. This represents an improvement on AZI's solvency coverage ratio immediately prior to the Schemes. This indicates a benefit to the security of the Existing Policyholders arising from the Schemes.
- AZI has historically operated with solvency coverage ratios between 150% and 170%, and its solvency ratio increased to 152% at Q4 2025. Although the timings for the Q4 2025 figures meant

that they did not arrive in time for me to rely on them in my analysis, it will be reflected in my Supplementary Report. I therefore consider the 141% pre-Schemes ratio used in my assessment to be a temporary point-in-time reduction driven solely by the timing of a known dividend, rather than indicative of any underlying deterioration in AZI's financial strength relative to usual levels.

- The 148% post-Schemes coverage ratio may also be conservative. It has been calculated on the basis that AZI pays a £130m Part VII Driven Capital Release following the Schemes. Any such dividend would require a management recommendation, AZI Board approval, and PRA non-objection at the relevant time. If a smaller dividend were paid - or if the dividend were deferred - AZI's post-Schemes solvency coverage ratio would be higher than 148%.
- Although the table above does not show the breakdown of Own Funds, AZI's Own Funds are of very high quality both before and after the Schemes. Prior to the Schemes, 99% of AZI's Own Funds are classified as Tier 1, and this proportion is projected to remain extremely high (98%) following the Schemes. The remaining balance consists of Tier 3 net deferred tax assets. Considered in isolation, the marginal reduction in the proportion of Own Funds that are Tier 1 constitutes a slight adverse impact for Existing Policyholders. However, given the very high absolute level of Tier 1 capital both before and after the Schemes, and the immaterial nature of the difference, I do not consider this to have a material adverse effect on policyholder security or on my overall assessment of the Schemes.
- AZI becomes a materially larger and more diversified insurer following the Schemes. On a post-Schemes basis, AZI will hold roughly double the Own Funds it currently holds, with a larger balance sheet and broader spread of risks across Motor, Property, Liability, Pet and Commercial lines. This increased scale and diversification enhances AZI's resilience relative to its position immediately prior to the Schemes. I consider this to represent a benefit of the Schemes for the Existing Policyholders.
- AZI's absolute capital strength post-Schemes is considerably stronger prior to the Schemes. Even after assuming the £130m capital release, AZI's surplus of Eligible Own Funds above its SCR is projected to be £425m - more than double the surplus held prior to the Schemes (£192.5m). I consider this strengthening of AZI's capital buffer to represent a benefit of the Schemes for the Existing Policyholders.

LVIC vs AZI post-Schemes

8.70 The table below compares the Solvency UK balance sheet for LVIC relative to the balance sheet for AZI post-Schemes as at 30 September 2025, as if the Schemes had become effective at this date.

Table 8.5: Solvency UK balance sheets as at 30 September 2025 (£m)

	LVIC	AZI post-Schemes	Difference
Assets:			
Investments	2,549.9	5,681.8	3,131.9
Cash	23.1	32.5	9.4
Reinsurers' share of Technical Provisions	997.4	2,621.7	1,624.3
Insurance and other receivables	42.1	181.2	139.1
Other assets	88.8	183.7	94.9
Total assets	3,701.4	8,700.9	4,999.6
Liabilities:			
Gross best estimate Technical Provisions	1,920.9	4,573.2	2,652.3
Risk margin	29.2	59.5	30.3
Other liabilities	989.7	2,750.3	1,760.7
Total liabilities	2,939.7	7,383.0	4,443.3
Own Funds:			
Net assets	761.6	1,318.0	556.3
Ancillary Own Funds	-	-	-
Total Eligible Own Funds	761.6	1,318.0	556.3
Coverage Ratios:			
Solvency Capital Requirement (SCR)	540.7	893.0	352.3
Solvency coverage	221.0	425.0	204.0
Solvency coverage ratio (Internal Model) *		148%	
Solvency coverage ratio (Standard Formula) *	141%		

* LVIC's SCR is calculated using the Standard Formula whereas AZI's is calculated using an Internal Model and therefore these solvency ratios are not directly comparable (as discussed below)

8.71 I have the following observations:

- AZI's projected solvency coverage ratio of 148% following the Schemes remains comfortably above its Assumed Target Ratio of 130%. This represents a modest improvement relative to LVIC's solvency position immediately prior to the Schemes. Considered in isolation, this indicates a benefit to the security of the Transferring LVIC Policyholders arising from the Schemes, noting also that the projected 148% solvency coverage ratio for AZI post-Schemes may be conservative, as discussed below.
- LVIC's pre-Schemes solvency ratio of 141% is calculated using the Standard Formula, whereas AZI's post-Schemes 148% ratio is calculated using the Internal Model. While both target a 1-in-200 capital standard, the Internal Model is more risk-sensitive, and captures AZI-specific risk drivers

and diversification effects. Consequently, the ratios are not directly comparable on a percentage basis. The 148% Internal Model ratio therefore represents a stronger level of financial resilience than the numerical difference of seven percentage points alone would imply. I consider this to represent a benefit of the Schemes for the Transferring LVIC Policyholders, reflecting a stronger and more robust assessment of solvency and resilience post-Schemes than is suggested by a simple comparison of solvency ratios.

- In addition, the 148% ratio for AZI post-Schemes is likely to be conservative for the reasons given in paragraph 8.69. It does not reflect AZI's historically higher solvency ratios, which have generally been in the region of 150–170%. Updated financial information will be reflected in my Supplementary Report, and I would expect AZI's post-Schemes solvency coverage ratio to be higher than 148% once this more recent data is incorporated.
- LVIC's solvency coverage ratio benefits from the discounting methodology used for 'deposits from reinsurers', which increases its solvency coverage ratio by approximately 2–3%. This treatment has been reviewed and confirmed as reasonable by the external auditor. I understand that AZI aligned its approach with LVIC's at year-end 2025, but because this report is based on Q3 2025 data, the alignment is not reflected here. This does not materially affect my conclusions. The adjustment will be reflected in my Supplementary Report.
- Although the table above does not show the breakdown of Own Funds, the quality of Own Funds for both LVIC and AZI post-Schemes is very high. Prior to the Schemes, 98% of LVIC's Own Funds are classified as Tier 1, and this proportion is projected to also be 98% for AZI following the Schemes. The remaining balance consists of Tier 3 net deferred tax assets.
- AZI will be a materially larger and more diversified insurer following the Schemes compared with LVIC. While LVIC is predominantly concentrated in UK Personal Motor and Home business - with limited diversification and exposure to longer-tailed Motor injury claims and PPOs - AZI post-Schemes will have substantial diversification across Motor, Property, Liability, Pet and Commercial lines. This broader mix of business materially enhances AZI's resilience relative to LVIC's pre-Schemes position, as a wider spread of risks reduces sensitivity to adverse developments in any single class. I consider this to represent a benefit of the Schemes for the Transferring LVIC Policyholders.
- AZI's absolute capital strength post-Schemes is considerably greater than LVIC's. Even after allowing for the assumed £130m capital release, AZI is projected to hold a surplus of approximately £425m above its SCR, compared with LVIC's surplus of £221m pre-Schemes. I consider this to represent a benefit of the Schemes for the Transferring LVIC Policyholders.

HICO vs AZI post-Schemes

8.72 The table below compares the Solvency UK balance sheet for HICO relative to the balance sheet for AZI post-Schemes as at 30 September 2025, as if the Schemes had become effective at this date.

Table 8.6: Solvency UK balance sheets as at 30 September 2025 (£m)

	HICO	AZI post-Schemes	Difference
Assets:			
Investments	716.1	5,681.8	4,965.7
Cash	2.1	32.5	30.4
Reinsurers' share of Technical Provisions	330.5	2,621.7	2,291.3
Insurance and other receivables	11.2	181.2	170.0
Other assets	29.2	183.7	154.5
Total assets	1,089.1	8,700.9	7,611.9
Liabilities:			
Gross best estimate Technical Provisions	604.9	4,573.2	3,968.3
Risk margin	8.7	59.5	50.8
Other liabilities	243.5	2,750.3	2,506.8
Total liabilities	857.1	7,383.0	6,525.9
Own Funds:			
Net assets	232.0	1,318.0	1,086.0
Ancillary Own Funds	-	-	-
Total Eligible Own Funds	232.0	1,318.0	1,086.0
Coverage Ratios:			
Solvency Capital Requirement (SCR)	130.4	893.0	762.6
Solvency coverage	101.6	425.0	323.3
Solvency coverage ratio (Internal Model) *		148%	
Solvency coverage ratio (Standard Formula) *	178%		

* HICO's SCR is calculated using the Standard Formula whereas AZI's is calculated using an Internal Model and therefore these solvency ratios are not directly comparable (as discussed below)

8.73 I have the following observations:

- AZI's projected solvency coverage ratio of 148% following the Schemes remains comfortably above its Assumed Target Ratio of 130%, Although it is lower than HICO's pre-Schemes solvency coverage ratio of 178%. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, this metric indicates that the Schemes have an adverse impact on the Transferring HICO Policyholders, However,, AZI post-Schemes will have a materially larger capital base, significantly greater diversification, and a substantially higher absolute surplus of Eligible Own Funds. As a result, AZI post-Schemes provides considerably stronger protection for policyholders than HICO despite the lower percentage ratio. Consequently, when the scale, risk profile and diversification of the respective companies is taken into account, I

consider those changes to represent a benefit of the Schemes to the Transferring HICO Policyholders that is more material than the adverse impact of the reduced solvency ratio.

- The two solvency ratios are also not directly comparable. HICO's ratio is calculated using the Standard Formula, whereas AZI's post-Schemes ratio is calculated using an approved Internal Model. While both target a 1-in-200 capital standard, the Internal Model is more risk-sensitive, and captures AZI-specific risk drivers and diversification effects. Accordingly, a 148% Internal-Model ratio represents a stronger level of resilience than a simple numerical comparison with HICO's 178% Standard-Formula ratio would suggest. I consider this to represent a benefit of the Schemes for the Transferring HICO Policyholders, reflecting a stronger and more robust assessment of solvency and resilience post-Schemes than is suggested by a simple comparison of solvency ratios.
- In addition, the 148% ratio for AZI post-Schemes is likely to be conservative for the reasons given in paragraph 8.69. It does not reflect AZI's historically higher solvency ratios, which have generally been in the region of 150–170%. Updated financial information will be reflected in my Supplementary Report, and I would expect AZI's solvency coverage ratio to be higher than 148% once this more recent data is incorporated.
- HICO's solvency coverage ratio additionally benefits from the discounting methodology applied to 'deposits from reinsurers', which increases its coverage by around 2–3%. This treatment has been reviewed and confirmed as reasonable by the external auditor. AZI aligned its methodology with HICO's at year-end 2025, although this alignment is not reflected in the Q3 2025 data used in this report; this does not materially affect my conclusions. The adjustment will be reflected in my Supplementary Report.
- The quality of Own Funds for both HICO and AZI post-Schemes is very high. Prior to the Schemes, 98% of HICO's Own Funds are Tier 1, and the same proportion will apply to AZI following the Schemes, with the remainder consisting of Tier 3 net deferred tax assets.
- AZI will be a materially larger and more diversified insurer following the Schemes compared with HICO. While HICO is predominantly concentrated in UK Personal Motor and Home business—with limited diversification, significant exposure to longer-tailed Motor injury claims and PPOs, and a risk profile that is heavily influenced by developments in personal lines—AZI post-Schemes will have substantial diversification across Motor, Property, Liability, Pet and Commercial lines. This broader mix of business materially enhances AZI's resilience relative to HICO's pre-Schemes position, as a wider spread of risks reduces sensitivity to adverse developments in any single class. I consider this to represent a benefit of the Schemes for the Transferring HICO Policyholders.
- Finally, AZI's absolute surplus capital post-Schemes is considerably greater than HICO's. Even after allowing for the assumed £130m capital release, AZI is projected to hold a surplus of approximately £425m above its SCR, compared with HICO's pre-Schemes surplus of £102m. This materially larger buffer provides significantly greater protection against adverse developments. I consider this to represent a benefit of the Schemes for the Transferring HICO Policyholders.

FIL vs AZI post-Schemes

8.74 The table below compares the Solvency UK balance sheet for FIL relative to the balance sheet for AZI post-Schemes as at 30 September 2025, as if the Schemes had become effective at this date.

Table 8.7: Solvency UK balance sheets as at 30 September 2025 (£m)

	FIL	AZI post-Schemes	Difference
Assets:			
Investments	15.2	5,681.8	5,666.6
Cash	0.4	32.5	32.1
Reinsurers' share of Technical Provisions	47.6	2,621.7	2,574.1
Insurance and other receivables	7.9	181.2	173.2
Other assets	7.9	183.7	175.8
Total assets	79.1	8,700.9	8,621.9
Liabilities:			
Gross best estimate Technical Provisions	45.4	4,573.2	4,527.7
Risk margin	0.1	59.5	59.4
Other liabilities	15.7	2,750.3	2,734.6
Total liabilities	61.2	7,383.0	7,321.8
Own Funds:			
Net assets	17.9	1,318.0	1,300.1
Ancillary Own Funds	-4.4	-	4.4
Total Eligible Own Funds	13.5	1,318.0	1,304.4
Coverage Ratios:			
Solvency Capital Requirement (SCR)	3.5	893.0	889.5
Solvency coverage	10.0	425.0	414.9
Solvency coverage ratio (Internal Model) *		148%	
Solvency coverage ratio (Standard Formula) *	387%		

* FIL's SCR is calculated using the Standard Formula and subject to the AMCR whereas AZI's is calculated using an Internal Model and therefore these solvency ratios are not directly comparable (as discussed below)

8.75 I have the following observations:

- AZI's projected solvency coverage ratio of 148% following the Schemes remains comfortably above its Assumed Target Ratio of 130%. Although this ratio is lower than FIL's pre-Schemes solvency coverage ratio of 387%, this difference does not indicate weaker capital strength or lower policyholder security. Considered in isolation, the reduction in the headline solvency coverage ratio indicates an adverse movement for the Transferring FIL Policyholders. However, FIL is a very small run-off insurer whose high solvency ratio reflects its limited scale, very low SCR (constrained by the AMCR), and its heavy reliance on reinsurance rather than a large capital base. In contrast, AZI post-Schemes will have a materially larger and more diversified balance sheet with a substantially higher absolute level of Eligible Own Funds. Accordingly, I do not consider the reduction in the

solvency coverage ratio to represent a material adverse impact on policyholder security or to affect my overall assessment of the Schemes.

- The two solvency ratios are also not directly comparable. FIL's ratio is calculated using the Standard Formula (and subject to the AMCR), whereas AZI's post-Schemes ratio is calculated using an Internal Model. While both target a 1-in-200 capital standard, the Internal Model is more risk-sensitive, and captures AZI-specific risk drivers and diversification effects. Accordingly, a 148% Internal-Model coverage ratio represents a materially stronger level of financial resilience than a direct numerical comparison with FIL's 387% Standard-Formula ratio would imply. I consider this to represent a benefit of the Schemes for the Transferring FIL Policyholders, reflecting a stronger and more robust assessment of solvency and resilience post-Schemes than is suggested by a simple comparison of solvency ratios.
- In addition, the 148% ratio for AZI post-Schemes is likely to be conservative for the reasons given in paragraph 8.69. It does not reflect AZI's historically higher solvency ratios, which have generally been in the region of 150–170%. Updated financial information will be reflected in my Supplementary Report, and I would expect AZI's solvency coverage ratio to be higher than 148% once this more recent data is incorporated.
- HICO's solvency coverage ratio additionally benefits from the discounting methodology applied to 'deposits from reinsurers', which increases its coverage by around 2–3%. This treatment has been reviewed and confirmed as reasonable by the external auditor. AZI aligned its methodology with HICO's at year-end 2025, although this alignment is not reflected in the Q3 2025 data used in this report; this does not materially affect my conclusions. The adjustment will be reflected in my Supplementary Report.
- The quality of FIL's Own Funds is somewhat lower than for the other Companies because only around 87% of its capital is Tier 1, with the remainder consisting primarily of Tier 3 deferred tax assets. However, FIL's Own Funds play only a limited role in its overall security position. This is because FIL's liabilities are almost entirely reinsured to AZ Re through its 50% quota share and 50% loss-portfolio transfer, meaning that policyholder protection depends far more on the strength of the reinsurance than on FIL's own capital structure. Even if FIL held a less favourable mix of capital (for example, a larger proportion of Tier 3), this would not materially weaken the security provided to policyholders because the reinsurance dominates the balance sheet.

In contrast, AZI post-Schemes is projected to hold approximately 98% Tier 1 capital, reflecting a materially higher quality of Own Funds. Accordingly, I consider the Schemes to represent a benefit for the Transferring FIL Policyholders in respect of Own Funds quality, although, given the reinsured nature of FIL's business, this improvement is not material to policyholder security or to my overall assessment of the Schemes.

- AZI will be a significantly larger and more diversified insurer following the Schemes. Its post-Schemes balance sheet will reflect the combined Transferring Portfolios, making it materially larger and more resilient than FIL on a standalone basis. FIL, by contrast, is a very small run-off entity whose remaining exposure is concentrated almost entirely in Home insurance, with around 900 open claims. AZI's diversification across Motor, Property, Liability, Pet and Commercial lines provides a much broader spread of risk, and this wider diversification materially enhances AZI's resilience relative to FIL's pre-Schemes position. I consider this to represent a benefit of the Schemes for the Transferring FIL Policyholders.
- Finally, AZI's absolute surplus capital post-Schemes is substantially greater. Even after allowing for the assumed £130m capital release, AZI is projected to hold a surplus of approximately £425m, compared with FIL's surplus of £10m. This materially larger loss-absorbing buffer provides significantly stronger protection for policyholders. I consider this to represent a benefit of the Schemes for the Transferring FIL Policyholders.

TIL vs AZI post-Schemes

8.76 The table below compares the Solvency UK balance sheet for TIL relative to the balance sheet for AZI post-Schemes as at 30 September 2025, as if the Schemes had become effective at this date.

Table 8.8: Solvency UK balance sheets as at 30 September 2025 (£m)

	TIL	AZI post-Schemes	Difference
Assets:			
Investments	-	5,681.8	5,681.8
Cash	0.1	32.5	32.4
Reinsurers' share of Technical Provisions	3.7	2,621.7	2,618.0
Insurance and other receivables	0.1	181.2	181.0
Other assets	9.7	183.7	174.0
Total assets	13.6	8,700.9	8,687.3
Liabilities:			
Gross best estimate Technical Provisions	4.4	4,573.2	4,568.8
Risk margin	0.0	59.5	59.5
Other liabilities	0.3	2,750.3	2,750.0
Total liabilities	4.7	7,383.0	7,378.3
Own Funds:			
Net assets	8.9	1,318.0	1,309.0
Ancillary Own Funds	0.0	-	-
Total Eligible Own Funds	8.9	1,318.0	1,309.0
Coverage Ratios:			
Solvency Capital Requirement (SCR)	3.5	893.0	889.5
Solvency coverage	5.4	425.0	419.5
Solvency coverage ratio (Internal Model) *		148%	
Solvency coverage ratio (Standard Formula) *	255%		

* TIL's SCR is calculated using the Standard Formula and subject to the AMCR whereas AZI's is calculated using an Internal Model and therefore these solvency ratios are not directly comparable (as discussed below)

8.77 I have the following observations:

- AZI's projected solvency coverage ratio of 148% following the Schemes remains comfortably above its Assumed Target Ratio of 130%. Although this ratio is lower than TIL's pre-Schemes solvency coverage ratio of 255%, this difference does not indicate weaker capital strength or lower policyholder security. Considered in isolation, the reduction in the headline solvency coverage ratio indicates an adverse impact for the Transferring TIL Policyholders. However, TIL is a very small run-off insurer whose higher solvency ratio reflects its limited scale, very low SCR (constrained by the AMCR), and the fact that its remaining liabilities relate entirely to two PPO claims which are heavily protected by excess-of-loss reinsurance, rather than being underpinned by a large capital base. In contrast, AZI post-Schemes will have a materially larger and more diversified balance

sheet with a substantially higher absolute level of Eligible Own Funds. Accordingly, I do not consider the reduction in the solvency coverage ratio to represent a material adverse impact on policyholder security or to affect my overall assessment of the Schemes.

- The two solvency ratios are also not directly comparable. TIL's ratio is calculated using the Standard Formula (and is constrained by the AMCR), whereas AZI's post-Schemes ratio is calculated using an Internal Model. While both aim to meet a 1-in-200 capital standard, the Internal Model is more risk-sensitive and captures AZI-specific risk drivers and diversification effects. Accordingly, a 148% Internal-Model coverage ratio represents a materially stronger level of financial resilience than a direct numerical comparison with TIL's 255% Standard-Formula ratio would imply. I consider this to represent a benefit of the Schemes for the Transferring TIL Policyholders, reflecting a stronger and more robust assessment of solvency and resilience post-Schemes than is suggested by a simple comparison of solvency ratios.
- In addition, the 148% ratio for AZI post-Schemes is likely to be conservative for the reasons given in paragraph 8.69. It does not reflect AZI's historically higher solvency ratios, which have generally been in the region of 150–170%. Updated financial information will be reflected in my Supplementary Report, and I would expect AZI's solvency coverage ratio to be higher than 148% once this more recent data is incorporated.
- TIL's Own Funds also play only a limited role in its overall security position. Because TIL's liabilities relate almost entirely to two PPO claims that are protected by unlimited excess-of-loss reinsurance, policyholder protection depends far more on the strength of the reinsurers than on TIL's Own Funds or capital mix. Although TIL's Own Funds are 100% Tier 1, this does not materially enhance policyholder security given the dominance of reinsurance over its balance sheet. By contrast, AZI post-Schemes will hold a substantially larger absolute level of Own Funds, a materially more diversified balance sheet, and a capital structure projected to remain predominantly Tier 1. Accordingly, I consider the Schemes to represent a benefit for the Transferring TIL Policyholders in respect of the overall resilience of the capital supporting the Transferring TIL Policyholders.
- TIL's assets are dominated by £9.7m in loans and mortgages, which accounts for the cash pooling arrangements for liquidity which TIL and certain other of the Companies engage in and which I discuss further in paragraph 10.16
- AZI will also be a significantly larger and more diversified insurer following the Schemes. Its post-Schemes balance sheet will reflect the combined Transferring Portfolios, making it materially larger and more resilient than TIL on a standalone basis. TIL, by comparison, is a very small run-off entity with minimal diversification and exposure concentrated in two long-tailed PPO claims. AZI's diversification across Motor, Property, Liability, Pet and Commercial lines provides a much broader spread of risk, and this wider diversification materially enhances AZI's resilience relative to TIL's pre-Schemes position. I consider this to represent a benefit of the Schemes for the Transferring TIL Policyholders.
- Finally, AZI's absolute surplus capital post-Schemes is substantially greater. Even after allowing for the assumed £130m capital release, AZI is projected to hold a surplus of approximately £425m, compared with TIL's surplus of £5.4m. This materially larger loss-absorbing buffer provides significantly stronger protection for policyholders. I consider this to represent a benefit of the Schemes for the Transferring TIL Policyholders.

IFRS 17 balance sheet

- 8.78 I have shown the statutory balance sheets below and the impact of the Scheme on those balance sheets for information. However, my conclusions are based on the impact on the Solvency UK balance sheet and capital requirements rather than on the statutory balance sheets.

- 8.79 In the table below, I show the simplified IFRS 17 balance sheets for AZI, LVIC, HICO and TIL and the simplified IFRS 17 balance sheet (as translated from a UK GAAP basis) for FIL, as at 30 September 2025. I also show the simplified IFRS 17 balance sheet for AZI post-Schemes as at 30 September 2025 as if the Scheme had been effected at this date.
- 8.80 The pre-Schemes sum gives the sum of the items for the Companies on all rows but one. The exception is 'Financial Investments' for which £204m is removed from the aggregation to remove the LVIC 'investments in associates' asset, which is an investment in Highway Insurance Group (a subsidiary of LVIC), which is not transferring under the Schemes. This adjustment also affects the pre-Scheme Total 'total assets' and 'net assets' items.
- 8.81 The AZI post-Schemes figures are the sum of the figures for the Companies pre-Schemes with several adjustments made, the key items of which were:
- Reflecting the Part VII Driven Capital Release of £130m, as discussed in paragraph 8.55, in the Financial Investments
 - Reflecting the lowering of the risk adjustment as a result of this calculation being based on the Internal Model, rather than on the Standard Formula (as discussed in paragraph 7.48)
 - Reflecting the retention of cash within each of the Transferors to meet their MCRs as discussed in paragraph
- 8.82 For the avoidance of doubt FIL's balance sheet is presented on a translated IFRS 17 basis while FIL's regulatory accounts are prepared on a UK GAAP basis. And, at this time, the AZI post-Schemes balance sheet incorporates FIL's assets and liabilities on this translated IFRS 17 basis. I would not expect the translation from UK GAAP to IFRS 17 to materially change FIL's balance sheet, and indeed net assets differ by only 4% for FIL pre-Schemes. This difference amounts to less than 0.1% of AZI's post-Schemes net assets, and in any case relates to a difference in accounting presentation and measurement rather than a change in the company's actual assets and liabilities, and therefore this translation does not have a material impact on my conclusions.
- 8.83 The AZI post-Schemes figures are also presented on the assumption that the Jersey Scheme will be effected at the Effective Date.
- 8.84 For the avoidance of doubt, the assets and liabilities of AZI below do not include those for TIL, its subsidiary, nor do the assets and liabilities of LVIC include those for HICO.
- 8.85 The pre-Schemes assets for AZI and FIL reflect the £105m and £20m dividends paid by these companies, respectively, at the end of 2025.
- 8.86 The reinsurance cover HICO holds with AZI will cease at the Effective Date, but this has not been reflected as it has no net impact and is immaterial in the context of the AZI post-Schemes balance sheet.

Table 8.2: IFRS 17 balance sheets as at 30 September 2025 (£m)

	AZI	LVIC	HICO	FIL	TIL	pre-Schemes sum	AZI post-Schemes
Assets:							
Financial investments	2,696.8	2,478.7	716.1	14.5	0.0	5,701.7	5,571.7
Cash*	17.3	34.1	-1.8	0.4	0.1	50.1	39.6
Reinsurers' share of reserves	187.7	165.9	107.2	28.1	3.5	492.3	474.1
Insurance and other receivables	123.4	121.3	61.2	16.5	9.8	332.2	331.7
Other assets	121.8	53.6	12.8	3.6	0.0	191.7	191.7
Total assets	3,146.9	2,853.6	895.5	63.0	13.3	6,768.0	6,608.8
Liabilities:							
Insurance reserves	2,223.1	2,015.4	630.0	40.8	4.0	4,913.3	4,879.8
Other liabilities	207.9	101.1	16.6	0.3	0.3	326.3	325.7
Total liabilities	2,431.0	2,116.5	646.6	41.1	4.3	5,239.6	5,205.6
Net assets	715.9	737.1	248.9	21.9	9.0	1,528.4	1,403.2

* note that the negative figure for cash for HICO is a result of overdrawn bank accounts, which is an approach taken by the treasury team to manage short-term liquidity requirements

- 8.87 I have considered the approach used by the Companies to calculate these balance sheets and consider the approach to be reasonable. I understand from the Companies that the approaches used will not change following the Schemes, apart from the liabilities in respect of FIL transitioning to an IFRS 17 basis, as discussed in paragraph 7.47.
- 8.88 I have reviewed the results above and see no features of the data which cause me to believe the results are unreasonable. I have also compared these results to the Solvency UK balance sheets and I observe that the ratios between the Companies of net assets on a pre-Schemes basis are consistent between the Solvency UK and IFRS 17 bases; that is, AZI holds 46% of the net assets of the Companies pre-Schemes on a Solvency UK basis and 47% under IFRS 17, and the Transferors match similarly across the bases. This result indicated that the IFRS 17 results are reasonable relative to the Solvency UK results, which I reviewed in more detail, given their greater relevance to this report.
- 8.89 It follows that I believe the IFRS 17 balance sheet figures above to be reasonable.

Robustness of capital resources

- 8.90 In this section, I use both the Companies' assessment of their capital robustness and the results of a suite of my own testing to form a conclusion around the strength of the Companies to withstand adverse events, both pre- and post-Schemes.

ORSA

- 8.91 I have been provided with a copy of the report outlining the Companies' most recent ORSA. The document is dated 1 April 2025 and covers the position of the Companies as at 31 December 2024. It has been approved by the Combined Board and the FIL Board. It presents a forward-looking assessment of the risk profiles and capital requirements of the Companies over the period 2025-2027. I will consider an updated ORSA as part of my Supplementary Report.
- 8.92 The ORSA projected that the coverage of SCR for each of the Companies (except TIL) will be maintained above their respective target coverage ratios as set by the Combined Board and FIL Board, for the period considered in the ORSA. TIL does not have a target solvency coverage ratio, however its coverage ratio is projected to remain significantly in excess of the other Companies' target ratios for the whole period.
- 8.93 I have reviewed the process by which the Companies have projected the coverage of their SCRs, which involves projections of SCRs and Own Funds. I believe the approach taken to project SCRs to be reasonable. I note, as does the ORSA, that the projected Own Funds were the unadjusted business plan figures which are intended to stretch the business and are therefore more stretching (in terms of business growth) than a best estimate basis. The ORSA includes a set of scenario tests whereby growth in Own Funds is reduced by 25%, 50% and 75%: the results of each test are that the Companies are still projected to meet their target solvency coverage ratios over the 2025-2027 period. The results of these scenario tests give me comfort that the projected solvency coverage ratios are reasonable, although there may be some level of stretch present in the other test results.
- 8.94 The Companies have conducted various stress and scenario tests within the ORSA to test the robustness of their capital bases. The stress and scenario testing covers a wide range of risks that the Companies are exposed to. I consider the range of stresses and scenarios that the Companies have considered to be reasonable and sufficiently extreme, although, due to the potentially stretching results as discussed above, I have placed more reliance on the results of my stress testing than on this ORSA.
- 8.95 The stress and scenario testing demonstrates that, only in extreme scenarios, do any of the Companies fail to have sufficient capital to meet their target solvency ratios. Furthermore, there were no stresses considered that reduced the solvency coverage ratio below 100% or that reduced the level of assets below the level of liabilities.
- 8.96 At the time of the ORSA being produced, a set of dividends was planned to be paid from the Companies to AZH and there were several less extreme scenarios in which non-payment of the dividends was sufficient to restore the Companies to their target solvency ratios, without a capital injection. The plan to pay dividends has since changed and may continue to change. However, whatever plans for dividends are in place, the previous option of non-payment will still be available. Therefore I do not consider that the scenarios in question would affect policyholder security.
- 8.97 As noted above, all of the stress and scenario testing undertaken by the Companies (with the exception of the Own Funds scenarios discussed in paragraph 8.93) were performed using a base case wherein Own Funds were on a stretching rather than best estimate basis. If starting from a less stretching base case, it would produce worse outcomes than the results reported above. However, I have performed my own additional testing below as at 30 September 2025 and the base case I have used for my stress testing does not rely on planned business growth, so is not prone to this stretching.

My stress testing

- 8.98 I have performed a series of stress tests on each of the Companies before the Schemes and on AZI following the Schemes (using the financial positions shown in the tables in paragraphs 8.68 to 8.76). This is to provide a broader assessment of the financial strength of the Companies than is possible by looking just at the single view provided by their balance sheets and reserves, and to consider how this financial strength is impacted by the Schemes.
- 8.99 Whereas the Companies stress and scenario testing in their ORSAs focus more on what stresses would deplete solvency ratios down to their target levels, my stress testing is in the form of reverse stress tests which assess the size of stress or stresses required for each of the Companies' assets to fall below their liabilities such that they would not be able to meet their obligations without management action or capital injections.

Individual stress tests

- 8.100 In my view, the key risks to solvency that each the Companies face are (a) a deterioration in their Solvency II Technical Provisions, (b) the default of AZ Re and/or panel reinsurers; and (c) for AZI, LVIC, HICO and FIL, losses on investment assets.
- 8.101 TIL's risk profile is different. As it holds its entire asset base in cash and participates in the Group Cash Pool (as discussed in paragraph 10.16), its solvency is driven by group-wide liquidity stresses rather than market-related investment losses.
- 8.102 I therefore performed the following stress tests for each of the Companies:
- **RES:** Increase Solvency UK net claims provisions until assets fall below liabilities (this assumes the losses arise solely from reserve or expense deteriorations and not reinsurer default)
 - **TP:** Increase net Solvency UK Technical Provisions until assets fall below liabilities (again, assuming claims or expense deterioration and no reinsurer default)
 - **REIN:** Reduce the reinsurance asset value until assets fall below liabilities
 - **INV:** Reduce the investment asset value until assets fall below liabilities.
- 8.103 I excluded TIL from the investment stress tests because it holds 100% cash. Instead, I applied an additional **GCP** stress test for TIL which only stresses TIL's Group Cash Pool asset.
- 8.104 For the RES tests, I have not performed full calculations of the stress to gross claims provisions which would be required to produce the net impact of eroding the Own Funds. This is because the complexity of applying the reinsurance programmes (which cover various lines of business over various years) would not have been proportionate to my analysis. In addition, it would require making additional assumptions on the types of claims driving the gross loss in order to correctly apply the reinsurance programme. Instead, I have used the ratio of net to gross claims provisions as at 30 September 2025 as a guide to the mitigation that the reinsurance programme might provide.
- 8.105 My approach to the TP tests follows the same logic.

Combination stress tests

- 8.106 In addition to the individual stress tests described in paragraph 8.102, I have also performed a suite of combination stress tests which consider the impact of multiple stresses occurring simultaneously or within a very short period, with no opportunity for the Companies to recapitalise or take management action between events.
- 8.107 Although there are unlimited ways in which stresses could combine to deplete a company's Own Funds, it is neither practicable nor meaningful to test all possible combinations. I have therefore adopted an approach whereby I apply an initial severe stress to one of the risks (calibrated, using my judgement, towards the upper end of the range of reasonably foreseeable outcomes) and then assess the magnitude of stresses required to the other risks to exhaust Own Funds.

- 8.108 In each case, the initial severe stress has been calibrated using professional judgement, informed by historic events, the Companies' risk profiles, and the 1-in-200 year event stresses implied by their respective regulatory capital requirement calculations. The intention is to capture stresses that are severe but still within the range of reasonably foreseeable outcomes, rather than to identify a precise upper bound.
- 8.109 I performed the following combination tests for AZI (pre- and post-Schemes), LVIC and HICO:
- **COMB_1:**
 - A severe deterioration in Solvency UK gross claims provisions (no reinsurer default)
 - A further reduction in the investment asset such that assets fall below liabilities
 - **COMB_2:**
 - A severe deterioration in Solvency UK gross claims provisions
 - A reduction in the reinsurance asset (due to AZ Re defaulting)
 - A reduction in the investment asset such that assets fall below liabilities
 - **COMB_3:**
 - A severe deterioration in Solvency UK gross claims provisions
 - A reduction in the reinsurance asset (due to the default of other panel reinsurers)
 - A reduction in the investment asset such that assets fall below liabilities
 - **COMB_4:**
 - A severe reduction in the investment asset
 - A deterioration in Solvency UK gross claims provisions (no reinsurer default) such that assets fall below liabilities.
- 8.110 I excluded FIL from all but COMB_2 as it is effectively fully reinsured with AZ Re and only very extreme increases in reserves (noting that the loss portfolio transfer is capped at 200% of the reserves as at December 2024) would produce any impact on Own Funds unless AZ Re were to default. As I consider an AZ Re default to be a remote possibility, the associated risks are already captured within the individual RES and REIN tests.
- 8.111 I altered these combination tests for TIL for the same reasons as described in 8.101. For COMB_1, COMB_2 and COMB_3, I applied the gross claims provisions and reinsurer default stresses as usual and then found the stress to the Group Cash Pool asset which would reduce assets below liabilities. For COMB_4, I applied a severe stress to the Group Cash Pool asset and then found the increase in gross claims provisions (with no reinsurer default) such that assets fall below liabilities.
- 8.112 In my combination stress tests, I have focused the liability stress on the Solvency UK claims provisions rather than on total Technical Provisions. I consider this to be appropriate for three reasons:
- First, for all of the Companies, claims provisions represent the overwhelmingly dominant component of the Technical Provisions and are therefore the primary driver of liability volatility under adverse scenarios.
 - Second, I separately perform a dedicated reverse-stress test on the net Technical Provisions as a whole, which ensures that movements in premium provisions and other components of the Technical Provisions are fully captured in my assessment of the stresses required for assets to fall below liabilities.
 - Third, the purpose of the combination tests is to assess how the three dominant solvency risks - claims deterioration, reinsurance default and investment losses – interact under instantaneous tail events. In such scenarios, premium provisions do not materially influence solvency outcomes relative to claims provisions, which are significantly more exposed to adverse deterioration.

I am therefore satisfied that focusing on claims provisions in the combination stresses, alongside a separate full-TP stress, provides a complete and proportionate assessment of the risks to solvency for the purposes of this report.

Stress test conclusions

8.113 Below I summarise my conclusions from the stress testing I have undertaken.

Percentage vs absolute stresses

8.114 My analysis demonstrates that most of the percentage stresses required to exhaust Own Funds are lower for AZI following the Schemes than for each of the Companies prior to the Schemes (this is not universal across all stress tests but is a general theme). If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, this metric indicates that the Schemes have an adverse impact on policyholders.

8.115 However, percentage stresses are not the most meaningful measure in this context because they do not reflect the significantly different sizes of the Companies' balance sheets or the Companies' respective risk profiles and diversification. In addition, my analysis of AZI following the Schemes reflects the Part VII Driven Capital Release of £130m as having been paid, whereas the balance sheets of the individual Companies prior to the Schemes collectively still include this capital.

8.116 AZI's significantly larger balance sheet following the Schemes means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider that the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than for each of the Companies prior to the Schemes. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI following the Schemes is not materially weaker than that provided by each of the Companies prior to the Schemes.

Likelihood of each of the Companies being able to meet obligations

8.117 I have first considered the impact of the stresses on AZI's balance sheet following the Schemes, as this is the most important part of my analysis. I have concluded that the likelihood of AZI being unable to meet its obligations following the Schemes is remote. Moreover, if the post-Schemes financial position I have used for AZI proves to be conservative, even larger stresses would be required to deplete AZI's Own Funds, and I would reach the same conclusion in that case.

8.118 In addition, I have concluded that, for each of the Companies, the likelihood of it being unable to meet its obligations prior to the Schemes is also remote. It follows that the Schemes do not result in a material adverse impact on policyholder security under adverse scenarios for any of the groups of policyholders.

8.119 It is worth noting that, had I concluded that any of the Companies has a non-remote likelihood of being unable to meet its obligations before the Schemes, its policyholders would be better off moving to AZI under the Schemes (ignoring all other factors that are discussed elsewhere in this report).

Overall conclusions from stress testing

8.120 Overall, I conclude from my stress testing that the Schemes do not result in a material adverse impact on policyholder security under adverse scenarios for any of the groups of policyholders. This conclusion would be unchanged if the financial positions I have used for AZI pre- and post-Schemes prove to be conservative.

8.121 Below, I discuss in detail how I have reached these conclusions.

Robustness of AZI following the Schemes

- 8.122 Assuming the Schemes were effective at 30 September 2025 and allowing for the Part VII Driven Capital Release of £130m (subject to solvency assessments, approvals and regulatory consultation), AZI would have £1,318m of Eligible Own Funds following the Schemes. In other words, it would require a stress event or a combination of stress events totalling £1,318m for the assets of AZI to fall below its liabilities following the Schemes.
- 8.123 As I discuss in paragraph 8.69 and in section 4, while I consider this to be an appropriate basis for my analysis, it may be conservative. If so, it would imply that an adverse stress event - or combination of stresses - totalling more than £1,318m would be required for AZI's assets to fall below its liabilities.
- 8.124 The table below shows the types of events or combination of events that could cause this and my assessment of the likelihood of those events occurring:

Table 8.9: Results of stress testing for AZI post-Schemes

Test	Size of stress	Impact	Likelihood
RES	Net Claims Provisions increase by more than 63%	Assets fall below liabilities	Remote
TP	Net Technical Provisions increase by more than 65%	Assets fall below liabilities	Remote
REIN	A 50% reduction in the reinsurance asset	Assets fall below liabilities	Implausible
INV	A 23% reduction in the value of the investment portfolio	Assets fall below liabilities	Remote
COMB_1	Gross Claims Provisions increase by 18%, no reinsurers default, and a 17% reduction in the value of the investment portfolio	Assets fall below liabilities	Remote
COMB_2	Gross Claims Provisions increase by 18%, AZ Re defaults with a 75% recovery on the shortfall in the funds-withheld balance, and a 15% reduction in the value of the investment portfolio	Assets fall below liabilities	Remote
COMB_3	Gross Claims Provisions increase by 18%, all panel reinsurers default with no recoveries, and a 16% reduction in the value of the investment portfolio	Assets fall below liabilities	Remote
COMB_4	A 7.5% reduction in the value of the investment portfolio, and a gross Claims Provisions increase by 43%, with no reinsurer default	Assets fall below liabilities	Remote

RES - Net Claims Provisions increase by more than 63% = Remote

- 8.125 Based on AZI's post-Schemes balance sheet, approximately 50% of the gross Claims Provisions are reinsured. This implies that, in the absence of any reinsurer default, a deterioration of £1.3bn on a net basis would correspond to a deterioration of around £2.6bn on a gross basis.
- 8.126 In estimating this, I applied the best-estimate net-to-gross ratio. This likely understates the reinsurance recoveries AZI would receive under a severe stress scenario, given the Excess of Loss and catastrophe protections in place. As a result, a £2.6bn gross deterioration is likely to be at the lower end of what would be required for AZI to incur a £1.3bn loss on a net basis.
- 8.127 In my experience, a gross deterioration of this magnitude for an insurer with a balance sheet of AZI's size and diversification would require a series of major and catastrophic events to occur concurrently, impacting a significant proportion of its business lines. Given the breadth of AZI's underwriting portfolio, which will become more diversified following the Schemes, these events would also need to be different

in nature in order to affect multiple lines simultaneously. I therefore consider the likelihood of such a scenario to be remote.

- 8.128 I also compared the results of this reverse-stress test with the stress scenarios included in the Allianz UK Group 2024 ORSA (these stresses were performed at Allianz UK Group level which I consider to be the closest available proxy to AZI post-Schemes). The ORSA covers a wide range of severe, whole-balance-sheet stresses and therefore provides a useful benchmark for assessing the extremity of my reverse-stress test. The scenarios most comparable to my test reduce Eligible Own Funds by around 20%. By contrast, my reverse-stress test identifies the shock at which all Eligible Own Funds would be exhausted - i.e., a shock far greater than anything modelled within the ORSA.
- 8.129 The ORSA assigns approximate likelihoods to its scenarios, and those leading to a ~20% reduction in capital are assessed to fall within the 1-in-100 to 1-in-200-year range. Given that my reverse-stress test reflects a shock several times larger than these, I consider the likelihood of such an event to be remote.
- 8.130 Taken together, this analysis provides strong evidence that, in the absence of other stresses, the level of reserve deterioration required to eliminate AZI's Own Funds following the Schemes would be a remote event.

TP – Net Technical Provisions increase by more than 65% = Remote:

- 8.131 I consider the likelihood of this scenario occurring to be remote for similar reasons as given for the RES test above.

REIN – A 50% reduction in the reinsurance asset = Implausible:

- 8.132 Following the Schemes, approximately 93% of AZI's reinsurance protection will be placed with AZ Re.
- 8.133 For the reasons I set out in paragraph 5.101, I consider the likelihood of an AZ Re default to be remote. Even if AZ Re defaulted, the funds withheld arrangement fully collateralises AZI's reinsurance recoveries on its quota share reinsurance because the funds withheld by AZI equal or exceed the recoveries due, and therefore, AZI would not be exposed to any unsecured reinsurance recoverable. Accordingly, an AZ Re default in isolation would not result in any loss to AZI under the quota share reinsurance.
- 8.134 AZI also holds excess of loss cover with AZ Re. If AZ Re defaulted, AZI would be an unsecured creditor in relation to unpaid recoveries under this excess of loss cover. However, even if AZI did not recover anything from this excess of loss cover, it would not lead to a 50% reduction in the reinsurance asset. In addition, the contractual LoC mechanism reduces the unsecured portion. AZ Re is contractually required to procure an LoC if the exposure exceeds a predefined threshold (e.g., 20% of SCR). Where triggered, the LoC provides additional collateral, materially reducing the portion of recoveries that would remain unsecured in the event of default.
- 8.135 The remainder of AZI's reinsurance protection will be placed with a diversified panel of external reinsurers, 99% of which, by exposure, hold credit ratings of A- or above. Even the default of all panel reinsurers - which I consider to be a remote likelihood - would not deplete Own Funds.
- 8.136 I therefore conclude that a 50% reduction in the reinsurance asset, without other stresses, represents an implausible scenario that sits outside the boundary of remote but plausible events.
- 8.137 This assessment is consistent with the scenario analyses included in the Allianz UK 2024 ORSA. The scenario most comparable to my REIN reverse stress test, which incorporated an AZ Re default triggered by a severe catastrophe event, was associated with an estimated return period of around 1-in-1000 years, and this scenario did not deplete Own Funds, so was less extreme than REIN. This further supports the conclusion that the likelihood of my REIN scenario materialising is implausible.

INV - A 23% reduction in the value of the investment portfolio = Remote:

- 8.138 AZI's investment portfolio following the Schemes will be highly diversified, comprising treasury, securitised and corporate bonds, alongside smaller allocations to cash, renewable energy and real estate. More than 95% of the portfolio will be invested in fixed-income securities, which are generally

secure and stable in value. In my experience, a fall of 23% in the overall value of such a portfolio would require an exceptionally severe set of market events, given the low correlation between these asset classes. I therefore consider the likelihood of the INV scenario to be remote.

- 8.139 This view is consistent with the scenario testing included in the Allianz UK 2024 ORSA. The scenarios most comparable to INV produced Own Funds impacts of between 26% and 44% - materially less severe than INV (100%). The estimated return periods for those ORSA scenarios were between 1-in-20 and 1-in-100 years. Since INV represents a significantly greater shock than any of these scenarios, these results indicate that the return period associated with INV is substantially higher, and it supports the conclusion that the likelihood of INV occurring is remote.

COMB 1: Gross Claims Provisions increase by 18% with no reinsurer default, and a 17% reduction in the investment portfolio = Remote:

- 8.140 I consider that an 18% increase in the gross claims provision would represent a severe but still reasonably foreseeable stress for AZI post-Schemes for the following reasons:
- A stress of this magnitude sits materially above the levels of reserve volatility typically observed in the UK general insurance market, but remains within the range of outcomes that could plausibly arise under an extreme but foreseeable deterioration in claims experience.
 - The AZI post-Schemes Internal Model indicates that reserve risk at the 1-in-200 confidence level is a substantial proportion of AZI's claims provisions (17%), and an 18% deterioration is of a comparable order of magnitude. This gives me comfort that such a deterioration, while severe, sits within the tail outcomes contemplated by AZI's risk modelling framework.
- 8.141 AZI's diversified mix of commercial and personal lines reduces the likelihood that a significantly larger deterioration would occur without multiple simultaneous adverse events.
- 8.142 I consider a 17% reduction in the value of the investment portfolio to be remote for the following reasons:
- AZI's post-Schemes investment portfolio will be heavily weighted towards fixed-income securities (96%), which typically exhibit materially lower volatility than other asset classes
 - More than 65% of these investments would be rated at least A, meaning the portfolio will be concentrated in instruments with historically low default and spread-volatility risk.
 - Such a fall would need to be sustained rather than a temporary market shock, in order to crystallise a loss of this magnitude.
 - The AZI post-Schemes Internal Model 1-in-200 market risk stress is 6% of investment assets, meaning a 17% fall is almost triple the extreme shock contemplated within the Internal Model.
 - Market evidence indicates that the worst annual fall in investment-grade corporate bond indices is c.13%, significantly lower than this 17% shock; moreover, AZI's post-Schemes asset mix will include a significant allocation to gilts and other highly secure assets, which exhibit meaningfully lower volatility than corporate bonds.
 - Taking these factors together, I consider a 17% sustained reduction in market value to be remote.
- 8.143 While there may be some correlation between adverse market conditions and claims experience - for example through economic-cycle sensitivity in certain commercial lines - I do not expect the correlation to be strong. Reserve deterioration would typically arise from a wide range of operational or claims-related factors, whereas investment losses tend to be driven by a narrower set of macroeconomic shocks.
- 8.144 Although both of the individual stresses in this combined test are less severe than the shocks used in the individual stress tests, it is the simultaneous occurrence of them that drives the overall severity. In my judgement, such a combination is remote because the events required to generate the individual sub-stresses are not expected to be highly correlated.

COMB 2: Gross Claims Provisions increase by 18%, AZ Re defaults with 75% recovery on amounts exceeding funds-withheld balance, and a 15% reduction in the value of the investment portfolio = Remote:

- 8.145 I concluded in paragraph 8.140 that an 18% increase in the gross claims provision would represent a severe but foreseeable stress.
- 8.146 For the reasons I set out in paragraph 5.101, I consider the likelihood of an AZ Re default to be remote.
- 8.147 Due to the FWH arrangement, AZI is only exposed to counterparty risk in very limited circumstances. Specifically, AZI would only be exposed if (i) a material deterioration in gross claims provisions emerges between quarterly true-ups of the FWH balance; (ii) this deterioration causes the reinsurance recoveries due to exceed the FWH balance; and (iii) AZ Re were to default during this short period before the next true-up restores the collateral position. This is therefore a short-lived timing mismatch risk, rather than a structural failure of the FWH mechanism.
- 8.148 The following factors significantly reduce the likelihood and severity of any loss in this scenario:
- Quarterly true-ups limit the size of the exposed amount: The excess above the FWH balance reflects only deterioration arising during the quarter, net of any implicit collateralisation arising from settlement timing. In practice, this is typically only a small multiple of one quarter's claims emergence and is therefore materially smaller than the total deterioration stress.
 - The contractual LoC mechanism further reduces the unsecured portion. AZ Re is contractually required to procure an LoC if the exposure exceeds a predefined threshold (20% of SCR). Where triggered, the LoC provides additional collateral, materially reducing the portion of recoveries that would remain unsecured in the event of default.
- 8.149 Accordingly, for the purpose of my stress testing, I have assumed that AZI would recover 75% of the portion of reinsurance recoveries temporarily exceeding the FWH balance in the event of an immediate AZ Re default following a severe intra-quarter deterioration. This equates to a 25% haircut on the excess-only portion (not on the full reinsurance recoverable), which I consider to be prudent but reasonable. Given the mitigants in place and the limited size and duration of the unsecured exposure, I do not consider the associated loss to be material in the context of AZI's post-Schemes financial strength.
- 8.150 I have concluded that an 18% increase in the gross claims provision represents a severe but foreseeable stress. I have also concluded that the likelihood of an AZ Re default to be remote and that, even in the event of such a default, the resultant loss to AZI would not be material given the protections afforded by the FWH arrangement. I have established that there is not a material dependency between these two stresses in paragraph 5.118. Accordingly, I conclude that the likelihood of both stresses occurring simultaneously - or in sufficiently close succession such that AZI would be unable to recover – is remote.
- 8.151 I consider the additional investment stress required to reduce assets below liabilities of 15% to be remote for similar reasons as given for a 17% reduction, in paragraph 8.142. I also do not expect a material dependency between this investment stress and a stress to gross claims provisions for the same reasons as given in paragraph 8.143.
- 8.152 An AZ Re default is already remote. The addition of a severe deterioration in the gross claims provision and a remote reduction in the investment asset, especially given that I do not expect a material correlation between the events causing these stresses, leads me to therefore conclude that the overall likelihood of this combined stress test is remote.

COMB 3: Gross Claims Provisions increase by 18%, all panel reinsurers default with no recovery, and a 16% reduction in the value of the investment portfolio = Remote:

- 8.153 I concluded in paragraph 8.140 that an 18% increase in the gross claims provision would represent a severe but still reasonably foreseeable stress.

- 8.154 AZI post-Schemes is expected to hold only around 7% of its reinsurance exposure with reinsurers other than AZ Re. These reinsurers number over twenty and are geographically diversified. The majority are rated AA- or above, meaning that an individual default is unlikely, and the probability of multiple defaults occurring in a narrow timeframe is remote. Even in the event of an insolvency, I would expect some level of recoveries through standard resolution procedures, so assuming zero recoveries from these reinsurers is prudent.
- 8.155 Each reinsurer's exposure to AZI post-Schemes is small and dispersed, and therefore I would not expect any material correlation between a reinsurer default stress and a deterioration in AZI's reserves. Accordingly, the likelihood of these stresses occurring simultaneously - or in sufficiently close succession such that AZI would be unable to recover - is remote.
- 8.156 In addition, an 16% reduction in investment assets would be required for AZI's post-Schemes' assets to fall below its liabilities. As discussed in paragraph 8.142, a sustained reduction of this scale is remote and, in any case, such an investment shock would not be expected to be materially correlated with reserve deterioration or reinsurer defaults.
- 8.157 Having considered the lack of dependency between these stresses, the financial strength of the reinsurers involved, and the scale of deterioration required to materially impact AZI post-Schemes, I consider the overall likelihood of this combined stress to be remote.

COMB 4: Investment portfolio value reduction of 7.5%, and a 43% increase in Gross Claims Provisions, with no reinsurer default = Remote:

- 8.158 A 7.5% reduction in the investment asset of AZI post-Schemes would represent a severe but foreseeable stress. In selecting this stress, I considered a level that was broadly consistent with the AZI post-Schemes Internal Model, in particular the 1-in-200 market risk expressed as a proportion of its investments (6%). I modified this view based on the proportion of fixed income assets (96%), the credit ratings of the assets (65% at least A), and by comparison to the largest historical loss on a corporate bond portfolio (around 13%). A stress of this magnitude sits materially above the levels of volatility typically observed in portfolios of this kind, but remains within the range of outcomes that could plausibly arise under an extreme but foreseeable deterioration in a range of macroeconomic indicators.
- 8.159 I have argued above for COMB_1 that an 18% increase in gross claims provisions is a severe stress, and therefore I consider a 43% stress to be remote. I also argued that this stress is unlikely to have a significant correlation with a stress which affects AZI's post-Schemes investments.
- 8.160 Since I consider the sub-stresses to be severe or remote and uncorrelated, I conclude that the overall likelihood of COMB_4 is remote.

Capital Support

- 8.161 In addition, as discussed in paragraph 8.12, capital support will continue to be available to AZI following the Schemes, as will various other planned recovery options. This adds more certainty that the actual likelihood of AZI post-Schemes being unable to meet its liabilities following the Schemes is remote, although I have not relied on this fact in coming to my conclusions.

Robustness of LVIC before the Schemes

- 8.162 The table below shows the results of the stress tests for LVIC pre-Schemes and AZI post-Schemes (side by side for comparison).
- 8.163 Note that HICO is treated as an equity participation on LVIC's Solvency UK balance sheet. As a result, LVIC recognises HICO at its net asset value within its investments rather than consolidating HICO's underlying assets and liabilities. Accordingly, when applying stress tests to LVIC, I have also considered the corresponding impact of those stresses on HICO's Own Funds, and hence the indirect effect on LVIC's balance sheet (I have shown the HICO impact separately in the table below). Given that HICO's

risk profile is very similar to LVIC's, I have assumed that the same stress scenarios apply to both entities in a consistent manner.

Table 8.10: Results of stress testing as at 30 September 2025 for LVIC pre-Schemes and AZI post-Schemes (£m)

	LVIC	AZI post-Schemes	Difference
BASE			
Net Claims Provisions	824.6	2,078.4	1,253.8
Net Technical Provisions	952.6	2,010.9	1,058.3
Reinsurance Asset Value	997.4	2,621.7	1,624.3
Investment Asset Value	2,549.9	5,681.8	3,131.9
Investment Asset Value (excluding HICO Own Funds)	2,317.9		
Contribution of HICO's Own Funds	232.0		
Own Funds	761.6	1,318.0	556.3
SCR	540.7	893.0	352.3
Solvency Coverage Ratio	141%	148%	7%
RES - Increase Solvency UK net claims provisions until assets fall below liabilities			
Net Claims Provisions increase	538.6	1,318.0	779.4
Net Claims Provisions increase %	65%	63%	-2%
Loss of HICO Own Funds	223.1		
Total loss	761.6		
TP - Increase Net Technical Provisions until assets fall below liabilities			
Net Technical Provisions increase	587.1	1,318.0	730.8
Net Technical Provisions increase %	62%	66%	4%
Loss of HICO Own Funds	174.5		
Total loss	761.6		
REIN - Reduce the reinsurance asset value until assets fall below liabilities			
Reinsurance Asset reduction	572.1	1,318.0	745.9
Reinsurance Asset reduction %	57%	50%	-7%
Loss of HICO Own Funds	189.5		
Total loss	761.6		
INV - Reduce investment asset value until assets fall below liabilities			
Investment Asset Value reduction	581.9	1,318.0	736.1
Investment Asset Value reduction %	25%	23%	-2%
Loss of HICO Own Funds	179.8		
Total loss	761.6		

	LVIC	AZI post-Schemes	Difference
COMB_1 – Increase gross Solvency UK Claims Provisions with no reinsurer default then reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	385.3	743.2	357.9
Gross Claims Provisions increase %	25%	18%	-7%
Reinsurance Asset increase (no default)	206.1	374.1	168.0
Investment Asset Value reduction	388.3	948.9	560.5
Investment Asset Value reduction %	17%	17%	0%
Loss of HICO Own Funds	194.2		
COMB_2 - Increase gross Solvency UK Claims Provisions assuming AZ Re default with 75% recovery on the shortfall in the funds-withheld balance, then reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	385.3	743.2	357.9
Gross Claims Provisions increase %	25%	18%	-7%
Reinsurance Asset increase (no default)	206.1	374.1	168.0
Losses due to default	49.7	87.1	37.3
Investment Asset Value reduction	341.2	861.8	520.5
Investment Asset Value reduction %	15%	15%	0%
Loss of HICO Own Funds	191.5		
COMB_3 - Increase gross Solvency UK Claims Provisions assuming all other reinsurers default with no recoveries and reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	385.3	743.2	357.9
Gross Claims Provisions increase %	25%	18%	-7%
Reinsurance Asset increase (no default)	206.1	374.1	168.0
Losses due to default	7.2	25.8	18.6
Investment Asset Value reduction	371.7	923.1	551.4
Investment Asset Value reduction %	16%	16%	0%
Loss of HICO Own Funds	203.6		
COMB_4 – Reduce investment asset value, then increase gross Solvency UK Claims Provisions assuming no reinsurer default until assets fall below liabilities			
Investment Asset Value reduction	162.3	426.1	263.9
Investment Asset Value reduction %	7.0%	7.5%	0.5%
Gross Claims Provisions increase	835.3	1,795.7	960.5
Gross Claims Provisions increase %	54%	43%	-11%
Reinsurance Asset increase (no default)	446.9	903.9	457.0
Loss of HICO Own Funds	211.0		

8.164 Across all but one of the individual reverse stress tests (the exception being the TP test), the percentage stresses required to exhaust Own Funds are lower post-Schemes for AZI than pre-Schemes for LVIC. By contrast, because AZI post-Schemes has a larger balance sheet, it requires a much larger absolute

deterioration for the same outcome. As a smaller entity, LVIC's Own Funds can be depleted by relatively smaller absolute movements which translate into larger proportionate stresses. These themes also recur across the combination tests.

8.165 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring LVIC Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for LVIC prior to the Schemes.

8.166 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by LVIC pre-Schemes.

8.167 With this in mind, I discuss each test further below.

- RES – A 75% increase in LVIC's and HICO's net claims provisions (c. £1.2bn and £0.4bn gross for LVIC and HICO, respectively, and £1.24bn in aggregate) would be required for LVIC's assets to fall below liabilities or a 63% increase for AZI post-Schemes (c. £2.6bn gross).

I have concluded in paragraph 8.130 that reserve deteriorations of this scale are remote for AZI post-Schemes, and I also consider them remote for LVIC and HICO, notwithstanding LVIC's and HICO's smaller and less diversified personal lines portfolios. The AZI post-Schemes outcome requires a larger absolute reserve deterioration, reflecting that AZI post-Schemes is less sensitive in absolute terms, even though the percentage movements are smaller.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for LVIC before the Schemes (75%) than for AZI following the Schemes (63%) would indicate that the Schemes have an adverse impact on the Transferring LVIC Policyholders. However, both the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes (c. £2.6bn) compared to LVIC prior to the Schemes (£1.24bn) and the greater diversification of AZI post-Schemes relative to LVIC pre-Schemes, indicate that the Schemes would benefit the Transferring LVIC Policyholders.

- TP – A 62% increase in LVIC's and HICO's net Technical Provisions would be required for LVIC's assets to fall below liabilities, or a 66% increase for AZI post-Schemes. I consider movements of this scale to be remote, consistent with my conclusions for RES. LVIC is more sensitive to shocks in percentage terms, because it is a smaller entity and, in addition, increases in HICO's TPs flow through to LVIC's balance sheet amplifying the proportional impact. In addition, because LVIC's Technical Provisions are relatively larger compared to its claims provisions than for AZI post-Schemes, as discussed in paragraph 7.69, AZI post Schemes would require a much larger absolute deterioration for the same outcome.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is a little higher for LVIC before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring LVIC Policyholders, albeit a modest one. However, both the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to LVIC prior to the Schemes and the greater diversification of AZI post-Schemes relative to LVIC pre-Schemes, indicate that the Schemes would benefit the Transferring LVIC Policyholders.

- REIN – LVIC and HICO would both require a 57% reduction in their respective reinsurance assets for LVIC's assets to fall below liabilities; AZI post-Schemes would require a 50% reduction. The absolute reduction for AZI post-Schemes is materially larger. Reinsurance losses of this scale would require AZ Re - which provides 97% of LVIC's cover, 76% of HICO's cover and 93% of AZI's post-Schemes cover – to default, the likelihood of which I concluded in paragraph 5.101 was

remote. And even if AZ Re were to default, LVIC would be protected by the funds withheld mechanism and letter of credit described in paragraph 5.102, confirming that REIN is remote.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for LVIC before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring LVIC Policyholders. However, the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to LVIC prior to the Schemes indicates that the Schemes would benefit the Transferring LVIC Policyholders.

- INV – LVIC and HICO would require a 25% reduction in the value of their investment assets for LVIC's assets to fall below liabilities; AZI post-Schemes would require a 23% reduction. Given the heavily fixed-income composition of the portfolios, the credit ratings of assets, and the scale of shock required, I consider the likelihood of these events to be remote – the largest annual drop in corporate bond values in history was 13% for US corporate bonds, and these portfolios include a mix of corporate bonds and more secure assets including government bonds. The absolute reduction for AZI post-Schemes is significantly larger, again indicating lower absolute sensitivity.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is a little higher for LVIC before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring LVIC Policyholders, albeit a modest one. However, the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to LVIC prior to the Schemes indicates that the Schemes would benefit the Transferring LVIC Policyholders.

- COMB_1 – Increase gross Solvency UK Claims Provisions with no reinsurer default, then reduce the investment asset until assets fall below liabilities = Remote:
 - I consider that a 25% increase in the gross claims provisions represents a severe but still reasonably foreseeable stress for LVIC and HICO for the following reasons:
 - A deterioration of this magnitude is materially above the levels of reserve volatility typically observed in the UK general insurance market, but remains within the range of outcomes that could plausibly arise under extreme but foreseeable adverse claims experience.
 - I compared my selected 25% stress for LVIC with the claims provisions stress which was applied to AZI post-Schemes for COMB_1 (18%). I do not consider the difference to be unreasonable given that LVIC is materially smaller and less diversified than AZI post-Schemes..
 - I consider it reasonable that the severe-but-foreseeable stress applied to LVIC's and HICO's reserves is higher in percentage terms than that applied to AZI post-Schemes. LVIC is materially smaller and significantly less diversified than AZI post-Schemes, with a concentration in Personal Motor and Home that naturally leads to greater reserve volatility. In contrast, AZI post-Schemes is a much larger insurer with meaningful diversification across commercial, specialty and personal lines.
 - Given that I have concluded for COMB_4 below that a stress to LVIC's investments of 7% is severe, I consider a sustained 17% fall in investments, over double the severe stress, would be remote.
 - I would not expect a material correlation between these sub-stresses, since severe shocks to reserves are caused by a wide range of claims-related and operational factors, while severe stresses to an investment portfolio like LVIC's would be caused by a narrower set of macroeconomic shocks.
 - Although both of the individual stresses in this combined test are less severe than the shocks used in the individual stress tests, it is the simultaneous occurrence of them that drives the overall severity. In my judgement, such a combination is remote because the

events required to generate the individual sub-stresses are not expected to be highly correlated.

- COMB_2 – Increase gross Solvency UK Claims Provisions assuming AZ Re default with 75% recovery on the shortfall in the funds-withheld balance, then reduce the investment asset until assets fall below liabilities = Remote:
 - This test assumes a 25% increase in gross claims provision for both LVIC and HICO. I concluded for COMB_1 above that a 25% increase in the gross claims provision would represent a severe but foreseeable stress for LVIC and HICO
 - For the reasons I set out in paragraph 5.101, I consider the likelihood of an AZ Re default to be remote. In addition, for the same reasons I set out in paragraph 5.102, I do not consider that the associated loss from an AZ Re default would be material in the context of LVIC's or AZI's post-Schemes financial strength given the mitigants provided by the FWH arrangement and the contractual LoC mechanism.
 - I have established that there is not a material dependency between reserve deteriorations and AZ Re defaulting in paragraph 5.117. Accordingly, I conclude that the likelihood of both stresses occurring simultaneously - or in sufficiently close succession such that LVIC or AZI post-Schemes would be unable to recover – is remote.
 - Given that I have concluded for COMB_4 below that a stress to LVIC's investments of 7% is severe, I consider a sustained 15% fall in investments, over double the severe stress, would be remote. I also would not expect a correlation between this sub-stress and the others, for the same reasons as given for COMB_1.
 - Since the combination of a 25% deterioration in the gross claims provision and an AZ Re default is already remote, and the further investment stress of 15% is both remote and not correlated to the reserves stress, I conclude that the overall likelihood of this combined stress test is remote
- COMB_3 – Increase gross Solvency UK Claims Provisions assuming all other reinsurers default with no recoveries and reduce the investment asset until assets fall below liabilities = Remote:
 - This test assumes a 25% increase in gross claims provision for both LVIC and HICO. I concluded for COMB_1 above that a 25% increase in the gross claims provision would represent a severe but foreseeable stress for LVIC and HICO
 - LVIC and HICO hold only around 3% and 24%, respectively, of their reinsurance exposure with reinsurers other than AZ Re. These reinsurers number over forty and are geographically diversified. The majority are rated AA- or above, meaning that individual default is unlikely, and the probability of multiple defaults occurring in a narrow timeframe is remote. Even in the event of insolvency, I would expect some level of recoveries through standard resolution procedures, so assuming zero recoveries is prudent
 - Each reinsurer's exposure to LVIC and HICO is small and dispersed, and therefore I would not expect any material correlation between a reinsurer default stress and a deterioration in LVIC and HICO's reserves. Accordingly, the likelihood of these stresses occurring simultaneously - or in sufficiently close succession such that LVIC and HICO would be unable to recover – is remote.
 - In addition, a 16% reduction in LVIC's and HICO's investment assets would be required for LVIC's assets to fall below its liabilities. As discussed for COMB_4 below, a sustained reduction of this scale of 7% is severe so I consider a 16% stress remote and, additionally, such an investment shock, caused by macroeconomic shocks, would not be expected to be materially correlated with reserve deterioration or reinsurer defaults, caused by a wide range of operational and claims-related factors.

- Having considered the lack of dependency between these stresses, the financial strength of the reinsurers involved, and the scale of deterioration required to materially impact LVIC or AZI post-Schemes, I consider the overall likelihood of this combined stress to be remote.
 - COMB_4 - Reduce investment asset value, then increase gross Solvency UK Claims Provisions assuming no reinsurer default = Remote:
 - A 7% reduction in the investment assets of LVIC and HICO would represent a severe but foreseeable stress. In selecting this stress, I considered LVIC's Standard Formula calculation, in particular the 1-in-200 market risk expressed as a proportion of its investments (7%), as well as the proportion of fixed income assets (100%), the credit ratings of the assets (73% at least A), and the largest historical loss on a corporate bond portfolio (13%). A stress of this magnitude sits materially above the levels of volatility typically observed in portfolios of this kind, but remains within the range of outcomes that could plausibly arise under an extreme but foreseeable deterioration in a range of macroeconomic indicators. I consider it reasonable that the severe-but-foreseeable stress applied to LVIC is lower in percentage terms than that applied to AZI post-Schemes since LVIC has a higher proportion of fixed-income assets (100% vs 96%), with stronger credit ratings (37% AAA-rated, vs 29%) and lower durations (2.5 vs 3).
 - This test assumes a 54% increase in gross claims provision for both LVIC and HICO. I have concluded above for COMB_1 that a 25% increase in gross claims provisions is a severe stress and so I consider a 45% stress, nearly double the size, to be remote. I also consider that this stress is unlikely to have a significant correlation with a stress which affects LVIC's investments, as I concluded for COMB_1
 - Since I consider the sub-stresses to be severe or remote and uncorrelated, I conclude that the overall likelihood of COMB_4 is remote.
 - I consider all of these stresses to be remote for both LVIC and AZI post-Schemes. I recognise that, in most cases, LVIC requires larger percentage deteriorations than AZI post-Schemes for its assets to fall below its liabilities. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring LVIC policyholders. I also recognise that, in all scenarios, because AZI post-Schemes has a significantly larger balance sheet than LVIC, it requires a much larger absolute deterioration for the same outcome; while LVIC, as a smaller entity, can have its Own Funds depleted by smaller absolute movements.
 - As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by LVIC pre Schemes.
- 8.168 Given the results of the stress testing above, I am satisfied that the likelihood of AZI after the Schemes being unable to meet its obligations to the Transferring LVIC Policyholders as they fall due is remote.

Robustness of HICO before the Schemes

- 8.169 The table below shows the results of the stress tests for HICO pre-Schemes and AZI post-Schemes (side by side for comparison).
- 8.170 I note that as a subsidiary of LVIC, under scenarios where HICO would enter financial difficulty, it would benefit from LVIC's parental support, however, for prudence, I have carried out my stress testing without relying on this assumption.

Table 8.11: Results of stress testing as at 30 September 2025 for HICO pre-Schemes and AZI post-Schemes (£m)

	HICO	AZI post-Schemes	Difference
BASE			
Net Claims Provisions	248.5	2,078.4	1,829.8
Net Technical Provisions	283.1	2,010.9	1,727.8
Reinsurance Asset Value	330.5	2,621.7	2,291.3
Investment Asset Value	716.1	5,681.8	4,965.7
Own Funds	232.0	1,318.0	1,086.0
SCR	130.4	893.0	762.6
Solvency Coverage Ratio	178%	148%	-30%
RES - Increase Solvency UK net claims provisions until assets fall below liabilities			
Net Claims Provisions increase	232.0	1,318.0	1,086.0
Net Claims Provisions increase%	93%	63%	-30%
TP - Increase Technical Provisions until assets fall below liabilities			
Net Technical Provisions increase	232.0	1,318.0	1,086.0
Net Technical Provisions increase%	82%	66%	-16%
REIN - Reduce the reinsurance asset value until assets fall below liabilities			
Reinsurance Asset Value reduction	232.0	1,318.0	1,086.0
Reinsurance Asset Value reduction%	70%	50%	-20%
INV - Reduce investment asset value until assets fall below liabilities			
Investment Asset Value reduction	232.0	1,318.0	1,086.0
Investment Asset Value reduction%	32%	23%	-9%
COMB_1 – Increase gross Solvency UK Claims Provisions with no reinsurer default then reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	163.6	743.2	579.6
Gross Claims Provisions increase %	30%	18%	-12%
Reinsurance Asset increase (no default)	74.6	374.1	299.5
Investment Asset Value reduction	142.9	948.9	805.9
Investment Asset Value reduction %	20%	17%	-3%
COMB_2 - Increase gross Solvency UK Claims Provisions assuming AZ Re default with 75% recovery on the shortfall in the funds-withheld balance, then reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	163.6	743.2	579.6
Gross Claims Provisions increase %	30%	18%	-12%
Reinsurance Asset increase (no default)	74.6	374.1	299.5

	HICO	AZI post-Schemes	Difference
Losses due to default	14.3	87.1	72.8
Investment Asset Value reduction	128.7	861.8	733.1
Investment Asset Value reduction %	18%	15%	-3%
COMB_3 - Increase gross Solvency UK Claims Provisions assuming all other reinsurers default with no recoveries and reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	163.6	743.2	579.6
Gross Claims Provisions increase %	30%	18%	-12%
Reinsurance Asset increase (no default)	74.6	374.1	299.5
Losses due to default	17.5	25.8	8.2
Investment Asset Value reduction	125.4	923.1	797.7
Investment Asset Value reduction %	18%	16%	-1%
COMB_4 – Reduce investment asset value, then increase gross Solvency UK Claims Provisions assuming no reinsurer default until assets fall below liabilities			
Investment Asset Value reduction	50.1	426.1	376.0
Investment Asset Value reduction %	7%	7.5%	0.5%
Gross Claims Provisions increase	334.1	1,795.7	1,461.6
Gross Claims Provisions increase %	61%	43%	-18%
Reinsurance Asset increase (no default)	152.3	903.9	751.7

- 8.171 Across all individual reverse stress tests, the percentage stresses required to exhaust Own Funds are lower post-Schemes for AZI than pre-Schemes for HICO. By contrast, because AZI post-Schemes has a substantially larger balance sheet, it requires a much larger absolute deterioration for the same outcome. As a much smaller entity, HICO's Own Funds can be depleted by relatively smaller absolute movements which translate into larger proportionate stresses. These themes also recur across the combination tests.
- 8.172 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for HICO prior to the Schemes.
- 8.173 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by HICO pre-Schemes.
- 8.174 With this in mind, I discuss each test further below.
- RES - A 93% increase in HICO's net claims provisions (c. £0.4bn gross) or a 63% increase for AZI post-Schemes (c. £2.7bn gross) would be required for assets to fall below liabilities, without reinsurer default.

I have concluded in paragraph 8.130 that reserve deteriorations of this scale are remote for AZI post-Schemes, and I consider them similarly remote for HICO, notwithstanding HICO's smaller and

less diversified personal lines portfolio of business. The AZI post-Schemes outcome requires a substantially larger absolute reserve deterioration, reflecting that AZI post-Schemes is less sensitive in absolute terms, even though the percentage movements are smaller.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for HICO before the Schemes (93%) than for AZI following the Schemes (63%) would indicate that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, both the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes (c. £2.6bn) compared to HICO prior to the Schemes (£0.4bn) and the greater diversification of AZI post-Schemes relative to HICO pre-Schemes, indicate that the Schemes would benefit the Transferring HICO Policyholders.

- TP - HICO would require an 82% increase in net Technical Provisions and AZI post-Schemes would require a 66% increase for assets to fall below liabilities. In absolute terms, the required AZI post-Schemes movement is significantly larger, indicating lower absolute sensitivity. I consider the likelihood of movements of this size to be remote, consistent with my conclusions for RES.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is a higher for HICO before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, both the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to HICO prior to the Schemes and the greater diversification of AZI post-Schemes relative to HICO pre-Schemes, indicate that the Schemes would benefit the Transferring HICO Policyholders..

- REIN – HICO would require a 70% reduction in its reinsurance asset for assets to fall below liabilities; AZI post-Schemes would require a 50% reduction. Again, the absolute reduction for AZI is larger. Such losses would require the default of AZ Re (which provides 77% of HICO's cover and 93% of AZI's cover) to default, the likelihood of which I concluded in paragraph 5.101 was remote. And even if AZ Re were to default, HICO would be protected by the funds withheld mechanism and letter of credit described in paragraph 5.102, confirming that REIN is remote.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for HICO before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to HICO prior to the Schemes indicates that the Schemes would benefit the Transferring HICO Policyholders.

- INV – HICO would require a 32% reduction in investment values for assets to fall below liabilities; AZI post-Schemes would require a 23% reduction. As I have argued for AZI post-Schemes above, given the predominance of fixed-income assets, the credit ratings of assets, and the scale of shock required, I consider the likelihood of these movements to be remote. The absolute reduction required for AZI is significantly larger, again indicating lower absolute sensitivity.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for HICO before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to HICO prior to the Schemes indicates that the Schemes would benefit the Transferring HICO Policyholders.

- COMB_1 – Increase gross Solvency UK Claims Provisions with no reinsurer default then reduce the investment asset until assets fall below liabilities = Remote:
 - I consider that a 30% increase in the gross claims provisions represents a severe but foreseeable stress for HICO for the following reasons:

- A deterioration of this magnitude is materially above the levels of reserve volatility typically observed in the UK general insurance market, but remains within the range of outcomes that could plausibly arise under extreme but foreseeable adverse claims experience.
- Performing a comparison of HICO's Standard Formula insurance stress at the 1-in-200 confidence level (35%) and AZI's post-Schemes Internal Model 1-in-200 underwriting stress (33%), as a proxy for the relative reserves stresses, I considered the claims provisions stress which was applied to AZI post-Schemes for COMB_1 (18%). I reviewed the difference between my selected 30% stress for HICO and the 18% stress for AZI post-Schemes. I do not consider the difference to be unreasonable given that HICO is materially smaller and significantly less diversified than AZI post-Schemes, with a concentration in Personal Motor and Home that naturally leads to greater reserve volatility, and AZI post-Schemes is a much larger insurer with meaningful diversification across commercial and personal lines; but this is offset by HICO's lines of business being less volatile than the commercial and specialty business within AZI post-Schemes.
- I consider a sustained 20% fall in investments for HICO would be remote, as it is nearly triple the severe but foreseeable stress of 7% which I argue for when discussing COMB_4 below.
- I would not expect a material correlation between these sub-stresses, since severe shocks to reserves are caused by a wide range of claims-related and operational factors, while severe stresses to an investment portfolio like HICO's would be caused by a narrower set of macroeconomic shocks.
- Although both of the individual stresses in this combined test are less severe than the shocks used in the individual stress tests, it is the simultaneous occurrence of them that drives the overall severity. In my judgement, such a combination is remote because the events required to generate the individual sub-stresses are not expected to be highly correlated.
- COMB_2 – Increase gross Solvency UK Claims Provisions assuming AZ Re default with 75% recovery on the shortfall in the funds-withheld balance, then reduce the investment asset until assets fall below liabilities = Remote:
 - This test assumes a 30% increase in gross claims provision for HICO. I concluded for COMB_1 above that a 30% increase in the gross claims provision would represent a severe but still reasonably foreseeable stress for HICO
 - For the reasons I set out in paragraph 5.101, I consider the likelihood of an AZ Re default to be remote. In addition, for the same reasons I set out in paragraph 5.102, I do not consider that the associated loss from an AZ Re default would be material in the context of HICO's financial strength given the mitigants provided by the FWH arrangement and the contractual LoC mechanism.
 - I have established that there is not a material dependency between reserve deteriorations and AZ Re defaulting in paragraph 5.118. Accordingly, I conclude that the likelihood of both stresses occurring simultaneously - or in sufficiently close succession such that HICO would be unable to recover – is remote.
 - I consider a sustained 18% fall in investments for HICO would be remote, as it is over double the severe but foreseeable stress of 7% which I argue for when I discuss for COMB_4.
 - Given that two of these sub-stresses are remote, and one severe, I consider this combined stress to be remote.

- COMB_3 – Increase gross Solvency UK Claims Provisions assuming all other reinsurers default with no recoveries and reduce the investment asset until assets fall below liabilities = Remote:
 - This test assumes a 30% increase in gross claims provision for HICO. I concluded for COMB_1 above that a 30% increase in the gross claims provision would represent a severe but still reasonably foreseeable stress for HICO
 - HICO holds 24% of its reinsurance, by exposure, with reinsurers other than AZ Re. These other reinsurers with significant exposure number over twenty, and it is a remote possibility that they would all default in a narrow timeframe considering they are dispersed globally and unlikely to be exposed to very similar risks. Moreover, on default, I would expect some level of recoveries from these reinsurers through standard resolution procedures, so the assumption of no recoveries is prudent
 - In addition, a sustained 18% reduction in HICO's investment asset would be required for HICO's assets to fall below its liabilities. I consider this stress remote as it is over double the severe stress of 7% I argue for when I discuss COMB_4 below. Additionally, such an investment shock, caused by macroeconomic shocks, would not be expected to be materially correlated with reserve deterioration or reinsurer defaults, caused by a wide range of operational and claims-related factors.
 - Having considered the lack of dependency between these stresses, the financial strength of the reinsurers involved, and the scale of deterioration required to materially impact HICO or AZI post-Schemes, I consider the overall likelihood of this combined stress to be remote.
- COMB_4 - Reduce investment asset value, then increase gross Solvency UK Claims Provisions assuming no reinsurer default = Remote:
 - A 7% reduction in the investment assets of HICO would represent a severe but foreseeable stress. In selecting this stress, I considered HICO's Standard Formula calculation, in particular the 1-in-200 market risk expressed as a proportion of its investments (4%), as well as the proportion of fixed income assets (100%), the credit ratings of the assets (76% at least A), and the largest historical loss on a corporate bond portfolio (13%). I chose a 7% stress in order to be consistent with LVIC, given that their portfolios are very similar, and the lower volatility implied by the low 1-in-200 market stress is offset by the small size of HICO's portfolio making it more vulnerable to shocks. A stress of this magnitude sits materially above the levels of volatility typically observed in portfolios of this kind, but remains within the range of outcomes that could plausibly arise under an extreme but foreseeable deterioration in a range of macroeconomic indicators.
 - I have argued above for COMB_1 that a 30% increase in gross claims provisions is a severe stress, and therefore the 61% reserves stress required to further deplete HICO's assets would be remote. I also argued for COMB_1 that this stress is unlikely to have a significant correlation with a stress which affects HICO's investments.
 - Since I consider the sub-stresses to be severe and remote and uncorrelated, I conclude that the overall likelihood of COMB_4 is remote
- I consider all of these stresses to be remote for both HICO and AZI post-Schemes. I recognise that, in most cases, HICO requires larger percentage deteriorations than AZI post-Schemes for its assets to fall below its liabilities. As I mentioned above, when this metric is considered in isolation, it indicates an adverse impact on the Transferring Policyholders. However, I also recognise that, in all scenarios, because AZI post-Schemes has a significantly larger balance sheet than HICO, it requires a much larger absolute deterioration for the same outcome; while HICO, as a smaller entity, can have its Own Funds depleted by smaller absolute movements. When that metric is considered in isolation, it indicates a benefit to the Transferring Policyholders.

- As I explain in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses to be more meaningful for the Transferring Policyholders because of the security provided by the significantly larger balance sheet. Given that and the fact that both companies have access to the same management actions and parental support, I am satisfied that the level of security against financial stresses provided by AZI post-Schemes is not materially weaker than that provided by HICO pre-Schemes.

8.175 Given the results of the stress testing above, I am satisfied that the likelihood of AZI after the Schemes being unable to meet its obligations to the Transferring HICO Policyholders as they fall due is remote.

Robustness of FIL before the Schemes

8.176 The table below shows the results of the stress tests for FIL pre-Schemes and AZI post-Schemes (for comparison):

Table 8.12: Results of stress testing as at 30 September 2025 for FIL pre-Schemes and AZI post-Schemes (£m)

	FIL	AZI post-Schemes	Difference
BASE			
Net Claims Provisions	-2.2	2,078.4	2,080.6
Net Technical Provisions	-2.1	2,010.9	2,013.0
Reinsurance Asset Value	47.6	2,621.7	2,574.1
Investment Asset Value	15.2	5,681.8	5,666.6
Own Funds	13.5	1,318.0	1,304.4
SCR	3.5	893.0	889.5
Solvency Coverage Ratio	387%	148%	-239%
RES - Increase Solvency UK net claims provisions until assets fall below liabilities			
Net Claims Provisions increase	13.5	1,318.0	1,304.4
Net Claims Provisions increase%	-615%	63%	679%
TP - Increase Solvency UK Technical Provisions until assets fall below liabilities			
Net Technical Provisions increase	13.5	1,318.0	1,304.4
Net Technical Provisions increase%	-645%	66%	710%
REIN - Reduce the reinsurance asset value until assets fall below liabilities			
Reinsurance Asset Value reduction	13.5	1,318.0	1,304.4
Reinsurance Asset Value reduction%	28%	50%	22%
INV - Reduce investment asset value until assets fall below liabilities			
Investment Asset Value reduction	13.5	1,318.0	1,304.4
Investment Asset Value reduction%	89%	23%	-66%

	FIL	AZI post-Schemes	Difference
COMB_2 - Increase gross Solvency UK Claims Provisions assuming AZ Re defaults with 75% recovery on the shortfall in the funds-withheld balance, then reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	15.9	743.2	727.3
Gross Claims Provisions increase %	35%	18%	-17%
Reinsurance Asset increase (no default)	15.9	374.1	358.2
Losses due to default	4.0	87.1	83.1
Investment Asset Value reduction	9.6	861.8	852.2
Investment Asset Value reduction %	63%	15%	-48%

8.177 My comments are as follows:

- Across all but one of the individual reverse stress tests (the exception being the REIN test), the percentage stresses required to exhaust Own Funds are lower post-Schemes for AZI than pre-Schemes for FIL. By contrast, because AZI post-Schemes has a substantially larger balance sheet, it requires a much larger absolute deterioration for the same outcome. As a much smaller entity, FIL's Own Funds can be depleted by relatively smaller absolute movements which translate into larger proportionate stresses. These themes also recur across the combination tests.
- If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring FIL Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for FIL prior to the Schemes.
- As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by FIL pre-Schemes.
- A £13.5m loss is required to deplete FIL's Own Funds. Given that this portfolio is effectively fully reinsured to AZ Re (up to 200% of the reserves at 31 December 2024, i.e. £114m gross), it would require a significant gross reserve deterioration that exhausts the reinsurance coverage provided by AZ Re in order to deplete FIL's Own Funds, and I consider such a deterioration remote given the volatility of similar portfolios in the market. By comparison, the deterioration in gross reserves required to deplete AZI's post-Schemes Own Funds is £2.6bn (64%), which I also consider remote, as concluded in paragraph 8.130.

If considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for FIL before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring FIL Policyholders. However, both the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to FIL prior to the Schemes and the greater diversification of AZI post-Schemes relative to FIL pre-Schemes, indicate that the Schemes would benefit the Transferring FIL Policyholders.

- Alternatively, given that this portfolio is effectively fully reinsured such a loss could arise from an AZ Re default with limited recoveries. For the reasons I set out in paragraph 5.101, I consider the likelihood of an AZ Re default to be remote. In addition, FIL's reinsurance is on a funds-withheld basis, which further limits the severity and likelihood of its losses in the event of a default, as

discussed in paragraph 5.102. 93% of AZI's post-Schemes reinsurance cover will be provided by AZ Re, so a depletion of its Own Funds through reinsurer default would also require AZ Re to default, therefore this is also remote.

I note that the deterioration in reinsurance asset which would be required to deplete FIL's Own Funds pre-Schemes is significantly smaller than for AZI post-Scheme, both in percentage terms (28% for FIL compared to 50% for AZI post-Schemes) and absolute terms (£13.5m for FIL compared to £1.3bn for AZI post-Schemes). This indicates that the Schemes would benefit Transferring TIL Policyholders..

- The 89% stress required to investments in order to reduce FIL's assets below liabilities is extreme in percentage terms and I consider it to sit outside the boundary of remote but plausible events. I also consider the 23% stress to AZI's post-Schemes in order to deplete its Own Funds remote, as I have argued in paragraph 8.139 above.

If considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for FIL before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Transferring FIL Policyholders. However, the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes (£1.3bn) compared to FIL prior to the Schemes (£13.5m) indicates that the Schemes would benefit the Transferring FIL Policyholders.

- COMB_2, a severe reserve deterioration coupled with an AZ Re default is realistically the only way in which FIL's Own Funds could be depleted:
 - I consider that a 35% increase in gross claims provisions represents a severe but reasonably foreseeable stress for FIL for the following reasons:
 - A deterioration of this magnitude is materially above the levels of reserve volatility typically observed in the UK general insurance market, but remains within the range of outcomes that could plausibly arise under extreme but foreseeable adverse claims experience. One possible scenario causing a loss of this magnitude would be an exceptional subsidence surge, leading to a large number of new or reopened subsidence claims.
 - I compared my selected 35% stress for FIL with the claims provisions stress which was applied to AZI post-Schemes for COMB_1 (18%). I do not consider the difference to be unreasonable given that FIL is in run-off, materially smaller and less diversified than AZI post-Schemes
 - This scenario assumes that AZ Re defaults. However, as I discussed in the bullet above, the likelihood of AZ Re defaulting is remote and FIL is further protected by the funds-withheld mechanism in this event.
 - There is an additional 63% investment stress which I consider to be implausible given the level of cash held by FIL. Furthermore, as I discussed in paragraph 5.118, I do not expect any material correlation between reserve deteriorations and AZ Re defaulting, especially given the run-off nature of FIL's business. Therefore the overall likelihood of this stress is remote for FIL.
- I consider all of these stresses to be remote for both FIL and AZI post-Schemes. I recognise that, in most cases, FIL requires larger percentage deteriorations than AZI post-Schemes for its assets to fall below its liabilities. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring FIL policyholders. I also recognise that, in all scenarios, because AZI post-Schemes has a significantly larger balance sheet than FIL, it requires a much larger absolute deterioration for the same outcome; while FIL, as a smaller entity, can have its Own Funds depleted by smaller absolute movements.

- As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by FIL pre-Schemes

8.178 Given the results of the stress testing above, I am satisfied that the likelihood of AZI after the Schemes being unable to meet its obligations to the Transferring FIL Policyholders as they fall due is remote.

Robustness of TIL before the Schemes

8.179 The table below shows the results of the stress tests for TIL pre-Schemes and AZI post-Schemes (side by side for comparison).

8.180 Note that TIL's Group Cash Pool asset, described in paragraph 10.16, is a significant component of its own funds. TIL also holds an investment portfolio of 100% cash, so the investment stresses performed for the other Companies do not apply to TIL. Therefore I have replaced the individual INV test and altered the combination tests replacing investment asset stresses with stresses to the Group Cash Pool, as these tests are more relevant to TIL's risk profile. I have not performed these updated tests for AZI post-Schemes for comparison, as the Group Cash Pool is not a material component of AZI post-Scheme's Own Funds.

Table 8.13: Results of stress testing as at 30 September 2025 for TIL pre-Schemes and AZI post-Schemes (£m)

	TIL	AZI post-Schemes	Difference
BASE			
Net Claims Provisions	0.6	2,078.4	2,077.7
Net Technical Provisions	0.6	2,010.9	2,010.3
Reinsurance Asset Value	3.7	2,621.7	2,618.0
Cash Pool Asset	9.7		
Own Funds	8.9	1,318.0	1,309.0
SCR	3.5	893.0	889.5
SCR Coverage Ratio	255%	148%	-107%
RES - Increase Solvency UK net claims provisions until assets fall below liabilities			
Net Claims Provisions increase	8.9	1,318.0	1,309.0
Net Claims Provisions increase%	1453%	63%	-1390%
TP - Increase Solvency UK Technical Provisions until assets fall below liabilities			
Net Technical Provisions increase	8.9	1,318.0	1,309.0
Net Technical Provisions increase%	1390%	66%	-1324%
REIN - Reduce the reinsurance asset value until assets fall below liabilities			
Reinsurance Asset Value reduction	8.9	1,318.0	1,309.0
Reinsurance Asset Value reduction %	239%	50%	-189%

	TIL	AZI post-Schemes	Difference
GCP - Reduce the cash pool asset value until assets fall below liabilities			
Cash Pool Asset reduction	8.9		
Cash Pool Asset reduction %	92%		
COMB_1_CashPool – Increase gross Solvency UK Claims Provisions with no reinsurer default then reduce the Group Cash Pool asset until assets fall below liabilities			
Gross Claims Provisions increase	1.7		
Gross Claims Provisions increase %	40.0%		
Reinsurance Asset increase (no default)	0.2		
Group Cash Pool Asset Value reduction	7.4		
Group Cash Pool Asset Value reduction %	77%		
COMB_2_CashPool - Increase gross Solvency UK Claims Provisions assuming AZ Re default with 75% recovery on the shortfall in the funds-withheld balance, then reduce the Group Cash Pool asset until assets fall below liabilities			
Gross Claims Provisions increase	1.7		
Gross Claims Provisions increase %	40.0%		
Reinsurance Asset increase (no default)	0.2		
Losses due to default	0.0		
Group Cash Pool Asset Value reduction	7.4		
Group Cash Pool Asset Value reduction %	77%		
COMB_3_CashPool - Increase gross Solvency UK Claims Provisions assuming all other reinsurers default with no recoveries and reduce the Group Cash Pool asset until assets fall below liabilities			
Gross Claims Provisions increase	1.7		
Gross Claims Provisions increase %	40.0%		
Reinsurance Asset increase (no default)	0.2		
Losses due to default	0.1		
Group Cash Pool Asset Value reduction	7.3		
Group Cash Pool Asset Value reduction %	75%		
COMB_4_CashPool – Reduce Group Cash Pool asset value, then increase gross Solvency UK Claims Provisions assuming no reinsurer default until assets fall below liabilities			
Group Cash Pool Asset Value reduction	2.4		
Group Cash Pool Asset Value reduction %	25%		
Gross Claims Provisions increase	7.6		
Gross Claims Provisions increase %	174%		
Reinsurance Asset increase (no default)	1.1		

8.181 My comments are as follows:

- Across all of the individual reverse stress tests, the percentage stresses required to exhaust Own Funds are lower post-Schemes for AZI than pre-Schemes for TIL. By contrast, because AZI post-Schemes has a substantially larger balance sheet, it requires a much larger absolute deterioration for the same outcome. As a much smaller entity, TIL's Own Funds can be depleted by relatively smaller absolute movements which translate into larger proportionate stresses. These themes also recur across the combination tests.
- If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring TIL Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for TIL prior to the Schemes.
- As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by TIL pre-Schemes.
- An £8.9m loss would be required to deplete TIL's Own Funds. Given that this portfolio is highly reinsured and TIL holds cash, such a loss would require a combination of a reinsurer default and a severe reserve deterioration, or a deterioration in the Group Cash Pool asset, or a combination of these stresses. AZI post-Schemes is exposed to a wider variety of events which could deplete its Own Funds, including reserve deterioration without reinsurer default and deteriorations in its investment asset. I have concluded above that these stresses are remote, however they remain possible whereas they are not possible for TIL.

In isolation, this wider exposure to events which could deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring TIL Policyholders. However, the fact that the absolute level of deterioration required for AZI's assets to fall below liabilities post-Schemes is hugely higher than for TIL pre-Schemes (£1.3bn v £8.9m) indicates a benefit of the Schemes for Transferring TIL policyholders.

- TIL has 45% of its reinsurance exposure with AZ Re, which I concluded in paragraph 5.101 has a remote likelihood of defaulting. The remainder of its reinsurance exposure is to five global reinsurers, four of which are rated AA- or above, and are therefore extremely unlikely to default within a similar timeframe. I therefore consider the likelihood of this scenario to be remote. Moreover, as shown by REIN the loss of TIL's entire reinsurance asset would not deplete Own Funds. As discussed above, AZ Re would also need to default for AZI's post-Schemes Own Funds to be depleted by reinsurer default, and so this is remote.

When considered in isolation, the fact that AZI post-Schemes' Own Funds could be depleted by a deterioration in its reinsurance asset while TIL's could not, would indicate that the Schemes have an adverse impact on the Transferring TIL Policyholders. However, given my conclusion that AZI's Own Funds being depleted in this way is remote, I consider that this does not constitute a material adverse impact.

- Since its Group Cash Pool asset is also material for TIL, I have considered what stress to this would result in assets dropping below liabilities. This reduction, 92%, is remote since the Group Cash Pool invests in high quality, low duration assets, TIL can access funds daily, and exposure is booked as a receivable against Allianz SE, which is AA-rated. AZI's post-Schemes exposure to the Group Cash Pool is not material, and no deterioration to this asset would deplete its Own Funds. This test is not directly comparable to the INV stress for AZI post-Schemes, since the Group Cash Pool has exposures to other group entities and since TIL does not manage the assets directly, but it is the closest comparable test.

I note that the percentage deterioration in the Group Cash Pool which would be required to reduce TIL's assets below its liabilities (92%) is much larger than the percentage reduction in assets that would be needed to reduce AZI's assets below its liabilities post-Schemes (23%). Taken in isolation, this could indicate that the Schemes adversely impact the Transferring TIL Policyholders. However the absolute deterioration required (£8.9m for TIL compared to £1.3bn for AZI) is massively larger for AZI post-Schemes, and this indicates a benefit of the Schemes for Transferring TIL policyholders.

- The results of each of the combined stress tests show that given a severe stress to either gross claims provisions or the Group Cash Pool asset, the further stresses required to reduce assets below liabilities are much higher than the stresses judged to be severe – this is as expected given that TIL holds assets to meet the AMCR, which is significantly higher than its capital requirements would be without this floor in place. Therefore I consider these stresses all to be remote.
- For any given percentage stress, the absolute impact on AZI post-Schemes is considerably larger than for TIL. Because TIL has a very small balance sheet, some of the stresses could be achieved by a single loss event. This is not the case for AZI post-Schemes, whose larger and more diversified balance sheet requires materially greater absolute shocks for assets to fall below liabilities. AZI post-Schemes is therefore more robust to stresses in absolute terms.
- I recognise that, in most cases, TIL requires larger percentage deteriorations than AZI post-Schemes for its assets to fall below its liabilities. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring TIL policyholders. I also recognise that, in all scenarios, because AZI post-Schemes has a significantly larger balance sheet than TIL, it requires a much larger absolute deterioration for the same outcome; while TIL, as a smaller entity, can have its Own Funds depleted by smaller absolute movements.
- As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by TIL pre-Schemes

8.182 Given the results of the stress testing above, I am satisfied that the likelihood of AZI after the Schemes being unable to meet its obligations to Existing TIL Policyholders as they fall due is remote.

Robustness of AZI before the Schemes

8.183 The table below shows the results of the stress tests for AZI pre-Schemes and AZI post-Schemes (side by side for comparison).

8.184 Note that, as I discuss in paragraph 8.69 and in section 4, while I consider the AZI pre-Schemes financial position presented in the table below to be an appropriate basis for my analysis, it may be conservative. If so, it would imply that an adverse stress event - or combination of stresses - totalling more than £666.5m would be required for AZI's assets to fall below its liabilities.

8.185 Please note that unlike for LVIC with its subsidiary HICO, this testing does not account for the participation of TIL's Own Funds in AZI's pre-Scheme investments – this is because TIL's Own Funds are not material in comparison to AZI's balance sheet.

Table 8.14: Results of stress testing as at 30 September 2025 for AZI pre-Schemes and AZI post-Schemes (£m)

	AZI	AZI post-Schemes	Difference
BASE			
Net Claims Provisions	1,006.8	2,078.4	1,071.5

	AZI	AZI post-Schemes	Difference
Net Technical Provisions	793.3	2,010.9	1,217.6
Reinsurance Asset Value	1,242.4	2,621.7	1,379.3
Investment Asset Value	2,771.6	5,681.8	2,910.3
Own Funds	666.5	1,318.0	651.4
SCR	474.1	893.0	418.9
Solvency Coverage Ratio	141%	148%	7%
RES - Increase Solvency UK net claims provisions until assets fall below liabilities			
Net Claims Provisions increase	666.5	1,318.0	651.4
Net Claims Provisions increase %	66%	63%	-3%
TP - Increase Solvency UK Technical Provisions until assets fall below liabilities			
Net Technical Provisions increase	666.5	1,318.0	651.4
Net Technical Provisions increase %	84%	66%	-18%
REIN - Reduce the reinsurance asset value until assets fall below liabilities			
Reinsurance Asset Value reduction	666.5	1,318.0	651.4
Reinsurance Asset Value reduction %	54%	50%	-3%
INV - Reduce investment asset value until assets fall below liabilities			
Investment Asset Value reduction	666.5	1,318.0	651.4
Investment Asset Value reduction %	24%	23%	-1%
COMB_1 – Increase gross Solvency UK Claims Provisions with no reinsurer default then reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	398.5	743.2	344.7
Gross Claims Provisions increase %	20%	18%	-2%
Reinsurance Asset increase (no default)	201.4	374.1	172.7
Investment Asset Value reduction	469.4	948.9	479.5
Investment Asset Value reduction %	17%	17%	0%
COMB_2 - Increase gross Solvency UK Claims Provisions assuming AZ Re default with 75% recovery on the shortfall in the funds-withheld balance, then reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	398.5	743.2	344.7
Gross Claims Provisions increase %	20%	18%	-2%
Reinsurance Asset increase (no default)	201.4	374.1	172.7
Losses due to default	48.6	87.1	38.5
Investment Asset Value reduction	420.8	861.8	441.0
Investment Asset Value reduction %	15%	15%	0%

	AZI	AZI post-Schemes	Difference
COMB_3 - Increase gross Solvency UK Claims Provisions assuming all other reinsurers default with no recoveries and reduce the investment asset until assets fall below liabilities			
Gross Claims Provisions increase	398.5	743.2	344.7
Gross Claims Provisions increase %	20%	18%	-2%
Reinsurance Asset increase (no default)	201.4	374.1	172.7
Losses due to default	7.1	25.8	18.7
Investment Asset Value reduction	462.3	923.1	460.8
Investment Asset Value reduction %	17%	16%	0%
COMB_4 – Reduce investment asset value, then increase gross Solvency UK Claims Provisions assuming no reinsurer default until assets fall below liabilities			
Investment Asset Value reduction	221.7	426.1	204.4
Investment Asset Value reduction %	8%	7.5%	-0.5%
Gross Claims Provisions increase	899.1	1,795.7	896.6
Gross Claims Provisions increase %	45%	43%	-2%
Reinsurance Asset increase (no default)	454.3	903.9	449.6

- 8.186 Across all individual reverse stress tests, the percentage stresses required to exhaust Own Funds are lower post-Schemes for AZI post-Schemes than for pre-Schemes. By contrast, because AZI post-Schemes has a larger balance sheet, it requires a much larger absolute deterioration for the same outcome. As a smaller entity, AZI's pre-Schemes Own Funds can be depleted by relatively smaller absolute movements which translate into larger proportionate stresses. These themes also recur across the combination tests.
- 8.187 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of AZI at the different points in time, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Existing Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for AZI prior to the Schemes.
- 8.188 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post-Schemes is not materially weaker than that provided by AZI pre-Schemes.
- 8.189 With this in mind, I discuss each test further below:
- RES – A 68% increase in AZI pre-Schemes net claims provisions (c. £1.3bn gross) or a 63% increase for AZI post-Schemes (c. £2.7bn gross) would be required for assets to fall below liabilities, without reinsurer default. I have concluded in paragraph 8.130 for AZI post-Schemes that the likelihood of reserve deteriorations of these magnitudes is remote, and I consider them similarly remote for AZI pre-Schemes, notwithstanding its smaller and less diversified portfolio of commercial and specialty business. The AZI post-Schemes outcome involves a larger absolute reserve deterioration, reflecting that AZI post-Schemes is less sensitive in absolute terms.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for AZI before the Schemes (66%) than for AZI following the Schemes

(63%), albeit slightly, would indicate that the Schemes have an adverse impact on the Existing Policyholders, albeit a modest one. However, both the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes (c. £2.7bn) compared to AZI prior to the Schemes (£1.3bn) and the greater diversification of AZI post-Schemes relative to AZI pre-Schemes, indicate that the Schemes would benefit the Existing Policyholders.

- TP – AZI pre-Schemes would require an 84% increase in net Technical Provisions for assets to fall below liabilities, and AZI post-Schemes would require a 66% increase. I consider movements of this scale to be remote, consistent with my conclusions for RES. The post-Schemes entity again requires a larger absolute deterioration, and therefore exhibits lower absolute sensitivity. I note that the stress for AZI pre-Schemes is significantly larger than for RES, which is due to AZI's large negative net premium provisions, as discussed in paragraph 7.69, causing its Technical Provisions to be relatively smaller and therefore require a larger percentage reduction to produce the same absolute reduction.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is higher for AZI before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Existing Policyholders. However, both the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to AZI prior to the Schemes and the greater diversification of AZI post-Schemes relative to AZI pre-Schemes, indicate that the Schemes would benefit the Existing Policyholders.

- REIN – AZI pre-Schemes would require a 54% reduction in its reinsurance asset for assets to fall below liabilities, and AZI post-Schemes would require a 50% reduction. The absolute reduction required for AZI post-Schemes is larger because of its larger balance sheet. A reinsurance loss of this scale would require AZ Re - which provides 97% of AZI pre-Schemes cover and 93% of AZI post-Schemes cover - to default with low recoveries. Such an event is implausible, as I argued in paragraph 8.136.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is a little higher for AZI before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Existing Policyholders, albeit a modest one. However, the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to AZI prior to the Schemes indicates that the Schemes would benefit the Existing Policyholders.

- INV – AZI pre-Schemes would require a 24% reduction in the value of its investment asset for assets to fall below liabilities, and AZI post-Schemes would require a 23% reduction. Given the heavily fixed-income composition of the portfolios, the credit ratings of assets, and the scale of shock required, I consider the likelihood of these events to be remote – the largest annual drop in corporate bond values in history was 13% for US corporate bonds, and these portfolios include a mix of corporate bonds and more secure assets including government bonds. The difference in percentage shocks between AZI pre-Schemes and post-Schemes is not material, but the absolute reduction needed for AZI post-Schemes is significantly larger, reflecting its lower sensitivity to absolute shocks.

As mentioned above, if considered in isolation, the fact that the percentage stress required to deplete Own Funds is slightly higher for AZI before the Schemes than for AZI following the Schemes would indicate that the Schemes have an adverse impact on the Existing Policyholders, albeit a modest one. However, the fact that the absolute stress required to deplete Own Funds is considerably higher for AZI following the Schemes compared to AZI prior to the Schemes indicates that the Schemes would benefit the Existing Policyholders.

- COMB_1 – Increase gross Solvency UK Claims Provisions with no reinsurer default then reduce the investment asset until assets fall below liabilities = Remote:

- I consider that a 20% increase in the gross claims provisions represents a severe but still foreseeable stress for AZI pre-Schemes for the following reasons:
 - A deterioration of this magnitude is materially above the levels of reserve volatility typically observed in the UK general insurance market, but remains within the range of outcomes that could plausibly arise under extreme but foreseeable adverse claims experience.
 - AZI's pre-Schemes Internal Model calculations indicate that reserve risk at the 1-in-200 confidence level is a substantial proportion of its claims provisions (20%). A 20% stress is consistent with these tail outcomes, giving me comfort that such a deterioration, while severe, is consistent with the risk profile contemplated by its modelling framework.
 - I consider it reasonable that the severe-but-foreseeable stress applied to AZI's pre-Schemes reserves is higher in percentage terms than that applied to AZI post-Schemes. AZI pre-Schemes is materially smaller and significantly less diversified than AZI post-Schemes, with a concentration in commercial and specialty business that naturally leads to greater reserve volatility. In contrast, AZI post-Schemes is a much larger insurer with meaningful diversification across commercial, specialty and personal lines.
- I consider a sustained 17% fall in investments for AZI pre-Schemes would be remote, given that it is over twice as severe as the 8% reduction which I argue for COMB_4 below is a severe stress.
- I would not expect a material correlation between these sub-stresses, since severe shocks to reserves are caused by a wide range of claims-related and operational factors, while severe stresses to an investment portfolio like AZI's pre-Schemes would be caused by a narrower set of macroeconomic shocks.
- Although both of the individual stresses in this combined test are less severe than the shocks used in the individual stress tests, it is the simultaneous occurrence of them that drives the overall severity. In my judgement, such a combination is remote because the events required to generate the individual sub-stresses are not expected to be highly correlated.
- COMB_2 – Increase gross Solvency UK Claims Provisions assuming AZ Re default with 75% recovery on the shortfall in the funds-withheld balance, then reduce the investment asset until assets fall below liabilities = Remote:
 - This test assumes a 20% increase in gross claims provision for AZI pre-Schemes. I concluded for COMB_1 above that a 20% increase in the gross claims provision would represent a severe but still foreseeable stress for AZI pre-Schemes
 - For the reasons I set out in paragraph 5.101, I consider the likelihood of an AZ Re default to be remote. In addition, for the same reasons I set out in paragraph 5.102, I do not consider that the associated loss from an AZ Re default would be material in the context of AZI's pre-Schemes or post-Schemes financial strength given the mitigants provided by the FWH arrangement and the contractual LoC mechanism.
 - I have established that there is not a material dependency between reserve deteriorations and AZ Re defaulting in paragraph 5.118. Accordingly, I conclude that the likelihood of both stresses occurring simultaneously - or in sufficiently close succession such that AZI pre-Schemes or post-Schemes would be unable to recover – is remote.
 - The additional 15% investment stress required to reduce AZI's pre-Schemes assets below liabilities is nearly double the severe stress I argue for COMB_4 below therefore I consider it remote. Furthermore, the combination of a 20% deterioration in the gross claims provision and an AZ Re default is already remote, and not expected to correlate with an investment stress. I therefore conclude that the overall likelihood of this combined stress test is remote

- COMB_3 – Increase gross Solvency UK Claims Provisions assuming all other reinsurers default with no recoveries and reduce the investment asset until assets fall below liabilities = Remote:
 - I concluded for COMB_1 above that a 20% increase in the gross claims provision would represent a severe but still foreseeable stress for AZI pre-Schemes
 - AZI pre-Schemes holds only around 3%, of its exposure with reinsurers other than AZ Re. Of these, reinsurers with significant exposure number four, but all are rated at least AA-, meaning that individual default is unlikely, and the probability of multiple defaults occurring in a narrow timeframe is remote. Even in the event of insolvency, I would expect some level of recoveries through standard resolution procedures, so assuming zero recoveries is prudent
 - Each reinsurer's exposure to AZI pre-Schemes is small and dispersed, and therefore I would not expect any material correlation between a reinsurer default stress and a deterioration in AZI's pre-Schemes reserves. Accordingly, the likelihood of these stresses occurring simultaneously - or in sufficiently close succession such that AZI pre-Schemes would be unable to recover – is remote.
 - In addition, a 17% reduction in AZI's pre-Schemes investment assets would be required for its assets to fall below its liabilities. As discussed for COMB_4 below, a sustained reduction of 8% would be severe, so a reduction of over double this is remote and, additionally, such an investment shock, caused by macroeconomic shocks, would not be expected to be materially correlated with reserve deterioration or reinsurer defaults, caused by a wide range of operational and claims-related factors.
 - Having considered the lack of dependency between these stresses, the financial strength of the reinsurers involved, and the scale of deterioration required to materially impact AZI pre-Schemes or post-Schemes, I consider the overall likelihood of this combined stress to be remote.
- COMB_4 - Reduce investment asset value, then increase gross Solvency UK Claims Provisions assuming no reinsurer default = Remote:
 - An 8% reduction in the investment assets of AZI pre-Schemes would represent a severe but foreseeable stress. In selecting this stress, I considered AZI's pre-Schemes Internal Model calculation, in particular the 1-in-200 market risk expressed as a proportion of its investments (7%), as well as the proportion of fixed income assets (92%), the credit ratings of the assets (57% at least A), and the largest historical loss on a corporate bond portfolio (13%). A stress of this magnitude sits materially above the levels of volatility typically observed in portfolios of this kind, but remains within the range of outcomes that could plausibly arise under an extreme but foreseeable deterioration in a range of macroeconomic indicators.
 - I consider it reasonable that the stress considered severe for AZI pre-Schemes is higher than for AZI post-Schemes because AZI's pre-Schemes portfolio is smaller and less weighted to fixed income and highly-rated assets.
 - I have argued above for COMB_1 that a 20% increase in gross claims provisions is a severe stress, so I consider the 45% increase in gross claims provisions for AZI pre-Schemes here to be remote. Moreover, this stress is unlikely to have a significant correlation with a stress which affects AZI's pre-Schemes investments.
 - Since I consider the sub-stresses to be severe and remote respectively, and uncorrelated, I conclude that the overall likelihood of COMB_4 is remote
- I consider all of these stresses to be remote for both AZI pre-Schemes and AZI post-Schemes. I recognise that, in most cases, AZI pre-Schemes requires larger percentage deteriorations than AZI post-Schemes for its assets to fall below its liabilities. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of AZI at the different points in time, a

comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Existing Policyholders. I also recognise that, in all scenarios, because AZI post-Schemes has a significantly larger balance sheet than AZI pre-Schemes, it requires a much larger absolute deterioration for the same outcome; while AZI pre-Schemes, as a smaller entity, can have its Own Funds depleted by smaller absolute movements.

- As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by AZI pre Schemes

8.190 Given the results of the stress testing above, I am satisfied that the likelihood of AZI after the Schemes being unable to meet its obligations to the Existing Policyholders as they fall due is remote.

AZI dividend following the Schemes

8.191 In the balance sheets presented earlier in this section and in the stress testing above, I assumed that AZI would pay a £130m dividend following the Schemes, the Part VII Driven Capital Release, and I reflected this as a reduction in the investment asset compared to the pre-Schemes total. I understand from AZI that this is the projected dividend within its current business plan which it could release following the Schemes.

8.192 I believe it is reasonable to consider the balance sheets and testing on this basis because AZI's rationale for the size of the potential dividend is to maintain a buffer above its target solvency coverage ratio. Therefore, for AZI to choose to release a significantly higher dividend would require either this rationale or the expected target solvency coverage ratio to materially change, both of which I consider to be unlikely based on my discussions with the Companies. Therefore, the balance sheet and testing presented is, in my view, likely to be a reasonably foreseeable representation of AZI post-Schemes as at 30 September 2025.

8.193 I also consider it important for me to consider the financial position and testing after allowing for the dividend because the payment of the dividend represents an adverse impact on policyholders seeing as it leaves less capital in AZI post-Schemes than the total capital in the Transferors pre-Scheme. It was therefore important, through my stress testing, for me to consider whether this adverse impact was material.

8.194 It would, in theory, be possible for AZI post-Schemes to release a higher dividend which reduces its solvency coverage ratio to the Assumed Target Ratio of 130%. However, equally, the Companies could release dividends on a similar basis such that their solvency coverage ratios reduce to their target ratios prior to the Schemes. Therefore it is my opinion that such a higher dividend from AZI post-Schemes (above the Part VII Driven Capital Release of £130m) would not be as a result of the Schemes.

8.195 Furthermore, AZI has informed me that it will continue, post-Schemes, to assess its dividend capacity by considering various solvency stresses and any such dividend would be subject to Board approval and consulting with the PRA with these mechanisms preventing a proposed dividend which would so materially reduce AZI's solvency as to cause a material detriment to policyholders' security.

8.196 Therefore, I am satisfied that my presentation of figures on the basis of the expected post-Schemes dividend provides a reasonably foreseeable view of the impact of the Schemes.

Conclusion

8.197 Based on the analysis set out in Section 8, I conclude the following.

Regulatory capital methodology:

8.198 As discussed in paragraphs 8.20 to 8.52, I consider the methodology, assumptions and governance used by the Companies to calculate their regulatory capital requirements to be appropriate and consistent with Solvency UK. Their approaches provide a reliable basis for assessing the security available to policyholders.

Solvency positions before and after the Schemes:

8.199 As set out in paragraph 8.66, the solvency coverage ratio of AZI post-Schemes is expected to be higher than those of AZI and LVIC pre-Schemes, reflecting the greater diversification and capital efficiency of the enlarged AZI entity. This indicates a benefit to the security of the Existing Policyholders and the Transferring LVIC Policyholders arising from the Schemes.

8.200 The solvency coverage ratios of HICO, FIL and TIL are expected to decrease post-Schemes. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, this metric indicates that the Schemes have an adverse impact on the Transferring HICO, FIL and TIL Policyholders; however, this reduction should not be interpreted as a weakening of policyholder security for the following reasons:

- The Transferors calculate their SCRs using the Standard Formula, whereas AZI uses an approved Internal Model. As a result, percentage solvency coverage ratios are not directly comparable across entities, because the Internal Model is more risk-sensitive and reflects AZI-specific risk drivers and diversification effects, whereas the Standard Formula applies more generic, less granular stresses. Accordingly, similar-looking solvency ratios between the Transferors and AZI should not be interpreted as implying similar levels of financial resilience; indeed, where ratios appear close, the Internal Model position will generally represent a stronger underlying capital position.
- Furthermore, AZI's pre- and post-Schemes solvency positions used in my analysis may be conservative. The pre-Schemes position reflects an adjustment for a known Q4 2025 dividend, which temporarily reduces AZI's coverage ratio relative to its typical operating range. The post-Schemes position reflects the assumed full payment of the £130m Part VII-driven capital release; if this release is lower or not paid, AZI's post-Schemes solvency ratio would be higher.
- Notwithstanding these conservative assumptions, AZI post-Schemes will be a substantially larger and more diversified insurer with materially greater absolute Own Funds and a significantly higher surplus above its SCR than any of HICO, FIL or TIL hold individually pre-Schemes. This represents a benefit to the Transferring HICO Policyholders, the Transferring FIL Policyholders and the Transferring TIL Policyholders.

8.201 In absolute terms, AZI post-Schemes will provide a much stronger capital buffer than any of the Transferors on a standalone basis, even after allowing for the assumed capital release. This represents a benefit to the Transferring Policyholders and Existing Policyholders.

Ability of AZI post-Schemes to withstand financial stress:

8.202 As set out in paragraphs 8.66 and 8.122 to 8.161, I am satisfied that the likelihood of AZI post-Schemes having insufficient assets to meet its liabilities is remote. Stress and reverse-stress testing demonstrate that only extremely adverse, remote scenarios - well beyond those considered reasonably foreseeable - would exhaust the capital resources of AZI post-Schemes. I therefore do not expect the Schemes to result in weaker policyholder security. On the contrary, AZI post-Schemes is materially more resilient to severe stresses than the Transferors on a standalone basis.

Parental support:

8.203 As noted in paragraphs 8.10 to 8.13, AZI would continue to benefit from the financial strength of the Allianz UK Group and Allianz SE Group in the unlikely event it experienced difficulties meeting its obligations. Prior to the Schemes, FIL and TIL also have access to parental support; however, given their small scale and run-off status, they are not central to the strategic priorities of the wider Allianz Group. In contrast, AZI is a core, live operating entity and consequently sits much closer to the centre of group-level oversight, governance and capital prioritisation, so this indicates a potential benefit of the

Schemes for the Transferring FIL Policyholders and the Transferring TIL Policyholders. However, I note that my conclusions do not depend on Group support being provided.

9 Policyholder Security

9.1 In this section, I describe the effect of the Schemes on each group of policyholders with regards to security, including under insolvency, and explain how I have reached my conclusions.

Impact of the Schemes on the solvency positions of the Companies

9.2 The capital requirements and the approach to calculating the SCRs of the Companies are discussed in section 8.

9.3 The table below shows the reasonably foreseeable solvency coverage ratios before the Schemes for each of the Companies and for AZI following the Schemes. The information in the table is the same as the information in tables 8.4 to 8.8, but I have repeated it here for convenience. These figures are presented as at 30 September 2025, rather than the Effective Date, so that additional uncertainty from projecting into the future is avoided.

9.4 As noted earlier, AZI’s pre- and post-Schemes solvency coverage ratios should be interpreted with caution, as both reflect a conservative point-in-time position - including adjustments for the known Q4 2025 dividend and the assumption of a full £130m Part VII Driven Capital Release for AZI post-Schemes.

9.5 In addition, AZI calculates its SCR using an Internal Model, whereas LVIC and HICO calculate theirs using the Standard Formula. For this reason, solvency coverage ratios across entities are not directly comparable, and identical percentage coverage does not necessarily imply equivalent underlying financial resilience.

Table 9.1: Solvency coverage as at 30 September 2025 (£m)

	AZI	LVIC	HICO	FIL	TIL	AZI post-Schemes
Eligible Own Funds (EOF)	666.5	761.6	232.0	13.5	8.9	1318.0
Solvency Capital Requirement (SCR)	474.1	540.7	130.4	3.5	3.5	893.0
Surplus of EOF above SCR	192.5	221.0	101.6	10.0	5.4	425.0
Solvency coverage ratio	141%	141%	178%	387%	255%	148%

AZI

9.6 Before the Schemes, AZI’s solvency coverage ratio is 141%, which is above its target solvency ratio of 130%. This ratio reflects a conservative, point-in-time position, as it has been adjusted for the known Q4 2025 dividend and therefore sits below the level at which AZI has typically operated in recent years.

9.7 As a result of the Schemes, AZI’s solvency coverage ratio is expected to increase to 148% which also reflects a conservative post-Schemes position, as it assumes the full £130m Part VII-driven capital release is paid. Even after this adjustment, the ratio remains significantly above the Assumed Target Ratio of 130% (the target level after the Schemes is not yet confirmed).

LVIC

9.8 Before the Schemes, LVIC’s solvency coverage ratio is 141%, which is above its target solvency ratio of 130%.

- 9.9 After the Schemes, LVIC will have no liabilities except in respect of any Excluded Policies (and the Jersey Policies should the Jersey Scheme not be effected at the Effective Date) and will hold £3.5m of assets in order to meet its MCR. LVIC will maintain this position until any remaining policies can be transferred to AZI, and for up to nine months, after which it will be deauthorised and dissolved.

HICO

- 9.10 Before the Schemes, HICO's solvency coverage ratio is 178%, which is above its target solvency ratio of 130%.
- 9.11 After the Schemes, HICO will have no liabilities except in respect of any Excluded Policies (and the Jersey Policies should the Jersey Scheme not be effected at the Effective Date) and will hold assets in order to meet its MCR. HICO will maintain this position until any remaining policies can be transferred to AZI, and for up to nine months, after which it will be deauthorised and dissolved.

FIL

- 9.12 Before the Schemes, FIL's solvency coverage ratio is 387%, which is above its target solvency ratio of 200%.
- 9.13 After the Schemes, FIL will have no liabilities except in respect of any Excluded Policies (and the Jersey Policies should the Jersey Scheme not be effected at the Effective Date) and will hold assets in order to cover its MCR. FIL will maintain this position until any remaining policies can be transferred to AZI, and for up to nine months, after which it will be deauthorised and dissolved.

TIL

- 9.14 Before the Schemes, TIL's solvency coverage ratio is 255%.
- 9.15 After the Schemes, TIL will have no liabilities except in respect of any Excluded Policies and will hold assets in order to cover its MCR. TIL will maintain this position until any remaining policies can be transferred to AZI, and for up to nine months, after which it will be deauthorised and dissolved.

Impact of the Schemes on the Security of the Transferring Policyholders

- 9.16 As discussed in paragraphs 8.10 to 8.13, all of the Companies currently have access to the same options for improving their capital positions, and following the Schemes, AZI will continue to have access to these options. The one exception is there being less scope to rebalance capital between entities, which I do not regard as an issue since the capital will already be contained in AZI following the Schemes. Therefore, there will be no change to the security the Transferring Policyholders benefit from, in respect of these options, although I note that FIL and TIL are smaller run-off entities, and therefore pre-Schemes may experience less focus at group level, as I discuss in paragraphs 9.47 and 9.60.

Transferring LVIC Policyholders

- 9.17 The Transferring LVIC Policyholders will move to a company with a higher expected solvency coverage ratio (+7%) than LVIC. Furthermore, AZI's post-Schemes ratio is itself potentially a conservative figure, as it already reflects the assumed full £130m Part VII-driven capital release. Considered in isolation, this indicates a benefit to the security of the Transferring LVIC Policyholders arising from the Schemes.

- 9.18 Although the solvency coverage ratios for AZI post-Schemes and LVIC may appear similar, they are not directly comparable. AZI calculates its SCR using an Internal Model, which is more risk-sensitive than the Standard Formula used by LVIC and better reflects the diversification of AZI's broader portfolio post-Schemes. As a result, for a similar solvency coverage ratio, an Internal-Model entity such as AZI would typically be expected to be more resilient than a Standard-Formula entity, because the underlying capital requirement is calibrated using a more sophisticated, risk-sensitive methodology. I consider this to represent a benefit of the Schemes for the Transferring LVIC Policyholders, reflecting a stronger and more robust assessment of solvency and resilience post-Schemes than is suggested by a simple comparison of solvency ratios.
- 9.19 Following the Schemes, AZI will also have more than one-and-a-half times the net assets that LVIC has before the Schemes, and a higher absolute surplus of EOF above SCR (+£204m). This materially enhances its ability to absorb adverse shocks. The Transferring LVIC Policyholders will therefore benefit from being part of a much larger and more diversified company with reduced volatility and greater operational resilience. I consider this to represent a benefit of the Schemes for the Transferring LVIC Policyholders.
- 9.20 Per my stress testing in paragraphs 8.162 to 8.168, I am satisfied that AZI will provide at least as much security for its policyholders against financial stresses following the Schemes as LVIC does before the Schemes.
- 9.21 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring LVIC Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for LVIC prior to the Schemes.
- 9.22 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by LVIC pre-Schemes.
- 9.23 Following the Schemes, Allianz UK's enterprise risk management approach will remain the same.
- 9.24 Both LVIC and AZI are incorporated in the UK and so both are subject to Solvency UK and both are subject to the same regulations regarding wind-up and capital extraction.
- 9.25 I understand from the Companies that all of LVIC's policyholders currently have access to the FSCS. I further understand from the Companies that the Transferring LVIC Policyholders will continue to have access to the FSCS following the Schemes, in the event of AZI becoming insolvent.
- 9.26 When the benefits and adverse impacts of the Schemes are considered in aggregate, I do not expect there to be a material adverse impact on the security of the Transferring LVIC Policyholders, including under insolvency, as a result of the Schemes.

Transferring HICO Policyholders

- 9.27 The Transferring HICO Policyholders will move to a company with a lower expected solvency coverage ratio (-30%) than HICO, but one still comfortably in excess of the Assumed Target Ratio. If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, this metric indicates that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, I do not consider this to be a material adverse impact for the reasons discussed below. I also note that AZI's post-Schemes ratio is itself potentially a conservative figure, as it already reflects the assumed full £130m Part VII-driven capital release.

- 9.28 While HICO's solvency coverage ratio is higher, the ratios are not directly comparable. AZI's SCR is calculated using an Internal Model, whereas HICO's is based on the Standard Formula. For a given risk profile, an Internal-Model SCR is more risk-sensitive and better reflects the diversification of AZI's broader portfolio post-Schemes. As a result, a lower Internal-Model solvency ratio can still reflect stronger underlying resilience than a higher Standard-Formula ratio. I consider this to represent a benefit of the Schemes for the Transferring HICO Policyholders, reflecting a stronger and more robust assessment of solvency and resilience post-Schemes than is suggested by a simple comparison of solvency ratios.
- 9.29 In absolute terms, following the Schemes, AZI will have nearly six times the net assets of HICO and more than four times the absolute surplus of EOF over SCR, making it better able to withstand shocks in absolute terms. The Transferring HICO Policyholders will also benefit from being part of a much larger company with reduced volatility and greater operational resilience. I consider this to represent a benefit of the Schemes for the Transferring HICO Policyholders.
- 9.30 Per my stress testing in paragraphs 8.169 to 8.190, I am satisfied that AZI will provide at least as much security for its policyholders against financial stresses following the Schemes as HICO does before the Schemes.
- 9.31 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring HICO Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for HICO prior to the Schemes.
- 9.32 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by HICO pre-Schemes.
- 9.33 It follows that HICO's higher solvency ratio does not provide substantial additional benefit to policyholders as the probability of AZI being unable to meet its obligations to policyholders following the Schemes is remote. Consequently, in my view, any adverse impact to the Transferring HICO Policyholders of moving to a company with lower solvency coverage ratio does not constitute a material adverse impact.
- 9.34 Following the Schemes, Allianz UK's enterprise risk management approach will remain the same.
- 9.35 Both HICO and AZI are incorporated in the UK and so both are subject to Solvency UK and both are subject to the same regulations regarding wind-up and capital extraction.
- 9.36 I understand from the Companies that all of HICO's policyholders currently have access to the FSCS. I further understand from the Companies that the Transferring HICO Policyholders will continue to have access to the FSCS following the Schemes, in the event of AZI becoming insolvent.
- 9.37 When the benefits and adverse impacts of the Schemes are considered in aggregate, I do not expect there to be a material adverse impact on the security of the Transferring HICO Policyholders, including under insolvency, as a result of the Schemes.

Transferring FIL Policyholders

- 9.38 The Transferring FIL Policyholders will move to a company with a far lower expected solvency coverage ratio (-239%) than FIL. This is to be expected since FIL is a run-off entity, and so would tend to target a higher solvency coverage ratio than an active insurer. However, AZI's solvency coverage ratio is expected to remain comfortably in excess of the Assumed Target Ratio following the Schemes and

AZI's post-Schemes ratio is itself potentially a conservative figure, as it already reflects the assumed full £130m Part VII-driven capital release. Considered in isolation, the reduction in the headline solvency coverage ratio indicates an adverse movement for the Transferring FIL Policyholders. However, I do not consider this to be a material adverse impact for the reasons discussed below.

- 9.39 Following the Schemes, AZI will have a substantially larger balance sheet than FIL, with over 97 times the Eligible Own Funds, making it more resilient to shocks in absolute terms. The Transferring FIL Policyholders will also benefit from being part of a much larger company with reduced volatility and greater operational resilience. I consider this to represent a benefit of the Schemes for the Transferring FIL Policyholders.
- 9.40 Per my stress testing in paragraphs 8.176 to 8.177, I am satisfied that AZI will provide at least as much security for its policyholders against financial stresses following the Schemes as FIL does before the Schemes.
- 9.41 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring FIL Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for FIL prior to the Schemes.
- 9.42 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by FIL pre-Schemes.
- 9.43 It follows that FIL's higher solvency ratio does not provide substantial additional benefit to policyholders as the probability of AZI being unable to meet its obligations to policyholders following the Schemes is remote and because AZI is a substantially larger entity. Consequently, in my view, any adverse impact to the Transferring FIL Policyholders of moving to a company with a lower solvency coverage ratio does not constitute a material adverse impact.
- 9.44 AZI is an active insurer and therefore has more scope to adjust its business plan to respond to adverse events. I consider the Schemes to benefit the Transferring FIL Policyholders in this respect.
- 9.45 Following the Schemes, Allianz UK's enterprise risk management approach will remain the same.
- 9.46 The Companies have informed me that they are in the process of creating papers covering the Solvent Exit requirements coming into force in July 2026. The Solvent Exit Analysis will not cover FIL as run-off entities are out of scope. However, the Transferring FIL Policyholders will, following the Schemes, be policyholders of an insurer that is within scope of Solvent Exit Planning. I consider this to be a benefit of the Schemes from a regulatory planning perspective.
- 9.47 Based on the information available to me, I have no reason to expect that Allianz UK Group or Allianz SE Group would withhold support from FIL prior to the Schemes. However, FIL is a small run off entity and is not central to the strategic priorities of the wider Allianz Group. In my experience, parental support within large insurance groups is typically primarily focused on major live insurers that are integral to the group's ongoing strategy rather than on small run off companies. In respect of ongoing group support, I consider it a benefit of the Schemes that the Transferring FIL Policyholders will transfer to the predominant live insurer within the Allianz UK Group, which is integral to the Group's ongoing strategy.
- 9.48 Both FIL and AZI are incorporated in the UK and so both are subject to Solvency UK and both are subject to the same regulations regarding wind-up and capital extraction.

- 9.49 I understand from the Companies that all of FIL's policyholders currently have access to the FSCS. I further understand from the Companies that the Transferring FIL Policyholders will continue to have access to the FSCS following the Schemes, in the event of AZI becoming insolvent.
- 9.50 When the benefits and adverse impacts of the Schemes are considered in aggregate,, I do not expect there to be a material adverse impact on the security of the Transferring FIL Policyholders, including under insolvency, as a result of the Schemes.

Transferring TIL Policyholders

- 9.51 The Transferring TIL Policyholders will move to a company with a far lower expected solvency coverage ratio (-107%) than TIL. This is to be expected since TIL is a run-off entity, and so would tend to target a higher solvency coverage ratio than an active insurer. However, AZI's solvency coverage ratio is expected to remain comfortably in excess of the Assumed Target Ratio following the Schemes and AZI's post-Schemes ratio is itself potentially a conservative figure, as it already reflects the assumed full £130m Part VII-driven capital release. Considered in isolation, the reduction in the headline solvency coverage ratio indicates an adverse impact for the Transferring TIL Policyholders. However, I do not consider this to be a material adverse impact for the reasons discussed below.
- 9.52 In particular, following the Schemes, AZI will have a substantially larger balance sheet than TIL, with over 147 times the Eligible Own Funds, making it more resilient to shocks. The Transferring TIL Policyholders will also benefit from being part of a much larger company with reduced volatility and greater operational resilience. I consider this to represent a benefit of the Schemes for the Transferring TIL Policyholders.
- 9.53 Per my stress testing in paragraphs 8.176 to 8.177, I am satisfied that AZI will provide at least as much security for its policyholders against financial stresses following the Schemes as TIL does before the Schemes.
- 9.54 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Transferring TIL Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for TIL prior to the Schemes.
- 9.55 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by TIL pre-Schemes.
- 9.56 It follows that TIL's higher solvency ratio does not provide substantial additional benefit to policyholders as the probability of AZI being unable to meet its obligations to policyholders following the Schemes is remote and because AZI is a substantially larger entity. Consequently, any adverse impact to the Transferring TIL Policyholders of moving to a company with a lower solvency coverage ratio does not constitute a material adverse impact.
- 9.57 AZI is an active insurer and therefore has more scope to adjust its business plan to respond to adverse events. I consider the Schemes to benefit the Transferring FIL Policyholders in this respect.
- 9.58 Following the Schemes, Allianz UK's enterprise risk management approach will remain the same.
- 9.59 The Companies have informed me that they are in the process of creating papers covering the Solvent Exit requirements coming into force in July 2026. The Solvent Exit Analysis will not cover TIL as run-off entities are out of scope. However, the Transferring TIL will, following the Schemes, be policyholders of

- an insurer that is within scope of Solvent Exit Planning. I consider this to be a benefit of the Schemes from a regulatory planning perspective.
- 9.60 Based on the information available to me, I have no reason to expect that Allianz UK Group or Allianz SE Group would withhold support from TIL prior to the Schemes. However, TIL is a small run off entity and is not central to the strategic priorities of the wider Allianz Group. In my experience, parental support within large insurance groups is typically primarily focused on major live insurers that are integral to the group's ongoing strategy rather than on small run off companies. In respect of ongoing group support, I consider it a benefit of the Schemes that the Transferring TIL Policyholders will transfer to the predominant live insurer within the Allianz UK Group, which is integral to the Group's ongoing strategy.
- 9.61 Furthermore, as discussed in paragraph 8.8, the Transferring TIL Policyholders will be moving into an entity with a defined target solvency ratio, which is a positive change in respect of risk management and governance. And, as discussed in paragraph 10.18, the Transferring TIL Policyholders will also be moving into an entity which undertakes a greater degree of liquidity monitoring. I consider the Schemes to benefit the Transferring TIL Policyholders in this respect.
- 9.62 Both TIL and AZI are incorporated in the UK and so both are subject to Solvency UK and both are subject to the same regulations regarding wind-up and capital extraction.
- 9.63 I understand from the Companies that all of TIL's policyholders currently have access to the FSCS. I further understand from the Companies that the Transferring TIL Policyholders will continue to have access to the FSCS following the Schemes, in the event of AZI becoming insolvent.
- 9.64 When the benefits and adverse impacts of the Schemes are considered in aggregate,, I do not expect there to be a material adverse impact on the security of the Transferring TIL Policyholders, including under insolvency, as a result of the Schemes.

Impact of the Schemes on the Security of the Existing Policyholders

- 9.65 The Existing Policyholders will remain in AZI, which will have an increased expected solvency coverage ratio (+7%) following the Schemes. This indicates a benefit to the security of the Existing Policyholders arising from the Schemes.
- 9.66 In addition, its net assets and its surplus of EOF over SCR will be roughly twice as large following the Schemes than before the Schemes, making it better able to withstand absolute shocks. The Existing Policyholders will benefit from AZI being a much larger company with reduced volatility and greater operational resilience. I consider this to represent a benefit of the Schemes for the Existing Policyholders.
- 9.67 Per my stress testing in paragraphs 8.183 to 8.190, I am satisfied that AZI will provide at least as much security for its policyholders against financial stresses following the Schemes as it does before the Schemes.
- 9.68 If considered in isolation, and without taking account of the absolute scale, risk profile and diversification of the respective companies, a comparison of the percentage stresses required to deplete Own Funds would indicate that the Schemes have an adverse impact on the Existing Policyholders. However, AZI post-Schemes' significantly larger balance sheet means that Own Funds would only be exhausted following considerably larger absolute stresses, and I consider the likelihood of experiencing stresses of that magnitude is lower for AZI post-Schemes than it is for AZI prior to the Schemes.

- 9.69 As explained in paragraphs 8.114 to 8.116, I consider the comparison of absolute stresses, in the context of the Companies' respective risk profiles and diversification, to be a far more meaningful basis for assessing the impact of the Schemes on policyholders. Accordingly, when considered in the round, I am satisfied that the level of security against financial stresses provided by AZI post Schemes is not materially weaker than that provided by AZI pre-Schemes.
- 9.70 The Schemes will have no impact on the protections afforded to the Existing Policyholders in the event of insolvency, including access to the FSCS.
- 9.71 When the benefits and adverse impacts of the Schemes are considered in aggregate, I do not expect there to be a material adverse impact on the security of the Existing Policyholders, including under insolvency, as a result of the Schemes.

10 Other financial considerations

10.1 In this section, I discuss the following items in turn:

- Investment strategy
- Liquidity position
- Implications of the Schemes on ongoing expense levels
- Pension arrangements
- Tax implications
- Impact of new business strategy
- Impact of other transfers.

Investment strategy

- 10.2 The investment strategy for the Companies is set at the Allianz UK Group level by the Investment Management function and is approved by the Allianz UK Board. Consistent documents for insurance investment assets and investment management organisation provide further principles investment managers must comply with in carrying out the investment strategy. Annual Strategic Asset Allocations, produced by the Chief Financial Officer and approved by the Board, are used to practically implement the investment strategy and develop benchmark asset allocations.
- 10.3 The Allianz UK Board is responsible for ensuring compliance of the Investment Management function with the standards above and with applicable regulations. The Finance and Investment Committee provide oversight over the individual Companies' investment portfolios, approve significant transactions, and decide on derivative strategies subject to approval by the Board Risk Committee. The Investment Management function, headed by the Chief Investment Officer, carries out investment activities under certain circumstances, and otherwise oversees the outsourcing of investment activities to asset managers who may be internal or external to the Allianz SE Group. Allianz Investment Management SE, part of the Allianz SE Group, acts as an investment advisor to the Allianz UK Group.
- 10.4 The investment strategy which applies to all of the Companies is to maximise investment returns whilst ensuring compliance with a number of constraints which cover impact on solvency coverage ratio, liquidity, asset-liability management, ESG, various financial KPIs and risk management. The Strategic Asset Allocation for 2026 proposes the exact mix of asset types each of the Companies should hold.
- 10.5 The current and target holdings for AZI, LVIC, HICO include significant holdings in corporate, government and securitised assets, a small amount of cash, and, for AZI only, holdings in real estate and renewable energy. As of June 2025, FIL holds around 60% of its investment portfolio as cash and the remainder as bonds and securitised assets; FIL is currently not reinvesting the proceeds from its investments and is retaining these as cash. TIL's investment portfolio is 100% cash and I understand from the Companies that it plans for this to remain the case until the Schemes are effected.
- 10.6 The proposed and actual asset mixes differ between the Companies. AZI holds a higher proportion of corporate bonds, while LVIC and HICO are more balanced between corporate and government bonds. AZI, LVIC and HICO hold a similar proportion of their investments as cash. The average asset duration for AZI is longer than for LVIC and HICO. Although there are differences in the holdings of AZI, LVIC and HICO, the results of the sensitivity testing in the 2024 ORSA show that they have a similar sensitivity to changes in investment-related metrics, with the exception of AZI being more sensitive to interest rates and having exposure to real estate rates. As mentioned above, FIL holds a majority of cash and TIL only holds cash.
- 10.7 The Companies have informed me that the planned asset mix for AZI after the Schemes will simply reflect the combined assets of the Companies currently and they do not plan to rebalance the portfolios

following the Schemes. For the Existing Policyholders, this will mean a reduction in the proportion of corporate bonds, real estate and renewable energy, an increase in the proportion of government bonds and securitised assets, and a reduction in asset duration. For the Transferring LVIC Policyholders and the Transferring HICO Policyholders, there will be opposite movements. I do not consider these movements to constitute a significant difference in exposure for any of these policyholders as the movements are relatively small and the final investment portfolio retains largely the same shape for each entity. The Transferring FIL and TIL Policyholders will experience a shift in exposure from a portfolio predominantly of cash to a portfolio with relatively low cash holdings and a mix of fixed income assets.

- 10.8 As at June 2025, the credit ratings of investments held by AZI followed a different pattern to those held by LVIC and HICO. AZI held a proportion of 57% of its investment assets as assets rated 'A' or higher, while for LVIC this proportion was 73% and for HICO 76%. Following the Schemes, assets rated 'A' or higher will make up 66% of the AZI post-Schemes investment portfolio. For the Existing Policyholders, this will mean exposure to a portfolio with a higher credit-rating. For the Transferring LVIC and HICO Policyholders, this will mean exposure to a portfolio with a somewhat lower credit-rating. For the Transferring FIL and TIL Policyholders, this will mean a large shift in exposure from portfolios predominantly (or fully) of cash, to a relatively risk-carrying portfolio.
- 10.9 I understand from AZI that the investment strategy and standards for AZI following the Schemes are expected to be the same as those which currently apply to all of the Companies.
- 10.10 In the event that that the Schemes do not go ahead, I understand from the Companies that the investment strategy, standards and asset allocations for the Companies will remain unchanged for AZI, LVIC, HICO and TIL. I understand from the Companies that FIL may seek to invest in liquid, highly-rated assets, to reverse its current direction of not reinvesting proceeds from its investments, which is in preparation for the Schemes.
- 10.11 I do not believe that the Transferring Policyholders or Existing Policyholders will be materially adversely impacted by changes in the investment strategy they will be exposed to as a result of the Schemes for the following reasons:
- Existing and Transferring Policyholders
 - The overall investment strategy and standards, as described in paragraphs 10.2 to 10.4, are aligned across the Companies and will not be changed following the Schemes
 - While the AZI investment portfolio following the Schemes will be materially larger in absolute size than the current portfolios of each of the Companies before the Schemes, in the context of investment portfolios size alone does not in itself reduce volatility or guarantee greater diversification. However, larger insurers typically have the ability to access a broader range of asset classes, investment strategies and counterparties than smaller entities. In practice, AZI's scale may be able to support a more diversified portfolio construction than that available to each of the Companies on a standalone basis, which may reduce concentration risk and provide a more stable investment profile for policyholders, all else being equal. This could represent a benefit of the Scheme.
 - Existing Policyholders
 - Compared to AZI's current investment portfolio, following the Schemes, the AZI portfolio will have a higher proportion of fixed-income and highly rated assets and cash. Therefore the Existing Policyholders will benefit from exposure to a more predictable and secure portfolio as a result of the Schemes
 - Transferring LVIC and HICO Policyholders
 - Although compared to the LVIC and HICO investment portfolios, AZI's portfolio following the Schemes will have a higher proportion of variable-income assets and a lower

proportion of cash, and therefore policyholders will be exposed to a less predictable portfolio, the changes in asset mix are relatively small, and the asset mix for AZI following the Schemes is actually very close to the target asset mixes for LVIC and HICO in 2024, so is not unprecedented for these companies and their policyholders

- In addition, I have shown in sections 8 and 9 that AZI will provide more than adequate security to its policyholders following the Schemes
- Transferring FIL and TIL Policyholders
 - Although compared to the FIL and TIL investment portfolios, AZI's portfolio following the Schemes will have a much higher proportion of variable-income assets and a much lower proportion of cash, and therefore policyholders will be exposed to a less predictable portfolio and this could in isolation indicate that the Schemes adversely impact these policyholders, in my opinion, this is more than outweighed by the benefits of exposure to a much larger, more diversified portfolio

Liquidity position

- 10.12 The Allianz SE Group has a Standard for Liquidity Risk Management that applies to each of the Companies. It defines liquidity risk as the risk from being unable to meet payment obligations without accepting adverse terms (e.g. on the sale of illiquid assets when liquid assets and cash are depleted). Under this standard, each of the Companies is responsible for managing and overseeing its liquidity risk, including reporting on liquidity risk to the Allianz SE Group and Allianz UK Group risk committees and establishing company-specific liquidity stress scenarios (which are used to assess whether liquidity needs under adverse conditions exceed liquid assets) and remediation plans.
- 10.13 In addition, the standard sets out principles, requirements and processes for liquidity risk management which apply to all of the Companies equally – including the principle that liquidity surpluses in one entity (including parent companies) cannot be assumed to be available to cover shortfalls in another. I understand from AZI that this standard will continue to apply unchanged following the Schemes.
- 10.14 Following the Schemes, AZI will be able to assume access to all the liquid resources previously kept separate between the Companies so there will be a reduction, relative to the risk prior to the Schemes, of one of the Companies encountering liquidity shortfall and the others being unable to assist. Therefore, I believe policyholders will benefit from the Schemes in respect of the application of the Allianz SE Group level liquidity risk management standard.
- 10.15 Although each of the Companies remains individually responsible for liquidity risk management as described above, in practice, their liquidity risk is monitored by the same team and AZI, LVIC and HICO use the same liquidity stress scenarios, so for these companies, there will be very little change to their liquidity risk management, and no material effect on the AZI, LVIC or HICO Policyholders in this respect. FIL and TIL do not use liquidity stress scenarios as the ones used for AZI, LVIC and HICO are inappropriate for run-off entities, and as small entities they are not required by the group standard to do such stress tests, so instead projected cashflows are monitored for FIL, while TIL takes no further action, since it holds 100% cash. Following the Schemes the Transferring FIL and TIL Policyholders will therefore benefit from more complex liquidity monitoring practices.
- 10.16 All of the Companies take part in the Group Cash Pool operated by Allianz SE, which is a liquidity investment vehicle intended to provide better conditions for participating entities than they could achieve on their own. Following the Schemes, AZI will remain a participant in the Group Cash Pool, so there will be no change in the access Transferring Policyholders have to the enhanced liquidity conditions it aims to provide.

10.17 The Allianz UK Recovery & Resolution plan sets out the same options for restoring liquidity for all of the Companies. These options are all expected by the Companies to be available to AZI following the Schemes, and I am not aware of any reason why this should not be the case.

Table 10.1: Liquidity ratios for the Companies as at 30 September 2025

	AZI	LVIC	HICO	FIL	TIL	AZI post-Schemes
Liquidity Ratio	68%	54%	47%	18%	n/a	60%

10.18 The table above shows that the liquidity ratio (which measures the level of liquid assets held versus short-term obligations) for AZI is higher following the Schemes than for LVIC and HICO prior to the Schemes and it is significantly higher than for FIL. This means that the LVIC, HICO and FIL Policyholders will be exposed to relatively less liquidity risk as a result of the Schemes. This indicates that the Schemes will benefit the Transferring LVIC Policyholders, Transferring HICO Policyholders and Transferring FIL Policyholders, in this regard

10.19 The liquidity ratio for TIL is not monitored currently as TIL has very low cashflows owing to its run-off nature, and any liquidity issues would be managed through AZI; therefore, following the Schemes, the Transferring TIL Policyholders will benefit from a greater degree of liquidity monitoring.

10.20 While the liquidity ratio for AZI is shown to decrease to a modest extent as a result of the Schemes which, when considered in isolation could indicate an adverse impact for Existing AZI Policyholder, it remains at a high level and the absolute liquid assets held will greatly increase (£1.3 billion) which, when considered in isolation could indicate a benefit to those policyholders..

10.21 In addition to the above, the FIL and TIL Policyholders, which currently sit within run-off entities, will benefit from moving into an entity with premium income, which provides more flexibility in managing liquidity and, all else being equal, more robustness to changing conditions.

10.22 Therefore, I believe that no group of policyholders will be materially adversely impacted in respect of changes to liquidity as a result of the Schemes.

10.23 I also note that the assets to be retained by the Transferors following the Effective Date in order to meet their MCRs are intended to be held as cash and therefore the Transferors will certainly be able meet liquidity demands in respect of any policyholders which, for whatever reason, do not transfer at the Effective Date.

Implications of the Schemes on ongoing expense levels

10.24 The Companies have informed me that the budget assigned to cover the initial costs of the Schemes and the subsequent costs of winding-up and deauthorising LVIC, HICO, FIL and TIL, as well as any other expenses associated with the Schemes is £17.7m, of which £750k is to be set aside for the wind-up and deauthorisation of the Transferors. This budget is inclusive of some contingent costs, so the actual final costs of the Schemes and wind-up are expected to be lower than this. These costs will be borne by AZI.

10.25 In my view, these costs are immaterial in the context of AZI's resources, amounting to 0.4% of total assets as at 30 September 2025 before the Schemes and 0.2% of its assets following the Schemes. Therefore I do not believe that the Existing Policyholders will be materially impacted by these costs either before or after the Schemes.

10.26 Since these costs are not being borne by the Transferors, the Transferring Policyholders will not be impacted prior to the Schemes. Since AZI is bearing the costs of the Schemes, the Transferring

Policyholders are adversely impacted in this respect by the Schemes as they will move from the Transferors who are not bearing the costs to AZI which is bearing the costs. However, given how immaterial the costs are to AZI's resources and hence to its financial and solvency position, I do not believe that this constitutes a material adverse impact.

- 10.27 Following the Schemes, the ongoing costs of running AZI will be lower than the combined costs of running AZI, LVIC, HICO, FIL and TIL prior to the Schemes, although this saving will likely take some time to materialise. This is because of the reduced regulatory, statutory and administrative burden of running one entity rather than five separate entities. This will be beneficial to all groups of policyholders.
- 10.28 I therefore do not believe that the Transferring Policyholders or Existing Policyholders will be materially adversely impacted due to the costs of administering the Schemes or to the ongoing costs after the Schemes.

Pension arrangements

- 10.29 AMSL provides centralised management services to the Companies. As a consequence, the Companies do not have any employees and therefore do not sponsor any defined benefit pension schemes. Therefore, there are no pension schemes that could be impacted by the Schemes.

Tax implications

- 10.30 The Companies have shared with me the advice they have received in respect of the UK tax implications of the Schemes. The outcome of this advice is that, for each aspect of the transfer, under the proposed accounting treatment, owing to various rules around intragroup reorganisation, one of the following options applies: no accounting profit or loss will occur, or the transfer must be tax-neutral, or there is no taxable gain/loss event.
- 10.31 Since the Companies are within the same VAT group, the transfer of assets and liabilities is disregarded for VAT purposes. In addition, since the tax treatment of AZI post-Schemes mirrors the treatment of the Transferors and the aggregate underlying value of assets and liabilities does not change, there should be no issue transferring the deferred tax balances of the Transferors. Therefore, there is no expectation within the tax advice that the Schemes will produce any material tax charges at the Allianz UK Group level. This conclusion is supported by a paper which was prepared for Allianz UK by an external tax expert.
- 10.32 The Companies also provided me with a paper detailing additional tax implications for the Schemes at the Allianz SE level. Under German Controlled Foreign Corporation tax rules, transactions between companies within the same group must be undertaken at arm's length market prices and therefore a consideration must be settled between the Transferors and Transferee. Loan notes for this consideration will be issued by AZH to AZI and AMSL. AZI and AMSL will then purchase the assets of the Transferors and LVGIG, following which the Transferors and LVGIG will distribute these loan notes into AZH, and finally the loan notes will be cancelled. I understand from the Companies that the burden of tax incurred as a result of these transactions would not be borne by any of the Companies, and that the Companies' external advisors have confirmed their agreement.
- 10.33 I have taken advice from tax experts at Grant Thornton who specialise in the insurance sector. They have reviewed the tax advice provided to me by the Companies and they agree with the conclusions of the tax advice that material tax charges are unlikely to arise from the Schemes at the Allianz UK level. They also believe that the tax implications at the Allianz SE level are unlikely to affect the Existing or Transferring Policyholders.
- 10.34 Therefore, since the tax experts from Allianz UK, their external support, and Grant Thornton agree that material tax charges are unlikely to arise from the Schemes at the UK level, and since Grant Thornton tax experts believe the Allianz SE tax implications will not affect the Existing or Transferring

Policyholders, I am satisfied that there will be no material adverse impact on policyholders as a result of the tax implications of the Schemes.

Impact of new business strategy

- 10.35 AZI has informed me that its new business strategy in relation to the business it currently writes will not change as a result of the Schemes. In addition, I understand from AZI that the strategy in respect of that business that is currently written by each of LVIC and HICO will not change as a result of the Schemes.
- 10.36 Each of the Existing Policyholders, the Transferring LVIC Policyholders and the Transferring HICO Policyholders will now be exposed to the new business strategy in relation to the two other businesses that they were not directly exposed to prior to the Schemes.
- 10.37 FIL and TIL do not write new business so the Transferring FIL Policyholders and Transferring TIL Policyholders will be exposed to a significantly different new business strategy following the Schemes.
- 10.38 I do not envisage this will have a material adverse impact on the Existing Policyholder or any of the Transferring Policyholders for the following reasons:
- AZI, LVIC, HICO, FIL and TIL are authorised by the PRA and regulated by the PRA and FCA
 - AZI, LVIC, HICO, FIL and TIL are authorised to operate in the way that they do
 - The risk appetite of AZI, LVIC and HICO is to underwrite business at an appropriate price to reflect the risk and uncertainty that attaches to that business. This will not change following the Schemes
 - AZI, LVIC, HICO, FIL and TIL hold capital to support the risks that they are exposed to, and, as I set out in section 9, I am of the opinion that each of the Companies has sufficient capital to meet policyholder obligations, and that AZI will continue to do so following the Schemes
 - As I set out in section 11, AZI, LVIC, HICO, FIL and TIL have appropriate management frameworks in place to support their respective businesses and AZI will continue to do so following the Schemes
- 10.39 It follows that I have not identified any material adverse impact to the Existing Policyholders or the Transferring Policyholders as a result of the Schemes in relation to the new business strategy they are exposed to.

Impact of other transfers

- 10.40 As I described in paragraphs 1.28 to 1.34, the Schemes consist of the Main Scheme and the Jersey Scheme. My analysis has been performed on the basis that both Schemes are approved and become effective at the Effective Date. I understand from the Companies that the Jersey Scheme cannot become effective unless the Main Scheme also becomes effective. I have considered the impact on policyholders of the Main Scheme being approved but the Jersey Scheme not being approved in Section 12.
- 10.41 I understand from the Companies that no other transfers of insurance business to or from the Companies are planned. In the event that any such transfer is planned, I have every reason to expect the effective date of such transfers would be after the Effective Date of the Schemes so as not to interfere with the Schemes and, moreover, such a transfer would be subject to its own independent expert review and/or regulator scrutiny and/or court process to ensure it does not materially adversely impact any policyholders.
- 10.42 Therefore, I am satisfied that no other transfer will have a material adverse impact on the Schemes, and therefore on the Existing Policyholders or Transferring Policyholders.

11 Other considerations

11.1 In this section, I discuss the following items in turn:

- Claims handling
- Policy administration
- Complaints handling
- Consumer Duty
- Policies subject to sanctions
- ELTO
- Governance and management framework
- Ongoing change projects
- Operational Readiness
- Impact on Transferring Reinsurers
- Recognition of the Schemes
- Impact on Existing Policyholders and policyholders transferring under the Main Scheme if one or both of the Schemes do not become effective.

Claims handling

Retail and commercial claims

- 11.2 Claims handling for retail and commercial claims for the Allianz UK Group is operated by a central function, with all employees employed by AMSL, as described in paragraph 5.88. For the policies within LVIC and HICO, this team makes use of claims handling service contracts held by LVGIG.
- 11.3 There is a structured process in place for receiving and processing claims, which includes validating documentation, assessing coverage, and seeking additional information if necessary. The process includes protocols for large or significant claims that require additional scrutiny or approval from higher management.
- 11.4 Although employees are all employed by AMSL, there are individuals that are focussed on claims handling for certain liabilities and entities within the Allianz UK Group. I understand from AMSL that those individuals will continue to focus on those same liabilities following the Schemes.
- 11.5 The merging of the Companies' claims teams into one central team within AMSL completed in January 2025. This arrangement is well-established and I am therefore satisfied that it does not overlap with the Schemes or create any operational risks as a result.

Pet Claims

- 11.6 The majority of pet claims relate to the payment of Vet invoices which are not subject to individual claims handling. A minority of claims are liability claims which are handled by the central function discussed above. I understand from the Companies that there will be no changes to these processes or the individuals involved following the Schemes.

Claims handling following the Scheme

- 11.7 I understand from AMSL that the ways of contacting Allianz, including the phone numbers for customers to call, will remain the same following the Schemes.

- 11.8 The processes for claims handling following the Schemes will remain consistent with the current processes, and claims notification and handling procedures will remain unchanged for both the Transferring Policyholders and Existing Policyholders. The service contracts held by LVGIG will transfer to AMSL and there will be no changes to the way these contracts are utilised by the central team. As I discussed in paragraph 1.30, the transfer of these contracts will be effected under the same court order as the Main Scheme, so, according to the terms of the Main Scheme, there is no possibility of the Transferring LVIC and HICO Portfolios transferring without these service contracts also transferring.
- 11.9 Since the same central team, using the same personnel, processes, service contracts and systems, will continue to provide services for AZI post-Schemes as they do for the Companies pre-Schemes I do not expect any group of policyholders to experience longer claims-handling timeframes as a consequence of the Schemes.
- 11.10 Since there will be no changes to the claims handling process or personnel or the way customers make contact with Allianz, and no lengthening of claims handling timeframes, I do not expect the Transferring Policyholders or the Existing Policyholders to be adversely affected by the Schemes in relation to claims handling.

Policy administration

- 11.11 I have been informed by the Companies that policy administration will not change as a result of the Schemes, with only minor changes in policyholder documentation required to reflect the change in entity for the policies in the Transferring Portfolios. In particular the same team will be responsible for administering policies as is the case prior to the Schemes.
- 11.12 I also understand from the Companies that the same IT systems will be used before and after the Schemes, with only minor updates required to reflect the change in entity for the policies in the Transferring Portfolios.
- 11.13 In addition, I understand from the Companies that policyholders will continue to use the same methods of contacting Allianz, including the same telephone numbers, in relation to their policies.
- 11.14 As a result, I do not expect the Transferring Policyholders or the Existing Policyholders to be adversely affected by the Schemes in relation to policy administration.

Complaints handling

- 11.15 As insurers regulated by the FCA, the Companies are required to have adequate complaints handling processes in place.
- 11.16 The Allianz UK Group has a set of policies and procedures in place in respect of complaints handling, one for each of its business units: AZP, AZC and AZS.
- 11.17 Following the Schemes, these policies and procedures will remain in place as they are, and all policyholders will continue to be able to lodge complaints in the same way.
- 11.18 At present, eligible claimants from the Transferring Portfolios or Existing Portfolio can refer any complaint not dealt with satisfactorily by any of the Transferors or Transferee to the FOS. This access will not change as a result of the Schemes.
- 11.19 I therefore conclude that the Schemes will not create any adverse impact to the Transferring Policyholders' or Existing Policyholders' access to adequate complaints handling procedures.

Consumer Duty

- 11.20 The Allianz Standard for Conduct Risk applies to all subsidiaries of AZH, including each of the Companies. It sets out the code of conduct concerning conduct risk for all employees dealing with personal or commercial customers, including the required governance, risk identification, management and reporting, and roles and responsibilities. The document includes specific guidance on monitoring, reporting, and governance concerning Consumer Duty.
- 11.21 In particular, the document specifies what good looks like for each of the FCA's four outcomes in respect of Consumer Duty: Consumer Understanding; Consumer Support; Products and Services; and Price and Value. In addition, it highlights a number of metrics which are monitored against each of these outcomes via dashboard monitoring.
- 11.22 The embedding of Consumer Duty policy is overseen by the Allianz UK Board, the Customer and Conduct Committee, and the Executive Customer and Conduct Committee.
- 11.23 I understand from the Companies that neither the Standard for Conduct Risk and the Consumer Duty policy therein nor the governance structure described above will be altered due to the Schemes and that these will continue to apply to AZI following the Schemes in the same way as they do currently to each of the Companies prior to the Schemes. Therefore, I am comfortable that no Transferring or Existing Policyholder will be subject to a different standard of Consumer Duty compliance due to the Schemes.

Sanctions

- 11.24 A sanctions compliance framework for the Companies is set centrally by the AZH Compliance Function. It is overseen by the Allianz UK Group's Financial Crime Compliance Manager. Senior Manager Function risk owners for each of the Companies are responsible for ensuring key solutions and controls are in place for their entity.
- 11.25 The AZH sanctions framework sets out the responsibilities of senior managers and employees in complying with sanctions. The framework prescribes governance structure, risk assessments, internal controls, testing & auditing, and training in relation to sanctions compliance. I understand from the Companies that this framework will remain in place following the Schemes.
- 11.26 AZI and TIL currently use one tool for sanctions screening and LVIC, HICO and FIL use another. These tools both use the Dow Jones Risk and Compliance database as a source. I understand from the Companies that following the Effective Date, AZI will begin to use a new sanctions screening tool, expected to be similar to the current AZI tool. The new tool will be implemented in most other Allianz entities before it is implemented in AZI, which will provide an opportunity to identify and address issues without affecting the policyholders in the scope of this report. I understand from the Companies that the plan to implement the new tool will proceed whether or not the Schemes are effected, and therefore no policyholder will be exposed to any difference in sanctions screening as a result of the Schemes. The specifics of the new tool are not yet available. Therefore, I will discuss this issue further in my Supplementary Report.
- 11.27 Upon identification of a potential sanctions issue, the Companies all escalate to the same Allianz UK Group Compliance Department. Following the Schemes, AZI will continue to escalate to this team.
- 11.28 Historically, AZI has insured certain sanctioned parties, with licences in place to do so, but I understand from the Companies that no sanctioned parties are currently covered.
- 11.29 I understand from the Companies that in the event that a policyholder covered by one of the Transferors is sanctioned prior to the Effective Date, the Transferor would, in accordance with the terms of all policies of the Transferors, immediately cancel the policy, make no further payments, and set aside any

refund of premium (net of cancellation fee) in a separate account. Therefore, no sanctioned policies will either be transferred under the Schemes or remain within the Transferors.

- 11.30 Therefore, I do not expect an adverse impact on the Transferring Policyholders or the Existing Policyholders in respect of sanctions as a result of the Schemes.

ELTO

- 11.31 I understand that LVIC, HICO and FIL have legacy Employers' Liability ("EL") exposure from policies written prior to 2020. I understand that TIL has not underwritten EL business.
- 11.32 AZI, LVIC and HICO are members of ELTO. TIL and FIL are not members of ELTO.

LVIC and HICO EL exposures

- 11.33 I understand from LVIC and HICO that they intend to notify ELTO of any EL exposure within the Transferring Portfolios, as this cover will transfer to AZI as a result of the Schemes.
- 11.34 Given that any Employer's Liability exposure will remain within the Allianz UK Group, that this business will continue to be administered by the same management following the Scheme, and that LVIC and HICO will update ELTO, I am comfortable that any future claimant wishing to make EL claim for which LVIC or HICO was liable would still be able to trace the appropriate insurer following the Schemes, either through ELTO, or through contacting the Allianz UK Group.

FIL's EL exposures

- 11.35 I understand from FIL that it previously wrote EL cover as part of a landlords' combined protection policy, that there are no outstanding EL claims under these policies, and that the risk of any future claims arising is considered remote. I also understand that AZI will notify ELTO of this Part VII transfer and the transfer of FIL's policyholders to AZI. Following the Schemes, any EL claims relating to former FIL policies would therefore be notified to AZI.
- 11.36 As discussed further in section 13, FIL policyholders who do not hold an active policy with one of the Companies will not receive direct notification of the transfer. As a result, unless they become aware of the Schemes through other communication channels, they may be unaware of the change in their insurer. This is an adverse impact on the Transferring FIL Policyholders. However, this risk is mitigated by the fact that, following the Schemes, these policyholders will be able to trace their insurer through ELTO. Therefore, I do not consider this to represent a material adverse impact on Transferring FIL Policyholders.
- 11.37 In addition, given that AZI is a member of ELTO and FIL is not, I consider that any future claimant wishing to make an EL claim for which FIL was historically liable would have an improved ability to trace the correct insurer after the Schemes - either via ELTO or by contacting the Allianz UK Group. I consider this to be a benefit of the Schemes on Transferring FIL Policyholder, albeit not one that is material to my conclusions

Governance and management framework

- 11.38 The Allianz UK Group operates a Combined Board for AZH, AZI, LVIC, and HICO. The Combined Board is responsible for deciding the business strategy and for ultimate oversight of the conduct and performance of Allianz UK Group. I understand from the Companies that this will remain the same following the Schemes.

- 11.39 The Combined Board has established several committees and a system of control to oversee the operations of the Allianz UK Group. This set of committees will remain in place following the Schemes and, since they were already operating at a combined level, they will continue to operate at a combined level following the Schemes.
- 11.40 FIL has a separate Board from the Combined Board (the "FIL Board") that is responsible for making decisions specific to FIL, and for the oversight of external reporting of FIL. It comprises three Directors, one of which is also a Director on the Combined Board. The Combined Board considers decisions and matters relevant to FIL, but the FIL Board is ultimately responsible. Following the Schemes and FIL's subsequent deauthorisation and wind-up, the FIL Board will not be required as all matters and external reporting in respect of the Transferring FIL Portfolio will be absorbed into AZI. Given the cross-over of memberships of the Combined Board and FIL Board, and the fact that the Combined Board is familiar with FIL-specific matters, I do not expect this change to have an impact on the Transferring FIL Policyholders.
- 11.41 The business across the Allianz UK Group is largely managed by the three separate business divisions – Allianz Commercial, Allianz Personal and Allianz Specialty. There are management teams in place for each of these divisions and these will remain in place following the Schemes.
- 11.42 Therefore, I do not expect an adverse impact on the Transferring Policyholders or the Existing Policyholders in respect of management and governance frameworks as a result of the Schemes.

Ongoing change projects

- 11.43 As discussed in paragraphs 5.90 and 5.91, there are a number of other change programmes ongoing within the Allianz UK Group and, in this section, I discuss the interaction of these change programmes with the Schemes.
- 11.44 The overall change programmes within the Allianz UK Group are overseen by an Enterprise Transformation Management Office ("ETMO"). It is the role of the ETMO to manage the interactions between and prioritisation of the many change programmes, ensuring that they are coordinated and do not negatively impact one another. I have had regular meetings with the individual leading the ETMO and the Companies have provided me with documents produced by the ETMO which show detailed co-ordination and organisation of the change programmes. The meetings and documentation have provided me with assurance that there will be no adverse impact on the Schemes as a result of poor management of the change programmes. The decision on timing Project Omega so as to not negatively impact the Schemes, which I discuss below, is an example of coordination by the ETMO.
- 11.45 Regarding branding, a new agreement has been entered into with Liverpool Victoria Financial Services, which includes a right to use the LV= brand beyond 2026. Consequently, there will be no change to the use of the branding .
- 11.46 I do not believe the Schemes will materially impact policyholders in relation to the other change programmes for the following reasons:
- Business Master Platform
 - I understand that from the Companies that this programme applies to commercial business and enables a fully integrated standardised underwriting approach which provides greater centralisation of the approach to underwriting. Although it applies to AZI, it does not apply to any of the Transferors
 - Given the nature of the programme, it will not impact the security of any of the groups of policyholders impacted by the Schemes

- This programme will proceed regardless of the Schemes. Therefore, to the extent that there could be any impact on the levels of service provided to the Existing Policyholders, that will occur whether or not the Schemes proceed
- As this programme only impacts commercial business, it will not affect the service received by any of the Transferring Policyholders
- The programme is on track with expected progress and no significant interactions have been identified with the Schemes by the ETMO
- Rapid Productivity
 - I understand from the Companies that this programme focuses on operational efficiency
 - It applies to all of the Companies but, given its nature, it will not impact the security of any of the groups of policyholders impacted by the Schemes
 - It is possible that they could experience some benefits in terms of servicing and administration
 - This programme will proceed regardless of the Schemes so, to the extent of any such benefits, they will be experienced whether or not the Schemes proceed
 - The programme is on track with expected progress and no significant interactions have been identified with the Schemes by ETMO
- Project Columbus
 - I understand from the Companies that this programme involves the centralisation of Motor and Property claims to harmonise operational processes and leverage centralised expertise
 - It follows that it will not impact the security of any of the groups of policyholders impacted by the Schemes
 - Motor and Property policyholders within the Companies may benefit from a positive change to their claims handling experience, but this will not be dependent on the Schemes since the programme will proceed regardless of the Schemes
 - The programme is on track with expected progress and no significant interactions have been identified with the Schemes by ETMO
- Project Delta
 - I understand from the Companies that this is a project to create a new Managing General Agent (Slick), which was incorporated in February 2026, and which will begin to write business on behalf of LVIC following the Directions Hearing and then, following the Schemes, will write business on behalf of AZI. I have been informed by the Companies that this business is not expected to make up a material proportion of LVIC's or AZI's business in the short term and therefore is not expected to have a material impact on the financial or operational positions of LVIC or AZI that I have used as a basis for my analysis in this report
 - Based on the above, I would not expect this project to impact the security of, or level of service provided to, any of the groups of policyholders impacted by the Schemes
 - However, even if there were any such impacts, they would occur regardless of the Schemes because this project is proceeding regardless of the Schemes
 - If necessary, I will consider any impact of a rapid expansion in Slick in my Supplementary Report

- 11.47 There are two further change programmes (HRMS and Simplify) which are not relevant for this report for reasons I note in paragraph 5.91.
- 11.48 I will revisit developments regarding the change programmes and Project Delta in my Supplementary Report.

Operational readiness

- 11.49 AZI has set out a plan to ensure that it is operationally ready for the changes that are required as a result of the change to a single legal entity.
- 11.50 As part of this, it has consulted with all relevant functions within the business to identify changes that are needed. It has developed detailed plans to ensure these changes are implemented and tested prior to the Effective Date. I have reviewed these plans and am satisfied that AZI has considered all the necessary elements to ensure it will be operationally ready.
- 11.51 Specifically regarding policyholder servicing, the Companies have confirmed to me that only a small number of minor changes are required as part of the Schemes – as I discuss in paragraphs 11.2 to 11.19 – since policyholder servicing is already performed by a centralised function across the Companies. The necessary changes, which relate only to documentation and databases that identify the relevant legal entity for each policy, are immaterial in the context of Allianz UK Group's overall operations. I therefore do not expect these changes to pose any challenges for operational readiness.
- 11.52 I will nevertheless continue to monitor AZI's implementation of its plans and provide an update in my Supplementary Report.

Impact on Transferring Reinsurers

- 11.53 As discussed in paragraphs 5.41, 5.59, 5.72 and 5.83, there will be no change to the reinsurance programmes that cover the Transferring Portfolios, following the Schemes, with the exception of HICO's reinsurance policy with AZI, which will cease on the Effective Date. All other reinsurance contracts will transfer to AZI pursuant to the Schemes. After the Schemes, the transferring reinsurance programmes will apply to the same policies as before the Schemes and offer the same protections to those policyholders.
- 11.54 Since the transferring reinsurance will be covering the same set of policyholders before and after the Scheme, and offering them the same protections, this will not create any additional exposure for any of the Transferring Reinsurers.
- 11.55 As a result, I conclude that the Schemes will have no material adverse impact on the Transferring Reinsurers.

Recognition of the Schemes

Recognition of the Main Scheme in Guernsey and the Isle of Man

- 11.56 The Companies have received legal advice, which I have seen, to the effect that there is no process under Guernsey or Isle of Man law that is equivalent to a Part VII Transfer for general insurance policies, and therefore parallel schemes for the policies under these jurisdictions are not an option. Therefore, the Guernsey Policies and the IoM Policies are included in the Main Scheme.

Transfer of Guernsey Policies

- 11.57 The Guernsey Policies are governed by Guernsey law. The Companies' legal advice states that the Main Scheme can be expected to be recognised by the Guernsey Court given that all the Main Scheme is doing is replacing one English company (LVIC or HICO) with another (AZI) as the insurer under the policy and provided that no material amendments are made to the policies. In addition, I have confirmed with the Companies that no changes will be made to the terms and conditions of the Transferring Policies, and these conclusions apply to the Guernsey Policies. Therefore, I do not have reason to believe that the Main Scheme would not be recognised by the Guernsey Court.
- 11.58 I have seen a summary of the legal advice described above and it appears to me to be reasonable, although I note that I am not a legal expert. Furthermore, I note that this approach to transferring the Guernsey Policies is consistent with similar successful transfers of Guernsey policies which I have seen in the market and which have been accepted by the Guernsey Court. I am therefore confident that the transfer of the policies will be recognised by the Guernsey Court.
- 11.59 Even if this were not the case and these policyholders remain with the Transferors, the Guernsey policies only make up 0.02% of the policies under the Main Scheme, and therefore this would not have a material impact on the other policyholders transferring under the Main Scheme or on the Existing Policyholders. The Companies have also informed me that these policies would be fully reinsured to AZI, effectively transferring the economic liability to AZI, and therefore the level of security of these policyholders post-Schemes would be the same as if they had successfully transferred as part of the Main Scheme. In addition, since policyholder servicing is carried out by central teams, and therefore the same personnel, systems and processes will be used to service these Guernsey policies whether or not they transfer to AZI, I do not expect any detriment to the servicing of these policies in this eventuality.
- 11.60 I will provide an update on this in my Supplementary Report.

Transfer of IoM Policies

- 11.61 The Companies have informed me that they are unaware of any instances where laws other than those of England & Wales have been agreed as the governing law for the IoM Policies, and that their processes do not provide the opportunity for the insured to elect the laws of any other country as the governing law for such policies. The Companies have further informed me that if it turned out that any IoM Policies were governed by the laws of Isle of Man, then these policies would not transfer to AZI under the Main Scheme and would need to be novated to AZI separately. In this eventuality, I expect there would be no change to the level of security or servicing, similarly to the Guernsey policies, as I discussed in paragraph 11.59.
- 11.62 Therefore, there are no recognition issues for me to consider in respect of the IoM Policies.
- 11.63 I will provide an update on this in my Supplementary Report.

Recognition of the Main Scheme in other non-UK jurisdictions

- 11.64 I have been informed by the Companies that, aside from the Guernsey and IoM Policies, there are no other policies transferring under the Main Scheme that fall under a non-UK jurisdiction.

Recognition of the Jersey Scheme

- 11.65 No policies that are transferring under the Jersey Scheme are from other legal jurisdictions outside of Jersey. Therefore, I have no concerns about the recognition of the Jersey Scheme.

Impact on Existing Policyholders and policyholders transferring under the Main Scheme if one or both of the Schemes do not become effective

- 11.66 I have considered the likely effects on the Existing Policyholders and the Transferring Policyholders who would transfer under the Main Scheme in the situation where the Main Scheme does not become effective (in which case the Jersey Scheme would also not become effective) or in the situation where the Main Scheme becomes effective but the Jersey Scheme does not.
- 11.67 I have considered the Jersey Scheme in detail in Section 12, and therefore I have considered the impact on the Jersey Policyholders of these two scenarios in that section.

Impact if neither Scheme becomes effective

Transferring LVIC Policyholders

- 11.68 As I have argued in section 9, the level of security for these policyholders will be at least as high following the Scheme. Therefore should the Schemes not become effective, these policyholders will be no better off in terms of security. In addition, aside from updates to policy documents, the way their policies are serviced will remain unchanged so these policyholders will also be no better off in terms of service levels if the Schemes do not go ahead.
- 11.69 However, if the Schemes do not go ahead, these policyholders will not benefit from moving to a larger company with less claims volatility, that will be a more central focus of the Allianz UK Group.

Transferring HICO Policyholders

- 11.70 As I have argued in section 9, the level of security for these policyholders will be at least as high following the Scheme, therefore should the Schemes not become effective, these policyholders will be no better off in terms of security. In addition, aside from updates to policy documents, the way their policies are serviced will remain unchanged so these policyholders will also be no better off in terms of service levels if the Schemes do not go ahead.
- 11.71 However, if the Schemes do not go ahead, these policyholders will not benefit from moving to a larger company with less claims volatility, that will be a more central focus of the Allianz UK Group.

Transferring FIL Policyholders

- 11.72 As I have argued in section 9, the level of security for these policyholders will be at least as high following the Schemes. Therefore should the Schemes not become effective, these policyholders will be no better off in terms of security. In addition, aside from updates to policy documents, the way their policies are serviced will remain unchanged so these policyholders will also be no better off in terms of service levels if the Schemes do not go ahead.
- 11.73 However, if the Schemes do not go ahead, these policyholders will not benefit from moving to a substantially larger company with less claims volatility, that has the additional flexibility provided by continuing to write business and that will be a more central focus of the Allianz UK Group.

Transferring TIL Policyholders

- 11.74 As I have argued in section 9, the level of security for these policyholders will be at least as high following the Schemes. Therefore should the Schemes not become effective, these policyholders will be no better off in terms of security. In addition, aside from updates to policy documents, the way their policies are serviced will remain unchanged so these policyholders will also be no better off in terms of service levels if the Schemes do not go ahead.
- 11.75 However, if the Schemes do not go ahead, these policyholders will not benefit from moving to a much larger company with less claims volatility, that has the additional flexibility provided by continuing to

write business that will be a more central focus of the Allianz UK Group, which will have a defined solvency coverage ratio target and that will benefit from a greater degree of liquidity monitoring.

Existing Policyholders

- 11.76 As I have argued in section 9, the level of security for these policyholders will be at least as high following the Schemes. Therefore should the Schemes not become effective, these policyholders will be no better off in terms of security. In addition, the way their policies are serviced will remain unchanged so these policyholders will also be no better off in terms of service levels if the Schemes do not go ahead.
- 11.77 However, if the Schemes do not go ahead, these policyholders will not benefit from AZI becoming a larger company with less claims volatility, that will be a more central focus of the Allianz UK Group.

Conclusion

- 11.78 It follows from the above that none of the groups of policyholders will be better off if the Schemes do not proceed and that some or all of them may actually be worse off in some respects.

Impact if the Main Scheme becomes effective but the Jersey Scheme does not

- 11.79 The number of transferring policies under the Jersey Scheme is very small – 2,558 active policyholders across LVIC and HICO, less than 0.06% of the active policyholders under the Transferring Portfolios – and therefore the materiality of the Jersey Scheme is very low.
- 11.80 I have reviewed the legal advice that the Companies have received which says that, since very similar factors will likely be considered by the courts with authority over the Main Scheme and the Jersey Scheme respectively, it is unlikely that, if the Main Scheme is approved, the Jersey Scheme will not also be approved.
- 11.81 Nevertheless, if the Main Scheme was approved but the Jersey Scheme was not approved, given the immateriality of the Jersey Scheme, I do not consider that this situation would have a material adverse impact on the policyholders transferring under the Main Scheme or on the Existing Policyholders. I have considered the impact on the Jersey Policyholders in Section 12.

12 Jersey Scheme

Background

- 12.1 The Jersey Policyholders consist of 2,309 active policyholders within LVIC (0.06% of its active policyholders) and 249 within HICO (0.04% of its active policyholders). FIL does not have any active Jersey Policyholders.
- 12.2 The Jersey Scheme is planned to become effective on the Effective Date. It is dependent on the Main Scheme being approved and effected, and it will not proceed otherwise, even if approved by the Jersey Court. The dates on which the Jersey Scheme is scheduled for hearings are slightly later than but very close to the corresponding dates of hearings for the Scheme, so the Jersey Scheme will have a very similar timeline.

Impact on Jersey Policyholders under different scenarios

If both Schemes are approved

- 12.3 My conclusions about the security of Transferring LVIC, HICO and FIL Policyholders in section 9, apply equally to all policyholders within LVIC, HICO and FIL before the Schemes, and therefore to the Jersey Policyholders. My conclusions about policy servicing and my other financial considerations and other considerations in sections 10 and 11 apply to all the policyholders of the Transferors before the Schemes, and therefore apply equally to the Jersey Policyholders.
- 12.4 Therefore, I am satisfied that the Jersey Policyholders will not be materially adversely impacted if both the Main Scheme and the Jersey Scheme are approved.

If the Main Scheme is not approved

- 12.5 If the Main Scheme is not approved, then the Jersey Scheme will not be approved, and the Jersey Policyholders will remain with the Transferors. I concluded in paragraphs 11.68 to 11.71 that the Transferring Policyholders will be no better off in terms of security if the Main Scheme is not approved, and they will not benefit from moving to a larger company. These conclusions apply equally to the Jersey Policyholders if neither of the Schemes is approved.
- 12.6 Therefore, I conclude that the Jersey Policyholders have no improvement to security and will not benefit from moving to a larger company if the Main Scheme, and therefore the Jersey Scheme, are both not effected.

If the Main Scheme is approved but the Jersey Scheme is not

- 12.7 If the Main Scheme is effected but the Jersey Scheme is not effected at the Effective Date, the following will occur:
- the Jersey Policyholders will remain in the Transferors, while the other Transferring Policyholders transfer to AZI
 - The Transferring Reinsurers will transfer under the Main Scheme and will provide reinsurance to AZI rather than to the Transferors. AZI will put in place reinsurance contracts with the Transferors to transfer the economic liabilities from the Transferors to AZI, even if the policies remain legally with the Transferors.
- 12.8 In my opinion, the Jersey Policyholders would be no better off remaining with the Transferors than if they transfer to AZI for the following reasons:
- After the Main Scheme, LVIC, HICO and FIL will each hold £3.5m of cash to meet their MCRs, compared to EOF prior to the Schemes of £761.6m, £232.0m and £13.5m respectively. If the

Jersey Policyholders remain with LVIC. HICO and FIL, the capital per policyholder is nominally higher but the total balance sheet of each company would become considerably smaller in absolute terms and there would be a large reduction in diversification. As a result, LVIC, HICO and FIL would be more vulnerable to a single loss event. However, given the 100% reinsurance that would be provided by AZI, that loss would need to come from, for example, an operational loss or a single large claim coupled with AZI defaulting on its reinsurance.

- After the Main Scheme, LVIC and HICO will switch from holding investment portfolios to cash. Whilst this mitigates the risk of downside investment losses, cash holdings provide limited returns. Therefore the Jersey Policyholders would lose the benefit of being supported by an investment strategy capable of smoothing results and absorbing volatility. FIL will also switch to holding cash only, but this will represent a minor change from its current position.
- The reinsurance that would be put in place between AZI and LVIC, AZI and HICO and AZI and FIL would mitigate the insurance risk. However it is not equivalent to being directly insured by AZI. LVIC, HICO and FIL would still need to operate as standalone insurers and this carries non-negligible risks such as operational risk, expense risk and the need for ongoing regulatory compliance. Being insured directly by AZI is therefore more secure than relying on reinsurance.
- Allianz UK Group and Allianz SE Group would continue to support LVIC, HICO and FIL but the level of support may not be equivalent to that provided to AZI which is the flagship entity of the group and the core regulated insurance carrier. In practice, parent companies allocate more resources and strategic focus to their major operating entities than to small run-off companies.
- Policyholder servicing would remain the same as all policies will be serviced through AMSL but this does not compensate for the reduced financial strength and resilience of LVIC, HICO and FIL and their lower priority within the group.

12.9 Therefore I do not believe that the Jersey Policyholders would be in a better position if the Main Scheme was approved but the Jersey Scheme was not and, in some respects, they may be in a worse position.

13 Communication strategy

- 13.1 I have assessed the appropriateness of the proposed communication strategy to inform policyholders, reinsurers and other interested parties about the Schemes. The key focus of my assessment was whether policyholders are to be provided with sufficient and clear enough information, enabling them to understand how the Schemes may affect them.

Policyholder notifications

- 13.2 The UK regulations surrounding Part VII transfers require that, unless the Courts order otherwise, all policyholders in all affected companies should be informed of the Schemes in writing. This includes issuing direct notifications to policyholders and publishing advertisements in selected publications.
- 13.3 The affected companies may apply to the Court to waive the requirement to directly notify some or all policyholders if they consider that such notification is not possible and/or that the likely benefits of contacting policyholders are outweighed by the practicality and costs of doing so.
- 13.4 The Companies are seeking waivers from the Court to be exempt from the requirement to notify all policyholders and have selected specific groups of policyholders that they intend to notify. Paragraphs 13.6 to 13.11 set out a summary of policyholders that the Companies intend to notify and the policyholders for which the Companies are seeking waivers.
- 13.5 The Jersey regulations do not specify the form of these notifications, but I have assessed notifications to the Jersey Policyholders using the UK regulations as guidance.

Summary of notifications

Existing Portfolio

- 13.6 The Transferee does not intend to directly notify any policyholders or claimants within the Existing Portfolio. The reasons for this are discussed in paragraph 13.9.

Transferring Portfolios

- 13.7 The Transferors intend to directly notify the following policyholders within the Main Scheme and Jersey Scheme, subject to the waivers discussed in paragraph 13.10:
- Any policyholder with an active insurance policy at 30 June 2026 (“the Current Policyholders”), this date having been selected as the final date on which the Transferors will refresh their database of policyholders
 - Any first-party or third-party claimants as at 30 June 2026 (“the Open Claimants”)
 - Any policyholder that had a policy issued on or after 1 May 2024 (the rationale behind this cut-off date is discussed in paragraph 13.10)
- 13.8 I further understand from the Transferors that after 30 June 2026, all new policyholders will be informed of the Schemes as part of the quote and sale process.

Rationale for seeking waivers

Existing Portfolio

- 13.9 AZI is seeking a waiver from the requirement to directly notify the policyholders and claimants within the Existing Portfolio for the following reasons:
- As per my conclusions in sections 9 to 11, the Schemes will not impact the administration or governance of these policies, nor materially adversely impact the experience of these policyholders or their security, and I expect that there will be little to no impact on this group of policyholders

- The costs of notifying these policyholders (estimated by the Companies to be approximately £3.2m) would be disproportionately high for contacting policyholders for whom the Schemes have little to no impact
- There would be information available to the Existing Policyholders through other communication channels.

Transferring Portfolios

13.10 The waivers the Transferors are seeking in respect of notifying policyholders and claimants within the Transferring Portfolios are set out below, along with the rationale for seeking these waivers.

- Potential future claimants arising from policies issued prior to 1 May 2024:
 - The analysis conducted by the Transferors suggests that more than 98% of claims have been notified within two years of the policy incepting. Therefore, by contacting policyholders whose policies incepted on or after this date, the Transferors believe that they will capture the vast majority of potential future claimants from policies that have lapsed (all current policyholders are being contacted).
 - Therefore, the probability of receiving claims from policies incepting prior to 1 May 2024 is low as the vast majority are expected to already have been received by the relevant Transferor by 30 June 2026
 - The analysis conducted by the Transferors suggests that adding policies that incepted prior to this date would have a disproportionately low success rate in notifying potential claimants, and therefore the cost of notifying these policyholders would be disproportionately high. The Transferors' analysis looked at using an earlier cut-off date to 1 May 2023 and estimated that of the additional 990k policyholders who would be contacted, just 0.13% would be expected to claim in the future, compared to an additional cost of £399k, resulting in a cost per additional expected future claimant of over £1k.
 - There would be information available to the Transferring Policyholders through other communication channels.
- Gone Away Policyholders.
 - The Transferors will attempt to contact Transferring Policyholders by letter or email (initially according to customer preference, and then by the alternative means where possible to do so). In addition, they will attempt to contact retail policyholders by SMS if they are unsuccessful in contacting those policyholders by letter and email to ask them to update their other contact details. "Gone Away Policyholders" are policyholders in respect of whom the Transferors (or their Intermediaries) do not hold or cannot obtain up-to-date contact details and which cannot be contacted through these means. The Transferors have made assumptions about the rates of successful communication, based on similar historical exercises, and as a result they expect the number of Gone Away policyholders to be small: around 10k. The reasons for applying for this waiver are as follows:
 - If the Transferring Policyholders are not contactable after trying these contact methods, the Transferors believe it to be disproportionately time consuming and costly to attempt to directly contact these policyholders, since they do not hold any other forms of contact information.
 - Based on the assumptions described above, the Transferors have estimated, based on their experience of similar customer contact exercises in the past, that they will be able to successfully contact 99.998% of retail policyholders and 99.4% of policyholders whose details are held by intermediaries

- The Transferors have informed me that they intend to perform additional pre-validation and sanitisation checks on their mailing data for policyholders whose details are held by intermediaries, which they expect will improve their success rate further. The Transferors have also told me that they expect a de minimis level of Gone Away Policyholders given the extensive data validation exercise.
- The additional SMS will not be possible for lapsed policyholders since such policyholders will not have access to the business-as-usual channels by which to update their contact details
- There would be information available to the Transferring Policyholders through other communication channels.
- The costs of taking further steps to identify contact details for policyholders who cannot be reached after the measures, and planned additional measures, above would be around £20 per policyholder. This is disproportionately high, being by comparison over fifty times the expected average cost of notifying policyholders who can be reached by the measures above.
- Named insureds who are named as an insured but not the policyholder:
 - In these instances, the policyholder would receive the direct communication. It is assumed that the policyholders and named insureds would have a close connection, and the communications will request that the policyholder inform the named insureds of the contents of the communication. Therefore there would be little utility in the named insured also receiving the communication.
 - In addition to the rationale stated by the Companies, I believe a further reason justifying this waiver is that insurers do not typically hold complete or reliable address information for all named insureds and sending notices to these individuals would introduce operational and data-protection risks without improving the quality of information available to affected parties. All regulatory and contractual communications are ordinarily issued to the policyholder as the primary account holder, and it is proportionate and appropriate that the policyholder informs any named insureds as required.
- Policyholders whose information is held by intermediaries but is not available to the Transferors, and whose intermediaries fail to conduct the communication exercise when requested:
 - The Transferors will take all reasonable steps to obtain that information or to support the relevant intermediaries in carrying out the communication exercise (for example, by offering to pay the intermediary's notification costs and offering to provide pre-paid postage)
 - The Transferors do not expect there to be any policyholders in this group, but, to cover the potential eventuality, they are seeking a waiver from contacting these policyholders in the unlikely event that a broker fails to carry out the communications exercise
 - This is because it would be very difficult to contact such policyholders if there are any, since their details are not held by the Transferors and, in addition, there would be information available to these policyholders through other communication channels.
- Short-term policies sold through intermediaries (where cover is provided for hours/days):
 - Claims on these policies are reported very quickly, during or shortly after the period of insurance cover. Claimants will be notified, as discussed in paragraph 13.7, so it is the potential future claimants from this group which would benefit from receiving communications, of which there will be very few at 30 June 2026 given the usual speed of notification

- The costs of notifying these policyholders would be disproportionately high, with a total of around £400k, resulting in an amount per potential claimant of over £2k.
- There would be information available to the Transferring Policyholders through other communication channels.

Summary

- 13.11 The Companies have provided me with their analysis in relation to the proposed waivers for the Transferring Policyholders and the Existing Policyholders. I have reviewed this and challenged it where necessary and my opinion is that it is proportionate and reasonable for the Companies to seek these waivers given the reasons stated above, and given my additional rationale where provided.

Advertisements

- 13.12 Further to the above, UK regulations surrounding Part VII transfers require that a notice stating that an application has been made in connection with the Schemes must be published:
- in the London, Edinburgh and Belfast Gazettes
 - in two national newspapers in the UK.
- 13.13 Given the above, the Companies intend on publishing a notice stating that the Main Scheme application has been made in:
- the London, Edinburgh and Belfast Gazettes
 - four national UK newspapers, being The Times, The Financial Times, The Daily Mail and The Sun
 - la Gazette Officielle (Guernsey)
 - the Isle of Man Courier
- 13.14 A notice about the Jersey Scheme will also be published in the Jersey Gazette.
- 13.15 It is my opinion that the above advertisement strategy is proportionate and reasonable with regards to the Schemes, and complies with the relevant regulations.

Documentation

- 13.16 I have reviewed the drafts of the proposed communication material and in my opinion:
- The material is straightforward, provides sufficient information for the policyholders to understand the Schemes, and details any required actions where relevant
 - I consider that the material is appropriate for policyholders in vulnerable circumstances, and the Companies have informed me of measures they have taken to ensure its appropriateness, which are aligned with their usual approach
 - It explains to the policyholders their right to object and the ways in which they can exercise this right
 - Information on how policyholders and other parties can access further documentation and relevant information is clear
 - The documentation is in line with the Part VII regulations, and FCA and PRA guidance.
- 13.17 The communications will also include my Summary Report, which explains my scope and summarises the conclusions I have given in this report.

Website

- 13.18 In addition to the communications discussed above, all of the relevant materials related to the Schemes will be published on a dedicated website hosted by the Allianz UK Group. The website page has not currently been created but I have seen a draft of the content that will be used on the website. It is my opinion that the proposed content is clear and proportionate.
- 13.19 The notifications described above will direct interested parties to this website for further information.

Timelines

- 13.20 The main body of communications (i.e. the first attempts to reach policyholders) is planned to be sent in tranches during a four-week period, beginning 26 May 2026, with follow-up communications (where the first attempt is unsuccessful) to be completed before 6 July 2026. However, notifications in relation to the Jersey Scheme will begin only after the Directions Hearing in relation to the Jersey Scheme, which is scheduled for 27 May 2026.
- 13.21 I have discussed with the Companies the tools and processes they are going to use to send out these communications and their previous experience of sending out mass mailings to policyholders. Based on those discussions, I am comfortable that the Companies will be able to adhere to the timeline outlined in the paragraph above.
- 13.22 There will be a twelve week period between the end of that initial four-week period of communications and the submission of documents to the Court ahead of the Sanctions Hearings for the Main Scheme and slightly more for the Jersey Scheme, and there will be a ten week period following the last of the follow-up communications. I believe this allows ample time for policyholders, including those in vulnerable circumstances, to receive the communications, consider them and respond and for their responses to be considered by the Companies and by me ahead of the submissions to the Court and Jersey Court. This expectation is based on my experience of similar communications plans, and my consideration of guidance issued by the PRA and the FCA
- 13.23 Additionally, the Companies have informed me that they will employ a purpose-built portal for these communications which will efficiently flag where communications have not been successfully delivered and allow the follow-up communications to be sent in a timely manner, especially where the first attempt is by email and therefore an unsuccessful communication is reported very quickly. I understand from the Companies that extensive testing is planned for April 2026 with dedicated internal teams to ensure this tool functions as intended. This gives me further assurance that the follow-up communications can be completed before 6 July 2026, and therefore that the timelines described above are achievable.
- 13.24 Given the numbers of policyholders and third parties that are being contacted as part of this notification, I have considered how the Companies will be able to handle the number and timing of inbound communications from policyholders and third parties. The Companies have shared a summary of the modelling they have performed of inbound complaints and queries in order to arrive at their plans for resourcing their contact centre. This plan is detailed and allows flexibility to scale up resources in case a higher number of complaints and queries arrive than the Companies' current best estimate. This has provided me with comfort that the receipt and handling of queries and complaints can be completed in time for me to consider them and for the submission of documents to the courts.

Reinsurer notifications

- 13.25 It is a requirement that notifications are sent to every reinsurer whose contracts of reinsurance are to be transferred, in part or in whole. In addition, it is a requirement to notify person(s) authorised to act on behalf of such reinsurers where applicable.

- 13.26 The Transferring Portfolios currently benefit from a range of reinsurance protections. These contracts will transfer to AZI under the Main Scheme, and the Companies have confirmed that no material changes to reinsurance coverage are planned as a result of the Schemes.
- 13.27 I understand from the Transferors that they intend to directly notify the Transferring Reinsurers (and/or their authorised intermediaries), except those which could not be identified in the identification exercise discussed in paragraph 13.28 below. This notification will include details of the Schemes and their implications for the reinsurance arrangements.
- 13.28 The Transferors are seeking a waiver from the requirement to notify additional third-party reinsurers and reinsurance brokers of the Transferors which they are unable to identify as part of an identification exercise, for the following reasons:
- Due to data and system constraints, the Transferors will not be able to conclusively determine whether all reinsurers and reinsurance brokers have been identified and contacted
 - After taking reasonable steps in an exercise to identify reinsurers and reinsurance brokers based on their long corporate history, the Transferors have identified those responsible for the vast majority of their reinsurance covers, and further steps would involve a disproportionate amount of enquiries and analysis
 - The reinsurance broker market is experienced in Part VII transfers (such as the Schemes), and the Companies have informed me that they expect that, in the event of a claim arising which is covered by reinsurance outside the identified group, the Companies could work with their identified brokers to trace potential reinsurance contracts.
- 13.29 I believe the proposed approach to reinsurer notification to be proportionate and reasonable.

Notifications to regulators

- 13.30 I understand from the Allianz UK Group that it has shared copies of its communication strategy with the PRA and FCA and it will share the communication strategy with the JFSC in due course. The communication strategy lays out the information presented in this section in more detail, and copies of the communications to be sent to each of the interested parties mentioned above, in order to allow the opportunity to raise objections.
- 13.31 The legal advice received by the Transferors, which I have reviewed, recommends that the Isle of Man Financial Services Authority be sent a courtesy notification as part of the transfer of the Isle of Man located policies within LVIC and HICO, all of which are governed by English Law. There is no legal requirement to notify the Guernsey Financial Services Commission since LVIC and HICO are not licenced by it.

Notifications to other parties

- 13.32 The Companies will seek to notify the following groups in addition to policyholders, reinsurers and regulators:
- Brokers which engage with one of the policyholder or claimant groups in paragraph 13.6
 - Managing general agents
 - Corporate partners
 - Introducers
 - Certain professional bodies
 - Claims management companies

- Third party counterparties of LVGIG
 - Price comparison websites.
- 13.33 I note that regulations do not require these parties to be contacted, and the communications are planned either as a courtesy or to expand the communication channels by which policyholders can learn about the Schemes.
- 13.34 The Transferors also intend to notify beneficiaries of periodic payment orders and provisional damage orders, regardless of whether they are policyholders since the regulations require these beneficiaries to be notified. As these are few in number, I do not have any concerns about the ability of the Transferors meet the timelines described above as regards these beneficiaries.

Analysis and opinion

- 13.35 In reviewing the policyholder and reinsurer notification strategy, I have:
- Held discussions with the Companies and reviewed their communication strategy documents
 - Reviewed the analysis undertaken in respect of waivers requested
 - Reviewed information provided to the PRA, the FCA and the JFSC setting out the approach to policyholder notifications and inbound communications
 - Reviewed the witness statements setting out the policyholder notification strategy
 - Reviewed the proposed communication materials
 - Reviewed the draft text for the website
- 13.36 Given the size and implications of the Schemes, I believe that the proposed approach to policyholder and reinsurer notifications is proportionate and reasonable.
- 13.37 In my Supplementary Report, I will discuss how the policyholder and reinsurer notification strategy has been implemented. In addition, I will discuss any objections that have been received following notification of the Schemes.

14 Reliances and limitations

Events following the modelling date

- 14.1 The conclusions in this report are based on analyses that have been undertaken on data as at different points in time. I have been informed by the Companies that there have been no material changes between the modelling dates and the date of this report. However, events could occur between the date of this report and the Effective Date that could change my conclusions. I will provide a Supplementary Report prior to the sanction of the Schemes to update the Court on whether there have been any material developments since the issue of this report.

Reliance on other parties

- 14.2 In developing the conclusions in this report, I have relied on the data and accompanying explanations provided to me by and on behalf of the Companies. I have not specifically reviewed the data for accuracy and completeness, but I have reviewed it for reasonableness.
- 14.3 I have carried out investigations, as detailed in this report, to gain comfort on the appropriateness of the methodology and conclusions for the most significant liabilities and capital requirements.
- 14.4 My review has not amounted to a full re-estimation of the liabilities for every class of business or a detailed calculation of the capital requirements. Instead, I have relied upon reserving work and estimation of capital requirements performed by the Companies. I believe this is reasonable given the experience and professional qualifications of the authors of the reserving and capital documents provided to me by the Companies and the testing that I have done. The reviews that I have carried out give no indication of any significant deficiency and I believe that appropriate methodologies have been adopted throughout.
- 14.5 I have also relied on discussions that I have had with the Companies. Where appropriate, I have sought documentation to evidence the assertions made to me in those discussions.

Other

- 14.6 In my judgement, the results and conclusions contained in this report are reasonable given the information made available to me.
- 14.7 However, there is a limitation upon the accuracy of any estimate of claims reserves or capital requirements in that there is an inherent uncertainty in any estimate of future liabilities. This is due to the fact that the claims will be subject to the outcome of events yet to occur, such as judicial decisions, legislative actions, claim consciousness amongst potential claimants, claims management, claim settlement practices, changes in inflation, and economic decisions. As a result, it should be recognised that future claim emergence will likely deviate, perhaps materially, from any estimate of claims reserves. In addition, it should be recognised that the actual capital required will likely deviate, perhaps materially from any estimate of the capital requirements.
- 14.8 The underlying figures in this report are calculated to many decimal places. In the presentation of the figures in the various tables, there may be reconciliation differences due to the effect of rounding.

15 Conclusions

- 15.1 I have considered the Schemes and their likely effects on the Transferring Policyholders, including the Jersey Policyholders, and the Existing Policyholders.
- 15.2 In reaching the conclusions set out below, I have applied the following principles as set out in relevant professional guidance. I have sought to:
- Exercise my judgement in a reasoned and justifiable manner
 - Describe the impact on all classes of beneficiaries (for the purposes of this report, being the Transferring Policyholders, the Existing Policyholders and the Jersey Policyholders) and Transferring Reinsurers
 - Indicate how the Schemes might lead to any changes in the material risks to the benefits of the different classes of beneficiaries
 - Assess the impact on all the classes of beneficiaries
 - Indicate the proposed rationale for the Schemes to proceed
 - Include (in summary) the most material information on which my opinion is based
 - Describe the rationale for my opinion
- 15.3 I have concluded that there will be no materially adverse impact to the service provided to the Transferring Policyholders (including the Jersey Policyholders) and no materially adverse impact on the security provided to them, nor to the level of their benefits, since my view is that the likelihood of AZI being unable to pay claims as they fall due is remote and the Schemes do not change the policy terms and conditions or the approach to servicing the policies. Therefore, I do not expect that the Transferring Policyholders (including the Jersey Policyholders) would be materially adversely affected by the Schemes.
- 15.4 In addition, I have concluded that there will be no material adverse impact to the service provided to the Existing Policyholders and no material adverse impact on the security provided to them. Therefore, I do not expect that the Existing Policyholders would be materially adversely affected by the Schemes.
- 15.5 In addition, I identify no Transferring Reinsurers that will be materially adversely affected by the Schemes.
- 15.6 Given the above, I conclude that the risk of any group of policyholders or reinsurers being materially adversely affected by the Schemes is sufficiently remote that there is no reason why the Schemes should not proceed.
- 15.7 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not. Those that are within my own knowledge I confirm to be true. The opinions that I have expressed and conclusions that I have drawn represent my true and complete professional opinions on the matters to which they refer.
- 15.8 As required by Part 35 of the Civil Procedure Rules, I hereby confirm that I understand my duty to the Court, I have complied with that duty and I will continue to comply with that duty.

- 15.9 I do however consider it necessary that I review the most recent information that is available prior to the date of the Sanctions Hearing, when this becomes available, before confirming my conclusions and opinions.

Simon Sheaf

Simon Sheaf FIA, FSAI
Partner and Head of Actuarial & Risk
Grant Thornton UK Advisory & Tax LLP

A Information received

Documents received covering all of the Companies

- Internal Model Line of Business Segmentation Proposal vFinal.pdf
- IM LoB Description.xlsx
- Actuarial Function Report - Allianz Holdings - YE2024 v1.0.pdf
- Premium Provision ENID calc vD2 25Q3.xlsx
- AZH GrossNet Earned ENID Summary 25Q3.xlsx
- ENID Calculation_25Q3.xlsx
- ENID Severities_25Q3.xlsx
- ENID_Scenario_Slide[1].pptx
- LV Earned ENID Summary 25Q3.xlsx
- Fairmead Completion report 18.12.2024.pdf
- Q3 2025 FRF.pdf
- RE_ Cotton - source of tables in S5 of draft 0_1.msg
- Aggregated Premium 2024 unlinked.xlsx
- Project Cotton - RI Summary 2020-2024.xlsx
- Allianz Holdings Reserving Presentation 2025Q3 Final.pdf
- Combined_Claims_Reserving_Philosophy_LVIC_HICO.doc
- RE_ IE Meeting - Reserving Undiscounted.msg
- Actuarial Transformation - Cotton IE.pptx
- Solvency II Own Funds 2025 Q3 FINAL merged.pdf
- AZH TP group vs local differences.pdf
- AZH TP Sign Off 2025 Q3 v1.0.pdf
- Undiscounted_Reserves_Q3_-_unlinked[1].xlsx
- RE_ Project Cotton - Undiscounted Reserves query - mapping.msg
- Q3 Post Cotton Balance sheet v2.xlsm
- RE_Project_Cotton_-_IE_Question_Ref_97[1].msg
- AZI Post-Transfer Solvency Position 2025 Q3.pptx
- Cotton_IFRS_17_&_MVBS_Plan[1].pptx
- Allianz UK Annual ORSA report YE 2024 v3.pdf
- 2025-12-04_RiCo_-_ERM_Report[1].pdf
- 2025-09-04 Risk Committee - Enterprise Risk Management Report.pdf
- AZUK_Q3_2025_Solvency_Position_Review_for_IE[1].pptx
- AZI Post-Transfer Solvency Position 2025 Q3.pptx
- FiCo paper _ cash pool overview.docx

Documents received regarding AZI

- 2024 - AZI- fully signed.pdf
- AZP & AZI 25Q3 GEP.xlsx
- AZI_QTRLY - P09 2025 12.11.2025.xlsx
- RE_Question_from_IE-_Ref_114__115[1] (AZI reinsurer exposure).msg
- Copy of AZI IR.02 Q3 2025.xlsx
- 4. Internal Model Governance Standard.pdf
- 2. Model Committee Q2 2025.pdf
- 3. Annual Validation Report AZI 2024.pdf
- 1. Overview of Major Model Change.pdf
- 2025-05-01 Internal Model - Plan on a Page.pptx
- MMC Contingency Plan v0.4_DRAFT_shared with IE.pdf
- 2024 - AZI - SFCR fully signed.pdf
- RE_Project_Cotton_-_IE_Question_-_Ref_61[1].msg
- RE_Project_Cotton_-_IE_Question_Ref_27[1].msg
- RE_Project_Cotton_-_IE_Question_Ref_30[1].msg
- MRM - AzI - v1.60.pdf

Documents received regarding LVIC

- 2024 - LVIC- fully signed.pdf
- LVIC HICO Fairmead GWP&GEP by LOB .xlsx
- LVGI_QTRLY - LVIC 12.11.2025.xlsx
- LVIC_HICO_FIL_exposure_to_reinsurers.xlsx
- Copy of LVIC IR.02 Q3.xlsx
- RE_Project_Cotton_-_IE_questions_Ref_29[1].msg
- 2024 - LVIC - SFCR- fully signed.pdf
- Ad-Hoc Paper - LV Solvency Impacts Q2 2025 v4.0 (003).docx
- MRM - LVIC - v1.59.pdf

Documents received regarding HICO

- 2024 - HICo- fully signed.pdf
- LVIC HICO Fairmead GWP&GEP by LOB .xlsx
- HICO BOOK run 12.11.2025.xlsx
- LVIC_HICO_FIL_exposure_to_reinsurers.xlsx
- Copy of HICO IR.02 Q3.xlsx

- RE_Project_Cotton_-_IE_questions_Ref_29[1].msg
- 2024 - HICo - SFCR fully signed.pdf
- MRM - HICo - v1.60.pdf

Documents received regarding FIL

- RE Cotton IE query- FIL audit - Ref 36.msg
- 5.1 PWC Year end Audit Findings.pdf
- 4.07 FIL 2024 FINAL BDO signed.pdf
- LVIC HICO Fairmead GWP&GEP by LOB .xlsx
- LVIC_HICO_FIL_exposure_to_reinsurers.xlsx
- FIL IFRS 17 BS & PL Q3 2025 - 22-01-2026 update.xlsm
- Copy of FIL IR.02 Q3.xlsx
- FIL_for_Q3_2025[1].xlsm
- FIL SFCR 30092024 (inc QRTs) FINAL.pdf
- MRM - FIL - v1.34.pdf

Documents received regarding TIL

- 2024 Annual Report - TIL - final Signed.pdf
- Copy of TIL IR.02 Q3 2025.xlsx
- 2024 - TIL - SFCR.pdf
- RE_Project_Cotton_IE_Question_Ref_26[1].msg
- MRM - Trafalgar - v1.15.pdf

Documents received regarding Communications

- Cotton Pack - Comms Approach Reg Pack V0.1.pptx
- Project Cotton- Claim notification runoff1.pptx
- Revised_CAD_as_at_12.01.26[1].docx
- Cotton_Waiver_Pack_090126[1].pdf
- Customer_Journey_Wording[1].docx
- Gazette_Advertising__May_June_2026[1].pdf
- Letter_Templates_-_Full_List_Simplified_View[1].xlsx
- Part_VII_Base_Letter_final_draft[1].docx
- Transfer_Guide__FAQs__Final_draft[1].docx
- Cotton - Regulator Pack Feb 25 Final.pdf
- Cotton_Content_Requirements_full_list[1].xlsx

- outbound-inbound summary.docx
- Revised CAD as at 25.01.26 for FF FF comments - 27 Jan(314768943.2) (KB amends).docx

Legal documents received

- Cotton_Legal_Due_Diligence_Master[1].xlsx
- Project_Cotton_-_Scheme_Document_(Az_Draft_12.09.2025_IE)[1].docx
- Project_Cotton_-_Witness_Statement_for_Transferee_(Az_Draft_12.09.2025_IE)[1].doc
- Project_Cotton_-_Witness_Statement_for_Transferors_(Az_Draft_12.09.2025_IE)[1].docx
- 1._Project_Cotton_-_Scheme_Document_(FF_Draft_28.01.2026_AZ_updates_30.01.26)_-_MASTER(309421823.27)[1].docx
- 2._Project_Cotton_-_Witness_Statement_for_Transferors_(FF_Draft_28.01.2026_AZ_updates_30.01.26)_-_MASTER(304625799.31)[1].docx
- 3._Project_Cotton_-_Witness_Statement_for_Transferee_(FF_Draft_28.01.2026_AZ_updates_30.01.26)_-_MASTER(308561967.20)[1].docx
- 4._Project_Cotton_-_Witness_Statement_of_LVGIG_(FF_Draft_28.01.2026_AZ_updates_30.01.26)_-_MASTER(309480506.23)[1].docx
- 5._Project_Cotton_-_Witness_Statement_of_AMSL_(FF_Draft_28.01.2026_AZ_updates_30.01.26)_-_MASTER(309924013.19)[1].docx
- 7._Project_Cotton_-_Draft_Part_8_Claim_Form_(FF_Draft_28.01.2026)_-_MASTER(313487775.3)[1].pdf
- 8._Project_Cotton_-_Part_8_Claim_Form_(Annex)__(FF_Draft_28.01.2026)_-_MASTER(313475867.4)[1].docx
- 9._Project_Cotton_-_Draft_Order_for_Directions_(FF_Draft_28.01.2026)_-_MASTER(313475857.5)[1].docx
- 10._Project_Cotton_-_Draft_Notice_-_28.01.2026_MASTER(303438214.7)[1].docx
- CrownDependencyAdviceSummary.pptx

Other documents received

- transformation-picture-with-voiceover.pptx
- AKUK_Transformation_Governance_Cadence[1].doc
- AZ_UK_Transformation_Governance_Overview[1].pptx
- AZUK Strategic Programmes.pptx
- Cotton_-_POAP_for_Court_Dates_191225_V0.1[1].pptx
- Cotton POAP June DH V0.1.pdf
- Cotton - Revised Timeline June DH V0.1.pptx

- IE Report Governance Timeline.pptx
- Org Charts for report v0.4.pptx
- AZI - Commercial - 20240201-Settlement - Guidelines - Application-v2.0.docx
- AZP Complaint Handling Framework v1.9 FINAL (1).pdf
- Complaint Handling Governance v1.9.pdf
- Complaints Handling Guide.pdf
- High Profile Complaints 2020 V1.0.pdf
- 6.1.1_1-20250806---ECC---Update-to-Conduct-Risk-Standard-Appendix-1-Allianz-UK-Standard-for-Conduct-Risk-v8.4[1].pdf
- RE_IE_Question_Ref_18[1].msg
- RE_Project_Cotton_-_Question_from_the_IE-Ref_70[1].msg
- 48.1 2023 AZUK Investment Strategy.pdf
- Allianz UK - Standard for Insurance Investment Assets.docx
- Allianz UK - Standard for Investment Management Organisation.docx
- Board paper - 2026 SAA.docx
- Board_2025 AZ UK Strategic Asset Allocation.docx
- RE Cotton- IE investment queries - QL44.msg
- EXT Cotton Memo on impact of English Scheme on Guernsey-law governed policies.msg
- FW_Cotton_-_Jersey_Guernsey_and_loM_local_counsel_-_Ref_64[1].msg
- RE_Project_Cotton_-_Non_UK_policies[1].msg
- AS_Liquidity_Risk_Management_(ASLRM)_v2.9_vetting_clean[1].pdf
- Cotton - Operational Readiness Plan Document_IE Submission v2.0.pdf
- 38905-2024-terms-and-conditions-motor_(7)[1].pdf
- AzUK-Sanctions-Compliance-Framework-v5.pdf
- IE_questions_-_ref_17[1].msg
- RE_Project_Cotton_-_Independent_Expert_-_Sanctions_Query_24.09.25[1].msg
- RE_Project_Cotton-IE_queries_Ref_65[1].msg
- Asset transfer v1.0.pptx
- CFC approach.pptx
- CFC Steer co- November 25.pptx
- Project Cotton Tax Memo.docx
- Part_VII_accounting_considerations_2025_-_Technical_paper_v1.6[1].pdf

B Definitions

Asset	Generally, any item of property whether tangible or intangible, that has financial or monetary value.
Assumed Target Ratio	The likely target solvency coverage ratio for AZI post-Schemes which I have assumed to take a value of 130%
Available capital	Total assets less total liabilities, in addition to any off-balance sheet capital that an entity can draw upon.
Balance Sheet	A statement of the assets, liabilities, and capital of a business or other organisation at a point in time.
Bornhuetter-Ferguson method	An actuarial reserving method, used to estimate incurred but not reported claims, which blends chain ladder and expected loss ratio reserving methods.
Capital requirements	The level of capital that an insurance or reinsurance undertaking is required to hold.
Catastrophe	An event that can cause severe damage or suffering. The event could be natural or man-made.
Cedants	Insurers that have ceded some of their risk to a reinsurance business.
Claims reserve	Provisions held for the future payment of claims.
Counterparty default risk	Risk of losses due to default or downgrade of reinsurers or due to non-payment of receivables from third parties
Coverage Ratio	The quantum of available capital or capital resources or Own Funds, expressed as a percentage of its capital requirements.
Current Policyholders	Any policyholder with a current insurance policy
Default	A failure to perform a legal or contractual obligation.
Effective Date	The date at which the Schemes become legally binding.
Eligible Own Funds	The portion of own funds that can be used to meet capital requirements after taking account of any restrictions.
Excess of loss	A type of reinsurance contract whereby cover is provided by the reinsurer above a certain amount and up to a certain limit.
Grant Thornton	Grant Thornton UK Advisory & Tax LLP
Gross	Excluding the effect of reinsurance arrangements. For example, 'gross insurance liabilities' refers to insurance liabilities before taking into account any offsetting reinsurance assets
Incurred claims	The sum of the paid and outstanding claims
Independent Expert	The suitably qualified person that produces an independent report on the Schemes, in accordance with FSMA
Internal Model	A bespoke model developed by an insurance or reinsurance undertaking to calculate its Solvency Capital Requirement under Solvency UK.
Jersey Policies	Policies effected or carried out as part of insurance business carried on in or from within Jersey
Jersey Policyholders	Policyholders of the Jersey Policies
Jersey Scheme	The parallel scheme to transfer the Jersey Policies from LVIC, HICO and FIL to AZI
Liability	A claim against the assets, or legal obligations of a person or organisation, arising out of past or current transactions or actions.
Liquidity	The degree to which an asset or security can be quickly bought or sold in the market without affecting the asset's price.
Main Scheme	The scheme providing for an Insurance Business transfer of a portfolio of policies from LVIC, HICO, FIL and TIL to AZI, and certain ancillary assets and liabilities of LVGIG to AMSL
Minimum Capital Requirement ("MCR")	The lower level of regulatory capital requirement under the Solvency UK regime.

Net	Including the effect of reinsurance arrangements. For example, 'net insurance liabilities' refers to insurance liabilities after deducting any offsetting reinsurance assets from the gross insurance liabilities.
Open Claimants	Any first-party or third-party claimants
Own Funds	The excess of an insurer's admissible assets over its liabilities on a Solvency UK basis.
Own Risk and Solvency Assessment ("ORSA")	The insurance or reinsurance undertaking's own assessment of the risks to which it is exposed and its solvency
Parent	An enterprise that controls another (called the subsidiary) through the ownership of greater than 50 percent of its voting stock.
Part VII Driven Capital Release	The potential dividend of £130m which AZI's business plan anticipates may be paid by AZI following the Effective Date
Part VII transfers	Insurance business transfers which are undertaken under Part VII of Financial Services and Markets Act 2000, as amended ("FSMA"), and are required to be approved by the High Court of England and Wales (or the Court of Sessions in Scotland) under Section 111 of FSMA.
Peer Review	Process by which a piece of work is considered by at least one other individual, having appropriate experience and expertise, for the purpose of providing assurance as to the quality of the work in question.
Periodical Payment Order	A court order that requires an insurer to provide annual payments to the claimant for the rest of their life.
Potential Claimants	Any policyholder that had a policy issued within two years prior to the cut-off date (i.e. any policy that was issued on or after 1 May 2024)
Premium	The amount charged by an insurer or reinsurer as the price of granting insurance or reinsurance cover, as stated before or after the subtraction of brokerage and other deductions.
Provisional Damages Order	A court order which allows for future developments to the claimant's condition, as opposed to following the usual principle of court awards being 'full and final'.
Reinsurance	An arrangement with another insurer whereby risks are shared (or passed on).
Reserve strength	A measure of the likelihood that the claims reserve will be sufficient to meet future claims
Retrocession	A type of insurance wherein a reinsurance company takes on part of the risk assumed by another reinsurance company.
Risk Margin	Under Solvency UK, insurers must hold a risk margin in excess of their best estimate of liabilities. This risk margin is designed to represent the amount of capital a third party would require to take on the obligations of a given insurance company. It effectively means that if an insurer were, as a result of a shock, to use up all its free surplus and capital, then it would still have sufficient assets to be safely wound-up and transfer its obligations to a third party.
Run-off	An insurance undertaking that does not accept new business but continues to provide coverage for claims arising on its policies still in force and that makes payments for claims that have occurred on its policies.
Schemes	The Main Scheme and the Jersey Scheme
Section 13 Transfer	A transfer of insurance business under Section 13 of the Assurance Companies Act 1909
Solvency Capital Requirement ("SCR")	The higher level of regulatory capital requirements under the Solvency UK/II regime.
Solvency II	A regulatory regime for insurers which came into force on 1 January 2016 aimed at harmonising regulation across the EU
Solvency UK	The solvency regime in the UK following reforms made to Solvency II
Standard Formula	A standardised calculation for the Solvency Capital Requirement of an insurance or reinsurance undertaking, as prescribed under Solvency UK.

Subsidiary	An enterprise controlled by another (called the parent) through the ownership of greater than 50 percent of its voting stock.
Summary Report	A summary of this report, to be included in the information sent to policyholders
Supplementary Report	An update to this report prepared shortly before the date of the final court hearing, covering any relevant matters which have arisen since the date of this report
Technical provisions	The insurance liabilities of an insurer, as determined for regulatory purposes. These are calculated as the provisions for the ultimate costs of settling all claims arising from events which have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of these claims; plus the provisions for claims arising on unexpired periods of exposure less any premium in respect of the business written that has not yet been received.
Transferring FIL Policyholders	Policyholders transferring from FIL to AZI under the Schemes
Transferring HICO Policyholders	Policyholders transferring from HICO to AZI under the Schemes
Transferring LVIC Policyholders	Policyholders transferring from LVIC to AZI under the Schemes
Transferring Policyholders	Policyholders transferring from LVIC, HICO, FIL and TIL to AZI under the Schemes
Transferring Portfolios	The business of LVIC, HICO, FIL and TIL transferring to AZI
Transferring TIL Policyholders	Policyholders transferring from TIL to AZI under the Schemes
Underwrite	This term may refer to (a) the process of evaluating, defining and pricing insurance and reinsurance risks including where appropriate the rejection of such risks; or (b) the acceptance of the obligation to pay or indemnify the insured or reassured under a contract of insurance or reinsurance.
Unearned premium	The premium corresponding to the time period remaining on an insurance policy. Unearned premiums are in respect of the unexpired portion of the insurance and appear as a liability on the insurer's balance sheet.

C Abbreviations

Allianz SE	Allianz Societas Europaea
AMSL	Allianz Management Services Limited
AMCR	Absolute Minimum Capital Requirement
APH	Asbestos, Pollution and Health
APS	Actuarial Professional Standards
AZ Re	Allianz Re Dublin DAC
Allianz UK	Allianz (UK) Limited
AZC	Allianz Commercial Lines
AZH	Allianz Holdings PLC
AZI	Allianz Insurance Plc
AZP	Allianz Personal Lines
AZS	Allianz Specialty Lines
BEL	Best Estimate Liability
CBI	Central Bank of Ireland
Combined Board	The Board of Directors for AZH, AZI, TIL, LVIC and HICO
Court	the High Court of England & Wales
EEA	European Economic Area
ELTO	Employers' Liability Tracing Office
ENIDs	Events Not In Data
EOF	Eligible Own Funds
ETMO	Enterprise Transformation Management Office
FCA	UK Financial Conduct Authority
FIA	Fellow of the Institute and Faculty of Actuaries
FIL	Fairmead Insurance Limited
FIL Board	The Board of Directors for FIL
FOS	UK Financial Ombudsman Service
FRC	UK Financial Reporting Council
FSCS	UK Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
GAAP	Generally Accepted Accounting Principles
HICO	Highway Insurance Company Limited
HR	Human Resources
IBNR	Incurred But Not Reported
IFoA	Institute and Faculty of Actuaries
IFRS	International Financial Reporting Standards
IRT	Insurance Reporting Template
JFSC	Jersey Financial Services Commission
LoB	Line of Business
LVRS	LV Repair Services Limited
LVGIG	Liverpool Victoria General Insurance Group

LVIC	Liverpool Victoria Insurance Company Limited
MCR	Solvency UK Minimum Capital Requirement
MMC	Major Model Change
ORSA	Own Risk and Solvency Assessment
PDO	Provisional Damages Order
PPO	Periodical Payment Order
PRA	UK Prudential Regulation Authority
SAI	Society of Actuaries in Ireland
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SUP18	Chapter 18 of the Supervision Manual from the FCA handbook
TAS	Technical Actuarial Standard
TIL	Trafalgar Insurance Limited
UK	United Kingdom
US	United States of America

D Checklist against PRA's Statement of Policy and SUP 18

The table below cross references the relevant sections of this report to the requirements for the Scheme Report, as set out in the Statement of Policy produced by the PRA in April 2015, namely "The Prudential Regulation Authority's approach to insurance business transfers".

It also cross-references the relevant sections of this report to the guidance set out in Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and Guidance to cover scheme reports on the transfer of insurance business. These requirements are identical to those set out in the PRA's Statement of Policy. However, please note that the paragraph references in the table below are to the PRA Statement of Policy rather than to SUP18.

Reference to the PRA's approach to business transfers	Reference to relevant section within this report
2.30 The Scheme report should comply with the applicable rules on expert evidence and contain the following information:	
(1) who appointed the independent expert and who is bearing the costs of that appointment;	Paragraphs 1.5 and 1.6
(2) confirmation that the independent expert has been approved or nominated by the PRA;	Paragraph 1.5
(3) a statement of the independent expert's professional qualifications and (where appropriate) descriptions of the experience that makes them appropriate for the role;	Paragraphs 1.49 to 1.52 and Appendix F
(4) whether the independent expert, or his employer, has, or has had, direct or indirect interest in any of the parties which might be thought to influence his independence and details of any such interest;	Paragraphs 1.54 to 1.58
(5) the scope of the report;	Section 3 and Appendix G
(6) the purpose of the Scheme;	Section 5
(7) a summary of the terms of the Scheme in so far as they are relevant to the report;	Paragraphs 5.1 to 5.6
(8) what documents, report and other material information the independent expert has considered in preparing the report and whether any information that they requested has not been provided;	Appendix A and paragraph 1.64
(9) the extent to which the independent expert has relied on:	
(a) information provided by others; and	Paragraphs 1.64 to 1.70 and section 14
(b) the judgement of others;	Paragraphs 1.64 to 1.70 and section 14
(10) the people the independent expert has relied on and why, in their opinion, such reliance is reasonable;	Section 1 and throughout the report.

(11) Their opinion of the likely effects of the Scheme on policyholders (this term is defined to include persons with certain rights and contingent rights under the policies), distinguishing between:	
(a) transferring policyholders;	Sections 9 to 11
(b) policyholders of the transferor whose contracts will not be transferred; and	Section 12
(c) policyholders of the transferee;	Sections 9 to 11
(12) Their opinion on the likely effect of the Scheme on any reinsurer of a transferor, any of whose contracts of reinsurance are to be transferred by the Scheme;	Paragraphs 11.53 to 11.55
(13) what matters (if any) that the independent expert has not taken into account or evaluated in the report that might, in their opinion, be relevant to policyholders' considerations of the Scheme; and	Section 4
(14) for each opinion that the independent expert expresses in the report, an outline of their reasons.	Throughout the report
2.32 The summary of the terms of the Scheme should include:	
(1) a description of any reinsurance arrangements that it is proposed should pass to the transferee under the Scheme; and	Paragraph 1.39, sections 5 and 12
(2) a description of any guarantees or additional reinsurance that will cover the transferred business or the business of the transferor that will not be transferred.	Section 5 and paragraphs 12.8 and 11.59
2.33 The independent expert's opinion of the likely effects of the Scheme on policyholders should:	
(1) include a comparison of the likely effects if the Scheme is or is not implemented;	Implemented: sections 7 to 11, Not implemented: paragraphs 11.66 to 11.81 and 12.5 to 12.9
(2) state whether they considered alternative arrangements and, if so, what;	Paragraph 3.11
(3) where different groups of policyholders are likely to be affected differently by the Scheme, including comments on those differences they consider to be material to the policyholders; and	Throughout the report, for example paragraphs 11.68 to 11.77
(4) include their views on:	

(a) the effect of the Scheme on the security of policyholders' contractual rights, including the likelihood and potential effects of the insolvency of the insurer;	Section 9
(b) the likely effects of the Scheme on matters such as investment management, new business strategy, administration, claims handling, expense levels and valuation bases in relation to how they may affect:	
(i) the security of policyholders' contractual rights;	Section 10
(ii) levels of service provided to the policyholders; or	Section 11
(iii) for the long-term insurance business, the reasonable expectations of policyholders; and	Not applicable
(c) the cost and tax effects of the Scheme, in relation to how they may affect the security of policyholders' contractual rights, or for long-term insurance business, their reasonable expectations.	Costs: paragraphs 10.24 to 10.28 Tax: paragraphs 10.30 to 10.34
2.36 For a scheme involving long-term insurance business, the report should:	
(1) describe the effect of the Scheme on the nature and value of any rights of policyholders to participate in profits:	N/A
(2) if any such rights will be diluted by the Scheme, describe how any compensation offered to policyholders as a group (such as the injection of funds, allocation of shares, or cash payments) compares with the value of that dilution, and whether the extent and method of its proposed division is equitable as between different classes and generations of policyholders;	N/A
(3) describe the likely effect of the Scheme on the approach used to determine:	
(a) the amount of any non-guaranteed benefits such as bonuses and surrender values; and	N/A
(b) the levels of any discretionary charges;	N/A
(4) describe what safeguards are provide by the Scheme against a subsequent change of approach to these matters that could act to the detriment of existing policyholders of either firm;	N/A
(5) include the independent expert's overall assessment of the likely effects of the Scheme on the reasonable expectations of long-term insurance business policyholders;	N/A

<p>(6) state whether the independent expert is satisfied that for each firm, the Scheme is equitable to all classes and generations of its policyholders; and</p>	<p>N/A</p>
<p>(7) state whether, in the independent expert's opinion, for each relevant firm the Scheme has sufficient safeguards (such as principles of financial management or certification by a with-profits actuary or actuarial function holders) to ensure that the Scheme operates as presented.</p>	<p>N/A</p>

E Checklist against FCA's FG22/1

The table below cross references the relevant sections of this report to the requirements for the Scheme Report, as set out in the guidance produced by the FCA in February 2022, namely section 6 of "FG22/1: The FCA's approach to the review of Part VII insurance business transfers". In some cases, my compliance with a guidance point is not possible to evidence by cross-referencing a particular part of the report; in these cases I have described my approach to ensuring this report complies with the guidance.

Reference to the FCA's approach to the review of the form of the Independent Expert's report	Reference to the relevant sections within this report or approach to complying with standard
6.1 The PRA is responsible for approving the form of the IE's report but it must consult us before doing so. Our review will not just be limited to a high-level check of whether the report covers the appropriate topics (see SUP 18 for details). It also aims to ensure that there has been detailed analysis and challenge of the Applicants' position, so we can be satisfied that it is appropriate for the Court to rely on the conclusions.	
6.2 We will try to review the report as far as possible from the perspective of a Policyholder, including claimants on commercial policies. We expect the report to be easy to read and understandable by all its users and for the IE to pay attention to the following:	I have used straightforward language with a minimum of technical jargon and necessary jargon terms defined; I have included background sections to allow users unfamiliar with insurance regulation, for example, to understand the key messages of the report; I have considered each of the factors set out below.
<ul style="list-style-type: none"> • Technical terms and acronyms should be defined on first use. 	For every item in the acronyms glossary (Appendix C), I have checked that the first instance in the report is accompanied by a definition. For items in the definitions glossary (Appendix B), I have judged whether inclusion of a definition on first instance would most likely contribute to clarity and ease of reading.
<ul style="list-style-type: none"> • There should be an executive summary that explains, at least in outline, the proposed transfer and the IE's conclusions. 	Section 2
<ul style="list-style-type: none"> • The business to be transferred should be described early in the report. 	Paragraphs 1.17 to 1.19
<ul style="list-style-type: none"> • The detail given should be proportionate to the issues being discussed and the materiality of the transfer when seen as a whole. While all material issues must be discussed, IEs should try to avoid presenting reports that are disproportionately long. 	Throughout the report, I have included a level of detail I believe to be proportionate
<ul style="list-style-type: none"> • IEs should prepare their reports in a way that makes it possible for non-technically qualified readers to understand. 	I have included dedicated background sections, glossaries, and summaries of my conclusions to assist non-technical readers in understanding my report. I have made every effort to use clear language with a minimum of jargon.
6.3 We sometimes find that IE reports lack detailed and thorough analysis, critical review or reasoning to support a conclusion that there is likely to be no material adverse effect on Policyholder groups. In particular, we sometimes find that the IE reports lack sufficient consideration and comparison of:	
<ul style="list-style-type: none"> • reasonable benefit expectations, including impact of charges 	Sections 9
<ul style="list-style-type: none"> • type and level of service. This includes details of the analysis to support any conclusions including factors like claims and complaints handling (speed and 	Paragraphs 11.2 to 11.19

quality), means of access to the service (including service provided by third parties) and any changes in functionality, speed and usability of service, past performance and customer feedback, reliability of service, number of requests for assistance or complaints, quality and speed of Policyholder support services, quality and frequency of communications	
<ul style="list-style-type: none"> • management, administration and governance arrangements 	Paragraphs 11.38 to 11.42
<ul style="list-style-type: none"> • where the scheme includes Employers' Liability/ Public Liability claimants and Run Off Claims, we expect the IE to include their view of the quality of the firms' Employers' Liability tracing arrangements 	Paragraphs 11.31
<ul style="list-style-type: none"> • where there are significant changes during the process, for example due to pandemic or economic fluctuations, we expect the IE to have adequately reflected on these in the supplementary report or for firms to consider whether the proposal has materially altered and needs a fuller reconsideration or delay to the process 	n/a
6.4 We also sometimes see an imbalance between factual description and supporting analysis. IE reports often include a very detailed description of the transaction and background but much less analysis of the effect on each Policyholder group's reasonable expectations. Our concern here is that the IE often uses the detailed description of the background to compensate for the lack of analysis and challenge of the Applicants.	Section 5 covers the Scheme, while sections 7 to 11 cover the effects on policyholder groups.
6.5 This chapter sets out our expectations and gives some specific examples of the things we will consider when reviewing the IE's report. These include:	
<ul style="list-style-type: none"> • the level of reliance on the Applicants' assessments and assertions 	Section 14
<ul style="list-style-type: none"> • balanced judgements and sufficient reasoning 	I have checked that all of the conclusions I include in this report are supported by rationale.
<ul style="list-style-type: none"> • sufficient regard to relevant considerations affecting Policyholders 	I have reviewed my previous Part VII reports and reports produced by other independent experts, as well as PRA and FCA guidance, to ensure I have included discussion of all relevant considerations a policyholder may have
<ul style="list-style-type: none"> • commercially sensitive or confidential information 	I have disclosed certain commercially sensitive information (such as the expected level of dividend from AZI in 2027), but nothing which I judged to warrant a separate disclosure to the PRA/FCA/Courts
<ul style="list-style-type: none"> • the level of reliance placed on the work of other experts 	Section 14
<ul style="list-style-type: none"> • examples of over-reliance on the work of other experts 	Section 14
<ul style="list-style-type: none"> • ambiguous language or a lack of clarity 	I have endeavoured throughout the report to use clear, unambiguous language
<ul style="list-style-type: none"> • demonstrating challenge 	Paragraph 13.11

	I also reference reconciliations and checks I have performed on the financial data throughout sections 7 and 8
<ul style="list-style-type: none"> • technical actuarial guidance 	Paragraphs 1.49 to 1.53
The level of reliance on the Applicants assessments and assertions	
<p>6.6 IEs will sometimes rely on Applicants’ assessments to reach their own conclusions. In these cases, we expect the IE to demonstrate that they have questioned the adequacy of the assessments. We may also expect the IE to have asked the Applicants to undertake additional work or provide more evidence to support their assertions to ensure that the IE can be satisfied on a specific point.</p>	<p>Where I have relied on information from Allianz UK, I have reviewed the analysis (including methodology and key assumptions) for reasonableness as well as sense-checking the results. For example, I have Allianz UK’s assessment of the adequacy of the Standard Formula for the Transferors, but I have checked all of the reasoning therein. See paragraphs 8.41 to 8.52. Where necessary, I have challenged the information provided and requested additional work be undertaken, such as a correction of direction of adjustments to the consolidated pre-Schemes IFRS 17 balance sheet.</p>
<p>6.7 We expect the IE to explain any challenges they made to the Applicants about such underlying information and the outcome in their report, rather than just stating the final position. We will question and challenge the IE where we feel they have relied on the Applicants’ assertions without challenging them or asking for supporting detail or evidence.</p>	<p>Paragraph 13.11</p> <p>I also reference reconciliations and checks I have performed on the financial data throughout sections 7 and 8</p>
<p>6.8 An example is where conclusions are supported solely or largely by statements like ‘I have discussed with the firm’s management, and they tell me that...’ followed by ‘I have no reason to doubt what they have told me...’. In these cases, we will challenge the IE on whether they have come to their own conclusions. In these circumstances:</p>	
<ul style="list-style-type: none"> • Where a feature of the proposed transfer forms a significant part of the IE’s own assessment of the scheme’s impact, we will ask the IE to review relevant underlying material. We do not expect them to just rely on the Applicants’ analysis of the material and subsequent assertions. 	Where a feature of the Schemes is material to my conclusions, I have reviewed relevant material.
<ul style="list-style-type: none"> • If there are concerns about matters that fall outside the IE’s sphere of expertise, like legal issues, we expect the Applicants to give the IE any advice that they have received. If the issue is significant or remains uncertain, we expect the IE to make sure the Applicants obtained appropriate advice from a suitably qualified independent subject matter expert. We give further information below about the IE obtaining and relying on their own independent advice (6.33 onwards). 	Paragraphs 11.56 and 11.80
<p>6.9 We also expect the IE to challenge calculations carried out by the Applicants if there is cause for doubt on review of the scheme and supporting documents. As a minimum, we will expect the IE to:</p>	

<ul style="list-style-type: none"> review the methodology used and any assumptions made, to satisfy themselves that the information is likely to be accurate and to challenge it where appropriate 	Paragraphs 7.55 to 7.60 and 8.20 to 8.52
<ul style="list-style-type: none"> challenge the factual accuracy of matters that, on the face of the documents or considering the IE’s knowledge and experience, appear inconsistent, confusing or incomplete 	I asked around 150 follow-up questions following my initial review of the information provided to me, some of which challenged the financial results, as well as discussions in several meetings with Allianz UK. I have not included all details of my challenge as this would extend the report disproportionately and reduce the clarity of the report, and because my challenges were answered to my satisfaction.
6.10 We also expect the IE to challenge the Applicants where the documents provided contain an insufficient level of detail or analysis. Specific examples include:	
<ul style="list-style-type: none"> Applicants’ assertions that service levels will be maintained to at least the pre-transfer standard. In this case, we expect the IE to include not only details of the Applicant’s plans and any gap analyses produced, but also include their view of their adequacy, and governance and oversight arrangements. We also expect the IE to include a comparison of service standards and quality, including where outsourcers are used. 	Paragraphs 11.2 to 11.19
<ul style="list-style-type: none"> Where there are concerns that a change in governance arrangements in the Transferee may lead to poorer customer outcomes. Applicants’ analysis is often carried out at a high level. It does not always include reviewing and comparing any of the Transferor’s governance arrangements that produce good customer outcomes with the Transferee’s governance arrangements. An example of these governance arrangements is any committees with conduct responsibilities. 	Paragraphs 11.38 to 11.42
<ul style="list-style-type: none"> Consideration of the potential post-transfer strain on resources which could affect the service standards provided to the Transferee’s existing customers and/or control over conduct of business risk. We will expect to see a review of relevant management information indicators and related contingency planning. 	Section 11, in particular paragraphs 11.49 to 11.52
<ul style="list-style-type: none"> Differences in regulatory requirements, or protections available to policyholders, as a result of the transfer. 	There are no changes to the regulatory regime impacting the policyholders or to FSCS access as a result of the Scheme
Balanced judgements and sufficient reasoning	
6.11 IEs will sometimes state that they are satisfied by referencing certain features of the scheme but will not adequately explain how those features have led to their satisfaction. In these circumstances we will expect to see both the evidence and the IE’s reasoning that led to their conclusion.	I have made every effort to avoid stating my satisfaction without adequate rationale.
6.12 We have also seen many examples of schemes where the Applicants have stated that there will be no material adverse impact to Policyholders. However, from the report it is unclear whether the IE is certain that there will most likely not be an adverse impact or whether it is their best judgement but lacks certainty. In these instances, we expect IEs to consider the following:	I am certain that there will most likely not be an adverse impact to policyholders.

<ul style="list-style-type: none"> Where the IE takes the view that there is probably no material adverse impact, we expect the IE to challenge the Applicants about further work they could undertake to enable the IE to be satisfied to a greater degree. 	(see above)
<ul style="list-style-type: none"> We accept that it is not the IE’s role to suggest a different scheme or propose changes to a scheme (unless it is to propose mitigations against possible harm). However, we believe that they should be able to challenge the Applicants to be confident that their report’s conclusions are robust. Applicants and IEs should know that they will need to consider how any proposed changes/mitigations will effect <i>[sic]</i> all Policyholder groups. 	(see above)
6.13 When finalising their report, we expect the IE to have checked that the documents they are relying, and forming judgements, on are the most up-to-date available.	I have checked that the documents supplied are up to date.
6.14 Market conditions may have changed significantly since the IE’s analysis was carried out and they formed their judgement. In these cases, we will expect the Applicants to discuss any changes with the IE and for the IE to update their report as necessary. If the scheme document has been finalised, the IE should give more detail in their Supplementary Report or by issuing supplementary letters to the Court to confirm whether their judgement is unchanged. See paragraphs 7.32-7.35 for further information on the Supplementary Report.	I will continue to update this report as necessary until it is finalised, and I will discuss any subsequent changes in my Supplementary Report
Sufficient regard to relevant considerations affecting Policyholders	
6.15 We will expect to see IE consideration of all relevant issues for each individual group of Policyholders in all firms involved, as well as how an issue may affect each group. Our expectations of the IE when giving their opinion include the:	
<ul style="list-style-type: none"> current and proposed future position of each Policyholder group 	Tables in sections 7 and 8
<ul style="list-style-type: none"> potential effects of the transfer on each of the different Policyholder groups 	Sections 9, 10 and 11
<ul style="list-style-type: none"> potential material adverse impacts that may affect each group of Policyholders, how these impacts are inter-related and how they will be mitigated 	Section 9
6.16 To support this, we will expect the IE to consider whether the groups of affected Policyholders have been identified appropriately. For example, this could include instances where certain Policyholder groups’ services are provided by an outsourced function which is changing, but other Policyholder groups do not.	Paragraphs 3.5 and section 5
6.17 We will also expect the IE to review and give their opinion on administrative changes affecting Policyholders and claimants. Here we expect the IE to include:	
<ul style="list-style-type: none"> Consideration of the impact of an outsourcing agreement entered by the parties before the Part VII process began, where the administration duty ‘moved’ from the Transferor to the Transferee in preparation for the transfer. Here, we expect to see a comparison of the pre and post-outsourced administration arrangements so the IE and firms can clearly review and compare any changes to Policyholder positions and service expectations. 	There was no such pre-emptive movement of administration
<ul style="list-style-type: none"> Policyholder service level - we expect the IE and the firms not only to have consideration of the impact on Policyholder service levels due to changes in services or service providers specifically contemplated by the proposed transfer, but also to consider the possible risks associated with the transfer that may impact service levels. For example, the risk that the transferee may change services or service providers to align with its broader offering, or risks associated with the migration of systems or services. We expect IEs to consider whether changes in service levels, provision and migrations could lead to consumer harms and what 	Section 11

could be done to mitigate those risks. We expect IEs to consider whether there are differences in the identification of customers in vulnerable circumstances. In relation to migration of systems or services we expect to see a sufficiently detailed report of the possible impact.	
<ul style="list-style-type: none"> Also, we will not expect the IE to simply state that, because the transfer will not create any change to the administrative arrangements, there will be no material impact. The IE should consider what might happen if the transfer does not proceed and the possibility that the outsourcing agreement could be cancelled, returning the administrative arrangements to the original state. In such circumstances, the IE should consider the impact on Policyholders and claimants of the outsourcing agreement as part of the Part VII process. 	Paragraphs 11.66 to 11.81
6.18 Where the transferring business involves employers' liability policies the IE should consider the quality of the firms' tracing procedures.	Paragraphs 11.31 to 11.34
6.19 IEs should also review and give their opinion on all relevant issues for all Policyholder groups where reinsurance was entered into in anticipation of a transfer:	There are no such reinsurance arrangements in the case of this Scheme
<ul style="list-style-type: none"> some firms pre-empt regulatory scrutiny by buying reinsurance against risks before they begin the transfer process. In these instances, the IE should consider if it is appropriate to compare the proposed scheme with the position the Transferor would be in if they did not benefit from the reinsurance contract. 	N/A
<ul style="list-style-type: none"> if the transfer is not sanctioned and the reinsurance either terminates automatically or can be terminated by the Transferee, the IE should consider the scheme as if the reinsurance was not in place. 	N/A
6.20 The IE may identify particular sub-groups of Policyholders whose benefits, without other compensating factors, are likely to be adversely affected. Here we will want to see the IE take into account the Transferor's obligations under Principle 6 (Customers' interests) of our Principles for Businesses.	Sections 9 and 12
6.21 When a loss is expected for a subgroup of Policyholders, we will expect to see IE consideration and analysis of alternatives, even if the IE does not consider this loss to be material. In these cases, we may request that the IE and/or Applicants consider other ways of mitigating the adverse impacts on the affected Policyholders, should they happen, including providing compensation.	Sections 9 and 12
6.22 We will expect to see this analysis even if the IE is able to conclude that the Policyholder group as a whole is not likely to suffer material adverse impact, even if a minority may. For example, we will expect to see this analysis where:	
<ul style="list-style-type: none"> some Policyholders within a group/sub-group will suffer higher charges post-transfer because the Transferee has a different charging structure 	Not the case for this Scheme
<ul style="list-style-type: none"> some Policyholders within a group/sub-group had free access to helplines that will no longer be available or have a significantly altered service after the transfer 	Not the case for this Scheme
6.23 When an IE is assessing the potential material adverse impacts on various groups of Policyholders, we may feel they have reached their conclusion based on the balance of probabilities and without adequately considering the possible impact on all affected Policyholder groups.	Throughout the report I have separated my considerations of each policyholder group.
6.24 As a specific example, we might consider the right of Policyholders to make a claim on the FSCS following a cross-border general insurance transfer:	

<ul style="list-style-type: none"> The IE may say they are satisfied that there is no material adverse impact on Policyholders because of the Transferee’s capital position (meeting relevant requirements), and the short-term nature of the liabilities (for example, annually renewable). The IE may conclude from this that it is unlikely the Transferee will fail, and Policyholders need recourse to the FSCS as a result. While we accept that this is a potentially relevant consideration, we will not be satisfied with this view without further evidence. For example, some evidence and analysis of why (given the size and complexity of) a particular firm may make a default, before the time that Policyholders have to claim on policies, is extremely unlikely. 	<p>Paragraphs 9.25, 9.36, 9.49, 9.63, 9.70</p>
<p>6.25 In summary, we expect to see the consideration, evidence of challenge, and reasoning to support the IE’s opinion that a change due to the Part VII transfer will not materially and negatively affect a group of Policyholders.</p>	<p>See above</p>
<p>Commercially sensitive or confidential information</p>	
<p>6.26 Often the IE will need to consider commercially sensitive or confidential information as part of their decision-making process. In these circumstances, we remind IEs of their duty as an independent expert to consider Policyholder interests, as this information will not be publicly available. Examples include:</p>	<p>I have disclosed certain commercially sensitive information (such as the expected level of dividend from AZI in 2027), but nothing which I judged to warrant a separate disclosure to the PRA/FCA/Courts</p>
<ul style="list-style-type: none"> where ‘whistle-blower’ information relevant to the scheme received is forwarded to the IE by the firm 	<p>N/A</p>
<ul style="list-style-type: none"> where we are aware of enforcement action in progress with one of the Applicants 	<p>N/A</p>
<p>6.27 In these situations, we expect to see the analysis and the information that is relied on and require it to be sent separately from the IE Report. It is also possible that the Court may want to see this information without it being publicly disclosed. The IE may wish to consider sending a separate document with further details, solely for the Court’s use and not for public disclosure. Please note that this is at the Court’s discretion.</p>	<p>I have disclosed certain commercially sensitive information (such as the expected level of dividend from AZI in 2027), but nothing which I judged to warrant a separate disclosure to the PRA/FCA/Courts</p>
<p>The level of reliance on the work of other experts</p>	
<p>6.28 For large scale and complex insurance business transfers we accept that the IE may rely on the analytical work of other qualified professionals, often to prevent their own work becoming disproportionately time consuming. However, we will still expect the IE to have carried out their own review of this analysis to ensure they have confidence in, and can place informed reliance on, the opinions they draw from another professional’s work.</p>	<p>I have performed a thorough review of all analysis supporting my conclusions in this report.</p>
<p>6.29 We expect the IE to have obtained a copy of relevant significant legal advice given to the Applicants, subject to appropriate arrangements to safeguard any legal professional privilege. This should be in writing or transcribed, and approved by the advisor. It should also be in a final form for the IE to review and rely on it. The IE should reflect this review, and the opinions drawn from the advice, within their report.</p>	<p>I relied on legal advice to the Companies around the crown dependencies policies, and the potential for parallel transfers. This was provided in documents and as responses to my written questions.</p>
<p>6.30 The IE may refer to factors that are outside their sphere of expertise and rely on advice received by the Applicants. They should consider whether or not to get their own independent advice on the relevant issue. This situation occurs most often with legal advice, and we discuss our expectations in further detail below.</p>	<p>I have sought independent tax advice from an expert at Grant Thornton. I did not consider it necessary to seek independent legal advice for the crown dependencies matter, as the</p>

	approach proposed matches what I have seen in the market, and the matter is of low materiality.
6.31 We accept that it is not necessary for IEs to get separate independent legal advice in all cases. However, we do expect that the IE will have given due consideration to whether or not they need to get their own advice. For example, where there is some uncertainty about the risks or there may be different outcomes, but it is unclear which outcome may be better for Policyholders. In many cases, whether the IE decides to get independent legal advice will depend on the significance and materiality of the issue. See paragraph 6.33 below for a non-exhaustive list of factors which the IE should consider.	See above
6.32 The IE's key consideration is whether it is reasonable for them to rely on the advice and whether their independence is compromised by doing so. Whether or not the legal advisor has acknowledged that it owes a duty of care to the IE will be relevant to this consideration. We may challenge IEs who rely on the Applicants' legal advice and merely state they have no reason to doubt the advice and/or that it is consistent with their understanding of the position or experience of similar business transfers. Our decision to challenge will depend on how complex the legal issue is.	I did not seek independent legal advice in the process of writing this report.
6.33 In deciding whether to get independent legal advice, we will expect the IE to consider, amongst other things, the following:	I confirm I considered the below in coming to the decision not to seek independent legal advice.
<ul style="list-style-type: none"> • The significance of the issue and the degree of potential adverse effect on Policyholders if the position turns out to be different from what the legal advice considers likely. 	
<ul style="list-style-type: none"> • How much the IE relies on the legal advice to reach their conclusions. Also, if they did not rely on the legal advice, will the report contain too little information to justify the view that there is no material adverse impact? 	
<ul style="list-style-type: none"> • The difficulty, novelty or peculiarity of the issue to the Applicants' own circumstances. 	
<ul style="list-style-type: none"> • Applicants' proposals to explain to Policyholders in communication documents the issues involved, any uncertainty, and any residual risks. 	
<ul style="list-style-type: none"> • Whether the Applicants have obtained an adequate level of advice, depending on the issue's significance or uncertainty. Where relevant, whether the Applicants have engaged external advisors with the appropriate expertise and qualifications for the specific subject or jurisdiction. 	
<ul style="list-style-type: none"> • Whether any advice already received is heavily caveated, qualified or there is a significant degree of uncertainty. 	
6.34 Alternatively, the IE may need to explain why they consider that they do not need to get independent advice to be adequately satisfied on a point. For example, the IE's assessment should consider whether there are credible alternative arguments that could be made, whether identified in the Applicant's advice or otherwise. They should also consider where risks are identified but there are no suggestions about how they can be mitigated, or what the impact on Policyholders may be if the risks do occur. These considerations will allow the IE to consider the worst-case scenario of these effects.	See above
6.35 Finally, the IE should consider the Applicant's contingency plans if the risks identified in the legal advice occur and whether this may create negative consequences	Paragraphs 11.59, 11.61, 11.81

<p>for Policyholders. This could require further legal advice to explain how Policyholders may be affected or additional proposals to mitigate the risks.</p>	
<p>Examples of over-reliance on the work of other experts</p>	
<p>6.36 Further to these points, we give some specific examples below where we have challenged the IE around potential over-reliance.</p>	
<p>6.37 Often an Applicant will get a legal opinion on whether a transfer involving overseas Policyholders will be recognised in non-UK jurisdictions. The IE may take that advice into account but there may be some material doubt as to whether a court will adopt the approach set out in the advice. In that case, we expect the IE not to use such advice as the sole basis of their conclusion that there are no materially adverse effects. We will expect the IE to consider and be satisfied of the position if the advice turns out not to be the position taken by the relevant court. The legal advice itself should address this and suggest ways of mitigating this risk.</p>	<p>I have considered the likelihood of issues with the crown dependencies matter based on my experience, and contingency plans.</p>
<p>6.38 The IE may be uncertain, for example, because the legal advice is heavily qualified or uncertain and cannot form a conclusion on an issue. In this case, they may wish to get their own independent legal advice to ensure they can reach a more considered conclusion.</p>	<p>The legal advice was conclusive</p>
<p>6.39 The position may be different depending on whether the Transferor remains authorised/in existence:</p>	
<ul style="list-style-type: none"> • If the Transferor’s authorisations are to be cancelled and it could wind up or is planning to do so eventually, acceptable mitigations include the Transferee making a deed poll which is directly enforceable by Policyholders in either the UK or the relevant jurisdiction. It is unlikely that treating these policies as excluded policies is itself an adequate mitigation. Some IEs have received advice that even if the scheme is not formally recognised in another jurisdiction, the courts of that jurisdiction will still act to prevent the Transferee from denying that it is liable. This may well be correct, but we still expect the IE to assess any material possibility, and any mitigations if it is not. 	<p>Section 11, in which I conclude that the likelihood of the Guernsey Policies transferring not being recognised is remote</p>
<ul style="list-style-type: none"> • Where the Transferor is expected to remain in existence for the foreseeable future, the position is less likely to have an adverse impact. This is because Policyholders will still be able to claim against the Transferor as an excluded policy. We will still expect an IE to examine what possible material adverse impact this could have on Policyholders. For example, any delay in dealing with claims, and any risk that the Transferor changes their approach to dealing with claims because of uncertainty around the Transferee indemnifying the Transferor in full. Mitigations could include some clear commitment by both Transferor and Transferee in the scheme, enforceable by Policyholders, that Policyholders claims will not be affected or delayed because of the excluded policy and indemnity arrangements. 	<p>The Transferors are intended to be wound-up and deauthorised.</p>
<p>6.40 Our concern here is that the likelihood of an adverse impact should be low enough for consumers not to be adversely affected. We will expect the IE to take a view on that and seek the appropriate reassurances/ensure mitigations are in place.</p>	<p>In the paragraphs and arguments referenced above, I set out my reasons for believing that the likelihood of the Scheme not being recognised in other jurisdictions is low, and that in the event policyholders will not be materially adversely impacted.</p>
<p>6.41 In summary, in most cases we will seek to review copies of relevant significant legal advice obtained, with appropriate arrangements to maintain any legal professional</p>	

<p>privilege. We will expect that advice to also cover what happens if the relevant court does not take the position of the advice and what mitigations can be used if that happens. It is important that all significant material an IE relies on when evaluating a scheme and reaching their conclusions should, wherever reasonably possible, be available for review by the Court and interested parties. Where material is commercially sensitive there are mechanisms that allow the Court and IE to review without detailed disclosure to all other interested parties.</p>	
<p>Ambiguous language or a lack of clarity</p>	
<p>6.42 At the start of the document, the IE should provide a description of where they propose to rely on information provided by the Applicants. We will look for any overly general reliance, as it indicates a lack of critical assessment or challenge.</p>	<p>Paragraphs 1.64 to 1.71</p>
<p>6.43 Some examples we have seen and challenged IEs on include:</p>	
<ul style="list-style-type: none"> • Where a conclusion in the report is that the IE ‘takes comfort’ from certain matters, as opposed to ‘being satisfied’ having taken various matters into account. 	<p>I have reviewed my report for instances of this language and ensured it expresses what I intended</p>
<ul style="list-style-type: none"> • Where the conclusion is uncertain. For example, ‘I am satisfied that there is no material adverse effect. However...’ but it is unclear how the qualification affects or undermines the conclusion. 	<p>There are no instances of my conclusions being qualified in this way</p>
<ul style="list-style-type: none"> • Where the conclusions are caveated, we will review whether these are reasonable in the circumstances. If the caveats involve areas that the IE has not considered, we will consider if it is reasonable for them not to do further work to satisfy themselves and remove the caveat. 	<p>There are no instances of my conclusions being caveated</p>
<ul style="list-style-type: none"> • It is also important that the caveat does not undermine the report or the IE’s ability to be satisfied on the relevant point. For example, the conclusion may be caveated by ‘on the basis of information provided to me’. In these cases, we may ask if the IE should be carrying out their own analysis of the underlying documentation or if they require further information or documentation to be satisfied without making a qualification. 	<p>There are no instances of my conclusions being caveated</p>
<p>6.44 In summary, where the report does not seem to reach a clear conclusion, either generally or on a specific issue, the IE report should state clearly:</p>	
<ul style="list-style-type: none"> • That the IE has considered and is satisfied about the likely level of impact on a specific point. Where uncertainty remains, the IE report needs to include details of, and reasons for, this uncertainty. It should also include any further steps the IE has taken to get clarification, such as seeking further advice from a subject matter expert. 	<p>These statements are present in my report.</p>
<ul style="list-style-type: none"> • How the IE satisfied themselves about the uncertainty they have identified and how they have formed an opinion on any potential impact. 	<p>These statements are present in my report.</p>
<p>Demonstrating challenge</p>	
<p>6.45 To ensure the IE report is complete, thorough and considered we expect to see challenge from all involved parties. This includes evidence that Applicants have made appropriate challenges, especially where they believe there are issues the IE has not fully addressed. It is in Applicants’ interests to make sure that the Court, regulators and Policyholders can rely on the IE report, taking into account the IE’s disclaimers. We consider that Applicants can make these challenges without compromising the IE’s</p>	<p>I confirm that the Companies have reviewed and challenged my report in detail in draft and near-final forms, and I have retained evidence of this challenge.</p>

<p>independence. We expect a confirmation that the near-final version of the IE's report had the relevant challenge at the time it was submitted.</p>	
<p>6.46 To ensure effective two-way challenge we will expect the IE to engage with FCA or PRA- approved senior management function holders at the Applicant firm. This can be senior actuaries, including possibly the Chief Actuary, the CFO or Senior Underwriters.</p>	<p>I have engaged with the Chief Actuary and other senior actuaries.</p>
<p>6.47 The Applicants should also check the draft IE report before submission to the regulators and make sure it is accurate.</p>	<p>I confirm that the Companies have reviewed and challenged my report in near-final form.</p>
<p>Technical actuarial guidance</p>	
<p>6.48 We expect IEs who are both qualified and unqualified members of the Institute & Faculty of Actuaries to pay proper regard to the Technical Actuarial Standards (TAS) published by the Financial Reporting Council, especially those for compiling actuarial reports.</p>	<p>Paragraph 1.74</p>
<p>6.49 The revised versions of the TAS which came into force with effect from 1 July 2017 (TAS 100: Principles for Technical Actuarial Work and TAS 200: Insurance) specifically applies to technical actuarial work to support Part VII transfers.</p>	<p>See above</p>
<p>6.50 It is important to note paragraph 5 of TAS 100 states that actuarial communications should be 'clear, comprehensive and comprehensible so that users are able to make informed decisions understanding the matters relevant to the actuarial information'. We also highlight paragraph 5.2 of TAS 100 which states that 'the style, structure and content of communications shall be suited to the skills, understanding and levels of relevant technical knowledge of users'.</p>	<p>I have made every effort to write this report according to these criteria.</p>
<p>6.51 Qualified IEs and peer reviewers should also note the Actuaries' Code and Actuarial Profession Standards documents APS X2: Review of Actuarial Work and APS L1: Duties and Responsibilities of Life Assurance Actuaries. IEs and peer reviewers should adhere to the required standards of their professional body at the time when they do the work.</p>	<p>Paragraph 1.76</p>

F My experience

My professional experience is set out below:

- I have worked in or consulted to the general insurance industry for more than 30 years.
- I am a Partner in Grant Thornton and lead Grant Thornton's provision of actuarial and risk services to the general insurance sector.
- I have fulfilled the role of Independent Expert or Independent Actuary for a significant number of Part VII Transfers and Section 13 Transfers of insurance liabilities, with my other transaction experience including acting as Scheme Actuary for several schemes of arrangements; independent expert assignments; and due diligence for mergers and acquisitions.
- The table below sets out the Part VII Transfers and Section 13 Transfers on which I have acted as the Independent Expert or Independent Actuary.

Transfer	Transfer Type	Date sanctioned
The Standard Club Ireland DAC to NorthStandard EU DAC	Section 13	August 2025
The Britannia Steam Ship Insurance Association Limited to The Britannia Steam Ship Insurance Association Europe	Part VII	February 2022
Arch Insurance (UK) Limited to Arch Insurance (EU) DAC	Part VII	December 2020
Ageas Insurance Limited to RiverStone Insurance (UK) Limited	Part VII	March 2020
SCOR UK Company Limited to R&Q Gamma Company Limited	Part VII	First quarter of 2020
Aviva Insurance Limited to Aviva Insurance Ireland DAC	Part VII	January 2019
CNA Insurance Company Limited to CNA Insurance Company Europe) S.A.	Part VII	December 2018
Zurich Insurance plc to Catalina Insurance Ireland DAC	Section 13	October 2018
Zurich Insurance plc to East West Insurance Company Limited	Section 13	March 2018
Congregational & General Insurance plc to International Insurance Company of Hannover SE	Part VII	November 2017
Colbourne Insurance Company Limited to NRG Victory Reinsurance Limited	Part VII	July 2017
Guardian Assurance Limited to R&Q Insurance (Malta) Limited	Part VII	September 2016
Harworth Insurance Company Limited to Royal & Sun Alliance plc	Part VII	August 2014

- I have substantial reserving experience for an extensive variety of classes of business, including personal and commercial lines, and for a very wide range of companies.
- I also have substantial experience of determining and assessing the capital requirements of general insurance companies, including those under Solvency UK/II.
- My other experience in the general insurance sector includes - producing skilled persons reports under s166 of FSMA 2000; Solvency UK/II including all three pillars; design and construction of capital models; IFRS 17; provision of strategic advice; design and implementation of management information systems; rating of portfolios and individual risks; reviews of rating adequacy;

development of pricing models; and review and design of reinsurance programmes.

- In 2010, I set up an actuarial team for Quinn Insurance Limited (Under Administration) ("Quinn"). Between 2010 and 2012, I acted as the de facto Chief Actuary and Chief Underwriting Officer for Quinn.
- Prior to joining Grant Thornton in 2006, I was the Chief Actuary for Travelers Insurance Company Limited in the UK and Ireland.
- Before that, I was a senior consultant in the general insurance division of Towers Perrin.
- I hold a Chief Actuary (Non-life with Lloyd's) Practising Certificate and a Lloyd's Syndicates Practising Certificate, both issued by the IFoA. I have previously also held an Irish Signing Actuary Practising Certificate issued by the Society of Actuaries in Ireland and been recognised as a Responsible Actuary by the financial regulator in Liechtenstein.

My professional experience includes terms on the Institute and Faculty of Actuaries' Council, Management Board, General Insurance Board, Education Board, General Insurance Reserving Oversight Committee, General Insurance Education and CPD Committee (including a term as chairman), and Education Committee.

G Extract from Engagement Letter

Terms of engagement between Allianz Management Services Limited, Allianz Holdings, LV General Insurance Group Limited, Allianz Insurance plc, Liverpool Victoria Insurance Company Limited, Highway Insurance Company Limited, Fairmead Insurance Limited, Trafalgar Insurance Limited and Grant Thornton UK Advisory & Tax LLP

Acting as the Independent Expert on the proposed Part VII Transfer from Liverpool Victoria Insurance Company Limited, Highway Insurance Company Limited, Fairmead Insurance Limited and Trafalgar Insurance Limited to Allianz Insurance plc

Introduction

This letter (the **Engagement Letter**), including Appendix 1 – Data Processing and Appendix 2 – Information Security, together with our standard terms and conditions (the **Terms and Conditions**), sets out the basis on which Grant Thornton UK Advisory & Tax LLP (**Grant Thornton, we**) will provide the services set out below to Allianz Management Services Limited (**Allianz Services**), Allianz Holdings, LV General Insurance Group Limited, Allianz Insurance plc (**AZI**), Liverpool Victoria Insurance Company Limited, Highway Insurance Company Limited, Fairmead Insurance Limited and Trafalgar Insurance Limited, (the last four collectively, the **Transferors**, all eight collectively, **Allianz, you** or the **Clients**) solely in connection with you transferring insurance liabilities from the Transferors to AZI (the **Purpose**).

This Engagement Letter replaces the engagement letter between Grant Thornton and you dated 17 March 2025 (as novated from Grant Thornton UK LLP to Grant Thornton UK Advisory & Tax LLP).

Scope of work

The services that we expect to perform pursuant to our engagement (the **Services**) are set out below.

You have asked us to provide an Independent Expert to report on the proposed insurance business transfer scheme to transfer business from the Transferors to AZI (the **Scheme**). The Independent Expert's report will be prepared in accordance with and for the purposes set out in Part VII of the Financial Services and Markets Act 2000 (**FSMA**) (the **Part VII Transfer**) and for no other purpose.

As part of this assignment, the Independent Expert will produce the following reports:

- the Main Independent Actuary Report (the **Main Report**), prior to the Direction Hearing
- the Summary Report, prior to the Direction Hearing; this will be included in the information provided to policyholders/cedants
- the Supplementary Report, prior to the Sanctions Hearing.

The Independent Expert's analysis and formal reports will follow the relevant FSMA requirements and associated supplemental guidance. The reports will consider the Scheme as a whole and its effect on the policyholders of AZI and the Transferors. In particular, it will include, but not limited to, an opinion on:

- the impact of the Scheme on the different groups of policyholders affected by the transfer scheme, namely:
 - the policyholders transferring from the Transferors to AZI
 - the policyholders who are with AZI prior to the transfer
- the adequacy of any safeguards in the Scheme intended to protect the interests of the affected policyholders

- the fairness of any mechanism implemented at the same time as the Scheme, but not included in the Scheme, intended to improve the security of any policyholders affected by the Scheme
- the communication that has been undertaken with policyholders/cedants, outwards reinsurers and any other stakeholders to inform them of the proposed transfer
- the matters required by applicable provisions of the Prudential Regulation Authority's (**PRA's**) Policy Statement PS7/15 (updated in January 2022), Chapter 18 of the supervision manual in the Financial Conduct Authority's (**FCA's**) Handbook ("SUP18") and the FCA's Guidance FG22/1
- any other information required to be included by the FSMA and any other guidance issued by the PRA or the FCA.

The above list is not intended to be exhaustive and other aspects may be identified during the completion of the project which are considered by the Independent Expert to be relevant.

We understand that there will be no policyholders left in the Transferors following the Part VII Transfer.

Our work is limited to the scope of our engagement as set out above. You are responsible for determining whether the scope of our work specified in this letter is sufficient for your purposes in the context of the Purpose. Any changes to the scope of our engagement will be confirmed by mutual agreement and will be the subject of an addendum to this letter or a separate engagement letter, depending upon the circumstances.

During the course of the engagement, we may show drafts of our report to you. We draw your attention to clause 3.5 of the Terms and Conditions. A document remains 'draft' for these purposes until it has been issued as final by the Grant Thornton engagement team.

Data reliance and limitations

In performing this assignment, the Independent Expert will rely on data and information provided by you, other third-party experts such as actuaries, auditors and your professional advisors, and industry sources of data. He will not audit or verify this data and information. If the underlying data or information is inaccurate or incomplete, the results of his analysis may likewise be inaccurate or incomplete.

The Independent Expert's ability to carry out this assignment will depend on a number of key factors:

- that the relevant and appropriate information is readily available
- access to the relevant personnel of the Clients and their professional advisors
- access to the authors of third-party reports for the purposes of interview
- agreement of third parties to his reliance on their reports for the purpose of forming his independent expert opinion.

If any of these factors continually risk preventing the Independent Expert from undertaking the assignment, we will notify you in writing and give you 30 days' within which to rectify the situation, prior to exercising a termination right.

Duty to the UK Court

The Independent Expert's reports will be addressed to the Court and will include, inter alia, the following matters:

- an express statement that the Independent Expert understands his duty to the UK Court and that he has complied with and will continue to comply with that duty
- a description of the Scheme

- a summary of any issues resulting from the Scheme inasmuch as these may affect the expectations of the different groups of policyholders and the security of their benefits
- opinions on the extent to which the expectations of the policyholders and the security of their benefits may be adversely affected as a result of the Scheme, along with the reasons for these opinions
- a summary of the matters dealt with in the report and the opinions given together with the reasons for those opinions
- a statement setting out the substance of all facts and instructions that the Independent Expert has received (whether written or oral), which are material to the opinions expressed in his report or upon which those opinions are based
- whether any questions or issues specifically fall outside his expertise, and how he has dealt with those questions or issues
- any other matters required under FSMA, the PRA's Policy Statement PS7/15 (updated in January 2022), Chapter 18 of the Supervision Manual ("SUP18") contained in the FCA Handbook of Rules and the FCA's Guidance FG22/1.

H Letter of Representation



Allianz Management Services Ltd, and
LV General Insurance Group Ltd, and
Allianz Insurance plc, and
Liverpool Victoria Insurance Company
Ltd, and
Highway Insurance Company Ltd, and
Fairmead Insurance Limited, and
Trafalgar Insurance Limited
57 Ladymead
Guildford
GU1 1DB

Grant Thornton UK Advisory & Tax LLP
8 Finsbury Circus
London
EC2M 7EA

12 May 2026

Dear Simon,

RE: Letter of Representation - Part VII Transfer from Liverpool Victoria Insurance Company Limited, Highway Insurance Company Limited, Fairmead Insurance Limited and Trafalgar Insurance Limited to Allianz Insurance plc

1. Introduction

We refer to the proposed transfer of the business (the 'Transferring Business') of Liverpool Victoria Insurance Company Limited, Highway Insurance Company Limited, Fairmead Insurance Limited and Trafalgar Insurance Limited (collectively, the 'Transferors') to Allianz Insurance plc ('AZI', the 'Transferee') by an insurance business transfer scheme (the 'Scheme'), as defined in Section 105 of the Financial Services and Market Act 2000 ('FMSA'). We, the undersigned, have been authorised by the Transferors and the Transferee to provide the representations set out in this letter, on behalf of the Transferors and the Transferee.

2. Data Accuracy Statement

We hereby affirm that the data and information listed in appendix A to the Independent Expert's report provided by the Transferors and Transferee to Simon Sheaf of Grant Thornton UK Advisory & Tax LLP (acting as the Independent Expert to the Scheme) were prepared by the Transferors and Transferee (and where applicable their professional advisors) and, to the best of our knowledge and belief, are accurate and complete in all material respects.

3. Other Statements

- 3.1 To the best of our knowledge and belief, there are no material inaccuracies or omissions in the description of the Transferor's or Transferee's business and practices (including details of specific

Allianz Insurance plc is registered in England and Wales with registered number 04630 and registered address 57 Ladymead, Guildford, Surrey GU1 1DB. Allianz Insurance plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority with reference number 121049.

Internal

contracts and claims and of the Transferors or the Transferee) or in any statement attributed to the Transferors and the Transferee in the Independent Expert's report dated 11 May 2026 on the Scheme.

- 3.2 We have disclosed all the material information that, in our opinion, may be relevant to the Independent Expert when forming a view as to whether policyholders are adversely affected by the Scheme.
- 3.3 We confirm that, to the best of our knowledge and belief, the Independent Expert's report and his Summary report (collectively the 'Reports') accurately reflect our understanding of the proposed Scheme and that the facts relied upon in the Reports are accurate and complete, in all material respects.
- 3.4 We will keep the Independent Expert apprised, up to the date of the court hearing to sanction the Scheme, of all matters and issues, which, in our opinion, may be relevant to the Independent Expert in opining on the Scheme.
- 3.5 We hereby agree to provide the Independent Expert, prior to the submission to the court of the Independent Expert's final Reports relating to the Scheme, with full details of any changes between draft versions of the documents previously provided to the Independent Expert and final versions of those documents and full details of any differences between the data and information underlying such draft and final documents.
- 3.6 In particular, in respect of certain specific information provided to the Independent Expert by the Transferors and Transferee to the best of our knowledge and belief:
- The financial positions as stated in the balance sheets of the Transferors and Transferee as at 30 September 2025, as summarised in the Reports, are not misleading in any material respect as to the affairs of the Transferors and Transferee as at that date;
 - The Technical Provisions of the Transferors' businesses to be transferred under the Scheme as stated as at 30 September 2025 have, in all material respects, been prepared in accordance with appropriate actuarial standards as at that date;
 - The Technical Provisions of the Transferee's business as stated as at 30 September 2025 have, in all material respects, been prepared in accordance with appropriate actuarial standards as at that date;
 - Other financial projections relating to the Transferors and Transferee provided by us, which the Independent Expert has used to prepare the Reports (and which are listed in appendix A to the Independent Expert's report), have been prepared in good faith by persons with appropriate knowledge and experience on a reasonable basis and based on reasonable assumptions.
- 3.7 To the best of our knowledge and belief, the capital assessments relating to the Transferors and Transferee as at 30 September 2025

Internal

continue to be reasonable estimates of the corresponding capital assessments as at the date of this letter.

- 3.8 To the best of our knowledge and belief, the arrangements for the administration and servicing of the Transferring Business with effect from the Scheme's effective date will be as described in the Independent Expert's Reports, and that there are currently no plans to change subsequent to the Scheme's effective date the processes, practices and procedures that relate to the administration and servicing of the Transferring Business, or of the existing business of the Transferee, in any material way, other than as already set out in paragraph 5.60 of the Independent Expert's.
- 3.9 To the best of our knowledge and belief, the Scheme is not expected to have any material adverse tax implications that would: (I) affect the Transferors or Transferee; or (II) directly affect any of the Transferors' transferring policyholders or the Transferee's existing policyholders
- 3.10 To the best of our knowledge and belief, there have been no material changes since 30 September 2025 to the Transferors' or Transferee's operational plans that, in our opinion, might have a material impact on the Scheme and which have not been communicated to the Independent Expert.
- 3.11 To the best of our knowledge and belief, there have been no other events that, in our opinion, would have a material impact on the Scheme that have occurred, in respect of the Transferors or the Transferee, between 30 September 2025 and the date of this letter.

Yours sincerely,

Signed by: Michael Ruf
EMail: michael.ruf@allianz.co.uk
Signing time: 13-05-2025 10:34:51
IP address: 147.161.144.88

Dr Michael Ruf
Chief Financial Officer
Allianz (UK) Limited

