Allianz

Allianz Holdings plc

Annual Report and financial statements

2020

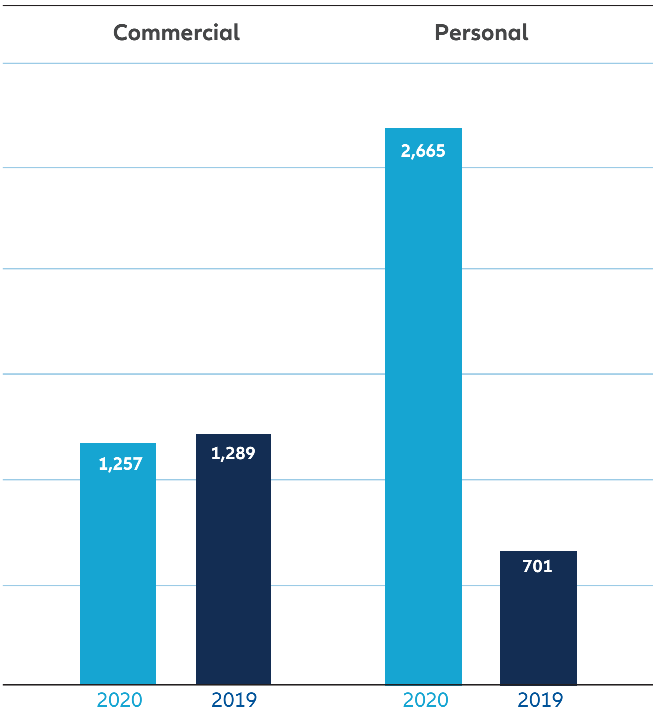
Contents

Financial highlights

	2020 £m	2019 £m
General insurance contracts premium revenue		
Gross written premiums	3,921.8	1,990.7
Net written premiums	2,368.0	1,124.9
Results		
Total revenue	2,916.3	1,513.9
Total claims and expenses	(2,678.3)	(1,367.5)
Profit before tax	238.0	146.4
Income tax charge	(60.5)	(8.2)
Profit after tax	177.5	138.2
Operating profit before quota share[1]	290.3	110.6
Operating profit after quota share[1]	293.9	80.3
Total equity	2,690.4	2,628.7

[1] Operating profit is on an Allianz SE Group basis. A reconciliation to profit before tax is included in note 42.

Gross Written Premiums



Chief Executive's Report

2020 was another pivotal year for Allianz Holdings plc (the "Company") and its group (the "Group"). The Group has moved from being a top 5 UK insurer, to the second largest following the acquisition of the remaining 51% of the Liverpool Victoria General Insurance Group Limited and its subsidiaries ("LVGIG") and the 100% acquisition of the General Insurance division of Legal & General (now named Fairmead Insurance Limited ("FIL")) on December 31, 2019.

Renewal Agenda

In the UK, our core strategy is aligned to the Allianz SE Group's Renewal Agenda and we look to leverage the skills, expertise and scale of the wider Group. In particular, we are committed to the five important themes: customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy.

Our business strategy, "Simplicity Wins – Renewal Agenda 2.0", aims to achieve the ambition of simplicity through 3 key strategic objectives; Outperform, Transform and Rebalance. Outperform focuses on making ourselves even more productive and benchmarking our capabilities against best-in-class so we continually improve our customer experience. Transform targets reducing complexity and becoming more digital, and Rebalance encourages focus on new growth opportunities. We'll continue to utilise these themes locally to drive our business forward and focus on our customers.

In line with the Group's business strategy, LVGIG's vision is to be Britain's best loved. This vision is achieved through our people delivering customer centricity, maintaining customer satisfaction and retention rates, and growth through outperformance in our chosen markets.

Quota share

Allianz Insurance plc ("AZI"), Liverpool Victoria Insurance Company Limited ("LVIC"), Highway Insurance Company Limited ("HiCo") and FIL have quota shares of 40%, 20%, 20% and 50% respectively with an Allianz Societas Europaea Group ("Allianz SE") reinsurance company ("quota share"). This has the benefit of improving the entities' solvency position by reducing the capital the Company is required to hold. It also keeps the profits generated by the UK business entirely within the wider Allianz SE Group. UK management remains responsible for optimising the results of the business prior to this quota share. For this reason, and to allow comparisons with prior years, the numbers quoted in this commentary are before quota share, unless stated otherwise.

Financial Results

Operating profit in 2020 was £290.3m before, and £293.9m after quota share. This is an increase on the £110.6m before, and £80.3m after quota share achieved in 2019.

Profit after tax was £177.5m (after quota share) which includes the effects of the Coronavirus disease ("COVID-19") pandemic. The result also includes a one-off pension credit benefiting expenses. This compares to profit after tax of £138.2m in 2019.

Gross written premium almost doubled from £1,991m in 2019 to £3,922m in 2020 due to the consolidation of LVGIG and FIL. Underlying AZI gross written premium (primarily Commercial, Animal Health and specialist lines) reduced by 5.6% versus 2019. In Commercial this was due to the impact of COVID-19 on economic activity, with Motor and Casualty lines seeing the impact of increased mid-term adjustments, return premiums, reduced exposures and lower new business levels. In Personal lines, the exit of a large Corporate Partner arrangement also impacted the top line figure.

Commercial lines returned a loss in 2020. Despite seeing claims frequency reductions in some lines, Business Interruption claims dramatically increased due to the government restrictions throughout 2020 impacting profitability for the year. On an underlying basis, floods in the first half of the year, deterioration in prior accident years' claims reserves and an increase in large losses also impacted the result.

Personal lines accounts within LVGIG grew by 30% in 2020, on a comparable basis, mainly due to the acquisition of FIL. Underlying there was growth of 16% in broker business across lines including Standard Motor, Specialist Motor and Home. LVGIG Retail remained flat year on year, reflecting our pricing approach in a soft market.

Within Personal lines, the Motor book within LVGIG delivered strong profits. This reflects improved profitability due to the pandemic, with fewer people on the road leading to reduced levels of claims frequency. Animal Health continues to perform very well and delivered another year of profitable growth supported by a growing pet insurance market.

Following the acquisitions of the remainder of LVGIG and FIL, the size of our investment portfolio has approximately doubled. Our investment strategy for all entities has continued to concentrate on managing risk to the core insurance operations. The Group continues to use the expert investment management facilities available within the wider Allianz SE Group, particularly in managing the fixed interest portfolio. Assets backing technical reserves continued to be invested in cash, government bonds, and corporate and securitised bonds.

The duration of the fixed interest portfolio is monitored closely with the duration of the insurance liabilities and strict limits are set on any variation from this benchmark.

Customer

During the unprecedented events of 2020, we maintained our focus on high levels of service to our customers whilst transitioning our staff to a work from home environment. We enabled 97% of those colleagues who are usually office-based to work effectively from home.

Throughout 2020 we have worked hard to provide support to brokers, customers and communities impacted by COVID-19. The Group has continued to respond positively and flexibly to adjustments to exposure, change of use and policy conditions, and payment restructuring during the crisis. Contact with brokers has increased and we've kept them fully updated via various channels including the new Broker section of our website and our Coronavirus Hub.

Our Engineer Surveyors continued to work throughout the lockdown to provide vital engineer inspection services focusing on key sectors including the NHS.

During the year, LVGIG also went to great lengths to support its customers, suppliers and communities. A number of initiatives were put in place to support customers, including establishing the Green Heart Fund, to give refunds to car insurance customers who were struggling financially. Administration and cancellation fees were also waived, payment holidays were introduced across a number of products and free enhancements to policies were provided to customers who worked for the NHS or were key workers. Extra financial support was also given to key suppliers severely affected by the lockdowns, including bodyshops, breakdown drivers and home contractors.

The Top Down Net Promoter Score ("TDNPS") is an important indicator of our customer service. We ask our customers, and those of our competitors, for honest and anonymous feedback and then benchmark the results. In 2020, Petplan achieved Loyalty Leadership. For our General Commercial and Engineering, Construction and Power businesses we speak to brokers to gain feedback. We achieved Loyalty Leadership positions in both markets. In LVGIG General Insurance, we were ranked as the number 1 insurer in the Institute of Customer Service UK Customer Satisfaction Index for the fourth consecutive time and LVGIG Broker was awarded the prestigious ServiceMark Accreditation from the Institute of Customer Service. LVGIG was also named as Which? Recommended Providers for Car and Home Insurance, as well as for Breakdown Services. These results are a credit to our front line teams who interact and manage these day to day relationships.

Our ongoing investment in digital capabilities has also contributed to these positive results. These include the Allianz Claims Hub, a digital platform for brokers and Motor fleet customers enabling them to report and track motor claims. Allianz's Claims App 'Allianz Notify' has also been launched to enable fleet drivers to quickly and easily report their own claims. During the year, Petplan launched the Customer Hub to improve the online experience for customers and further enhanced its digital claims journey. In 2020, LVGIG also launched its first monthly subscription insurance product called Flow. This is a wholly online car insurance product with no instalment charges and the freedom to change or cancel the policy whenever the customer wants. There are no additional costs and no difference in price between new and existing customers. A new LVGIG Broker Portal was rolled out in the year too.

AZI has also defined a Customer Value Model, which is a framework for driving customer value throughout the organisation. The framework is based on three components with a shared outcome of customer value but each having their own ambitions and metrics: Conduct risk; Customer Experience; and Customer Culture. This is overseen by Customer Boards which feed into the quarterly-held Strategic Customer Forum. The new Customer and Conduct Committee, reporting in to the Allianz Holdings Plc Board, in turn receives reporting, recommendations and escalations from the AZI Strategic Customer Forum and LVGIG Customer Conduct Committee.

Employees

Enabling our people is key to achieving our strategic objectives and delivering for our customers. An important part of this is our continued investment in leadership, expert skills and the wellbeing of our employees. In 2020, we continued to develop and expand our well established internal academies for technical insurance skills. Our employees develop their professional and leadership skills through internal courses and programmes, digital learning and on-the-job experience. This is complemented by professional qualifications – an approach also used in the fourteen apprenticeship schemes we currently run.

We are also dedicated to promoting diversity and inclusion, and raising awareness of specific topics. Focus in recent years has been on developing a range of employee-led networks that each specialise in, and promote, aspects of diversity and inclusion. These include: working parents, intergenerational working, gender balance, LGBT+, cultural and ethnic diversity, disability and mental health.

The Group's achievements have been widely recognised both within the insurance industry and beyond. A number of awards have been won in recent years and 2020 was another good year for the Group and for Chief Executive Officer, Jon Dye, who secured the Insurance Personality of the Year at the British Insurance Awards. The Group won the Major Loss Award at both the British Insurance Awards and the British Claims Awards. At the Business Continuity Awards, AZI and LVGIG received the Transformation Award.

AZI continued to be included in the Inclusive Top 50 UK Employers in 2020, recognising our work on further developing diversity and inclusion in our organisation.

Corporate Social Responsibility

The Group is passionate about social responsibility and is committed to helping people and our communities build resilience. We support SOS Children's Villages at a global level and, in the UK, have a 3-year partnership with the mental health charities Mind and Scottish Action on Mental Health ("SAMH"). We also support our local communities through employee volunteering, donations and the Allianz Community Fund.

In 2020, we were also proud to support those in most need in the pandemic by donating £10.1m to the industry's COVID-19 Support Fund and by giving £100,000 to the National Emergencies Trust. We also donated £15,000 to charities local to our head office in Guildford and made a further donation to the Trussel Trust to help those needing to access food banks. The Petplan Charitable Trust also donated £700,000 to support animal charities in need.

Our partnership with Mind and SAMH has seen us raise £698k over two years with the aim of reaching £1m in the final year of our partnership. This partnership benefits people across the UK by building their mental resilience and wellbeing and supports those with mental health issues. We have also used the partnership to expand the mental health support resources we have in place in the Group for our employees and have now trained 193 mental health first aiders to support colleagues.

£698k
raised over two years

193
trained mental health first aiders

Our partnership with the British Paralympic Association in the UK and the International Paralympic Committee on a global level continues to support disabled athletes at grassroots and elite sports level.

We are the Principal Partner of Saracens Sports Foundation which inspires the local community to reach their potential through the values of sport and are the lead supporter of the Saracens wheelchair rugby programme.

LVGIG partnered with the England and Wales Cricket Board to create the #Funds4Runs community fund. LVGIG contributed £400,000 to the Fund which supports those with deprived backgrounds, diverse communities, disability groups, and women's and girls' cricket.

We are also passionate about reducing our impact on the environment and engaging our employees in reducing their carbon footprint both at work and at home. Our quarterly Sustainability Weeks aim to engage and educate employees on specific environmental issues.

We are proud to be the Official Insurance Partner of England Rugby and title sponsors of the top league of women's domestic rugby, the Allianz Premier 15s. As part of our partnership we're also principal partner to Women's Club Rugby and the sponsor of the Inner Warrior grassroots rugby programme, which aims to bring the benefits of rugby to women and girls across the country.

Regulation

The financial services regulatory environment in the UK continues to be driven by the two main regulators, dealing respectively with conduct risk (the Financial Conduct Authority ("FCA")) and prudential risk (the Prudential Regulation Authority ("PRA")).

Throughout 2020, we've continued to respond to the output of the FCA, including its consultation paper in September 2020 on general insurance pricing practices, which proposes a package of remedies to address the issues set out in its general insurance pricing practices market study final report. We have also engaged fully with the FCA's COVID-19 related activities and guidance, aimed at ensuring customers continue to be protected.

The General Data Protection Regulation ("GDPR") and Data Protection Act 2018 ("DPA2018") provide the legislative framework for the protection of personal data held by the Group. Work has continued to ensure we have maintained a robust approach to data protection and a strong privacy culture.

With regard to the PRA, firm-specific and market-wide feedback is reviewed and actioned as a matter of course. The Group continued to develop in areas of regulatory focus, such as climate change and operational resilience. We have worked with our regulators to ensure any changes caused by Brexit have been as smooth as possible for both customers and employees.

Implementation of the whiplash reforms has been delayed until May 2021 due to the COVID-19 pandemic. These reforms will introduce tariff damages for injuries up to two years' duration and increase the small claims limits for Road Traffic Accidents from £1,000 to £5,000. The Group's objective has always been to support and fairly compensate genuinely injured people quickly and fairly. These reforms facilitate that and aim to reduce the involvement of lawyers and the associated cost that they add.

The Automated and Electric Vehicles Act (2018) enabled the introduction of autonomous vehicles to UK roads. On December 18, 2020 the Law Commission announced landmark proposals that seek to ensure the safety of self-driving vehicles via a comprehensive new legal framework. These proposals were consulted upon until March 2021 and the Commission will use the feedback provided to create final recommendations for the regulatory framework for the safe deployment of automated vehicles in England, Wales and Scotland. The final report is expected in Q4 2021. The Group is committed to working closely with Thatcham Research and with the market to ensure we remain at the forefront of what will be a transformational change to road use in the UK.

Future Outlook

We move into 2021 in a strong position, although the COVID-19 pandemic will continue to drive uncertainty within the market and the economy. The Group, now as a much larger and diverse business, is well positioned to respond.

There remains surplus capacity in the insurance market and our customers are rightly as price-conscious as ever, so we expect market conditions to remain extremely competitive. Nevertheless, the Group is well equipped through its customer relationships, strong service delivery, wide range of products, robust financial position and a knowledgeable and dedicated workforce to meet these challenges and continue to be successful in 2021.

J M Dye
Chief Executive

Group Strategic Report

In accordance with the Companies Act 2006, the Directors present their Group Strategic report for the year ended December 31, 2020.

Principal Activity

Allianz Holdings plc is a holding company which owns the principal insurance operations of Allianz SE in the UK. The principal activity of its subsidiary undertakings continues to be the transaction of most classes of general insurance business.

The Group has now fully consolidated LVGIG and FIL following the acquisition that was finalised on December 31, 2019. As such, the Group is now one of the top general insurers in the UK measured by gross written premium.

The Group offers a wide range of products and has a presence in most general insurance markets. However, it concentrates resources on markets and products which will deliver the best return for shareholders.

In 2020, the Group expanded its operations to five regulated insurance companies organised as three entities; AZI, LVGIG and FIL, each having its own trading divisions and supporting service divisions, although some services are shared across the Group. Integration activities across the Group continue to drive further synergies. An analysis of the 2020 results and the prospects for 2021 are set out in the Business Report on page 30.

A number of the Group's subsidiaries are regulated by the FCA and/or the PRA.

Business Review

The Group's performance has been widely recognised both within and beyond the insurance industry and a number of awards have been won in recent years. Further details of the awards won can be seen on page 5. Globally, Allianz SE was recognised as the number one insurance brand in the 2020 Interbrand Best Global Brand Rankings, the second year in a row. This recognition is a fantastic reflection of all the hard work around our business and the strength of Allianz globally.

Gross written premiums increased to £3,922m from £1,991m in 2019, a 97.0% increase, mainly due to the consolidated premiums from the acquisitions.

Underlying AZI gross written premium decreased by 5.6% from £1,991m in 2019 to £1,880m. Personal lines reduced by 10.6% despite profitable growth in Animal Health, predominantly due to the exit from a partnership contract. Commercial lines reduced by 2.9% due to the impact of COVID-19 on economic activity, with Motor and Casualty lines seeing the impact of increased mid-term adjustments, return premiums, reduced exposures and lower new business levels.

Personal lines accounts within LVGIG grew from £1,571m to £2,042m in 2020, on a comparable basis, mainly due to the acquisition of FIL. Excluding the impact of the acquisition, there was growth of 16% in the broker business across lines including Standard Motor, Specialist Motor and Home. Within the Direct channels, premium remained flat, year on year reflecting our pricing approach in a soft market.

Operating Profit increased from £110.6m to £290.3m, as a result of the inclusion of LVGIG, strong performance in Personal and Motor lines reflecting frequency benefits as a result of COVID-19, partially offset by Business Interruption claims within Commercial lines. The result was also assisted by one-off expense benefits. Profit before tax was £238.0m compared with £146.4m in 2019. Further detail regarding the 2020 business results can be found in the Business Report on page 30.

Key Performance Indicators

The Group continues to monitor a number of financial and non-financial key performance indicators ("KPIs") within the business. Core financial KPIs are shown in the table below and non-financial KPIs are reported within the Non-Financial Statement on page 22.

Key Performance Indicators – before quota share	**2020 £m**	**2019 £m**	**2018 £m**
Gross written premium	3,921.8	1,990.7	2,038.1
Net written premium	3,065.8	1,874.9	1,912.1
Underwriting result(1)	201.4	40.5	70.8
Operating profit(2)	290.3	110.6	171.2
Profit before tax	233.8	176.7	182.1
Claims ratio(3)	71.4%	66.4%	64.8%
Expense ratio(4)	23.0%	31.4%	31.6%
Combined ratio(5)	94.4%	97.8%	96.4%
UK employee turnover	11.1%	18.3%	17.5%

Source – Management Accounts.

(1) Underwriting results are quoted before the impact of quota share reinsurance and are the sum of premiums earned less incurred claims and expenses. The underwriting result can be reconciled to the profit before tax reported in the Statement of Comprehensive Income on page 56 as follows:

	2020 £m	**2019 £m**	**2018 £m**
Underwriting result	201.4	40.5	70.8
Impact of quota share	(3.6)	(30.3)	(37.5)
Investment income net of finance costs	72.8	54.5	82.3
Net realised gains	36.9	57.6	3.4
Net fair value gains	(9.0)	33.1	32.1
Other income	102.3	87.2	80.7
Other operating and administrative expenses	(162.8)	(96.2)	(79.9)
Profit before tax	238.0	146.4	151.9

(2) Operating profit is on an Allianz SE Group basis. A reconciliation to profit before tax is included in note 42.
(3) Claims ratio is defined as incurred claims as a percentage of earned premiums.
(4) Expense ratio is defined as incurred expenses and commission as a percentage of earned premiums.
(5) Combined ratio is defined as incurred claims, expenses and commission as a percentage of earned premiums.

Future Outlook

Premium income growth at a gross level is expected to remain under pressure as the COVID-19 pandemic continues to have an impact on the market, the economy and our customers.

Profitability is expected to perform well throughout 2021 as the benefits of the continuing investment in productivity initiatives and Technical Excellence are realised. The Group remains vigilant with respect to claims fraud. By definition, insurance is an uncertain business and profitability in 2021 is susceptible to being influenced by the ongoing COVID-19 pandemic, as well as potential for a higher than expected level of major claims or weather events.

In September 2020, the FCA published its long awaited General Insurance Pricing Practices Market Study (FCA pricing study) alongside a consultation document requesting comments on the proposals by January 25, 2021. The core proposal is that there should be no price differential between new business and renewal customers, thus ending the practice of subsidising new business prices. This will result in significant disruption to the personal lines Motor & Home insurance markets and we are reviewing our strategy in light of this.

Brexit

The UK formally left the European Union ("EU") on January 31, 2020, and a trade deal was agreed on December 24, 2020, coming into effect from January 1, 2021. The deal is not expected to have a significant impact on Allianz's performance in 2021. The Group has assessed its contractual and supplier arrangements and does not expect there to be a significant impact to the Group as a result of Brexit.

Risk And Capital Management

All businesses face uncertainty, and the challenge for management is to determine how much uncertainty the Group is prepared to accept as it strives to grow stakeholder and customer value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value.

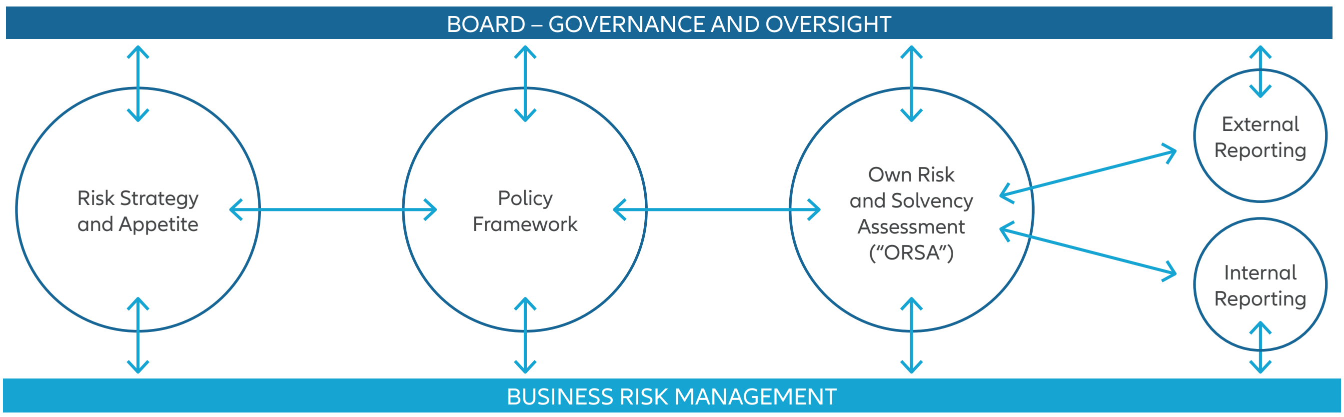
The Enterprise Risk Management ("ERM") framework forms the overarching framework for management to deal with the various risks the Group may encounter, as well as their tracking and monitoring. This also ensures that the Group has processes in place by which we assess the risks that we are exposed to, both on a current and forward-looking basis.

Risk governance

The Board delegates oversight of risk management to the Group Chief Risk Officer ("CRO") and the Board Risk Committee. The Group CRO is a member of the Management Board and a standing invitee to the Board. The Group CRO is supported by the Risk Department's team of qualitative and quantitative experts. However, managers in the business units are responsible for managing risk in their own areas.

Risk management framework

To ensure we are always prepared in a rapidly changing environment, the Group has a number of key risk management processes and policies that are implemented throughout the Group. These processes rely on a clear governance structure to enable risk reporting to be communicated from the business to the Board, as shown in the diagram below.



Principal Risks and Uncertainties

We continually assess the principal risks and uncertainties facing our business, monitoring potential impacts and where necessary implementing mitigation and management solutions. Details of our principal risks and uncertainties can be found below and in note 37.

The Risk Department, alongside Internal Audit and Compliance, monitors both known and unknown risks that could affect the Group, while collaborating with business units to mitigate any identified issues. In 2020, our principal risks were:

- **Conduct risk** – The Group is focused on the importance of doing the right thing for our customers, recognising and responding to the needs of those more vulnerable in the current economic climate. In 2020, we continued to enhance our activities and oversight of Conduct Risk with a new Customer and Conduct Committee.
- **Climate change** – Ensuring we remain a conscientious Group which considers sustainability in all our business activities remains a key focus across the Allianz SE Group and locally in the UK. Continued progress is being made towards our Environmental, Social, Governance ("ESG") and Climate Change ambitions, with work streams established across Underwriting, Investments, Claims, Procurement and Disclosure.
- **Brexit** – Throughout 2020, we continued our readiness activities and analysis for different Brexit outcomes including completing a number of different scenarios, detailed stress tests, and customer communications. These covered both our operational and possible customer impacts, to ensure resilience and continuity of service. We continue to closely monitor developments post the UK leaving the EU.
- **Emerging risk** – An annual review of emerging risks and consequential impact of the COVID-19 pandemic was undertaken in 2020. This included analysing the long-term effect it might have on our business strategy using both industry and expert knowledge to enable the Group to be adequately prepared for the road ahead.
- **Integrated Risk and Control System ("IRCS")** – The annual IRCS review cycle was completed through 2020, with a particular focus on risk control assurance and continuing to maintain and enhance risk management across the business. IRCS includes the assessment of top risks the Group faces, the key controls in place to mitigate identified risks and key risk indicators for early warning of any issues. No material weaknesses or significant deficiencies arose in 2020.

Ensuring we remain a conscientious Group which considers sustainability in all our business activities...

COVID-19

On March 11, 2020 the World Health Organisation confirmed that the outbreak of COVID-19 was a global pandemic. This was a new and significant source of uncertainty for the Group in 2020, which continues into 2021. Preventative actions such as restricting non-essential travel, working from home, closure of businesses, postponing events and stopping public gatherings were taken by the UK government throughout 2020. Restriction measures have continued into 2021. The pandemic had an immediate impact on the domestic and global economies, and financial markets, creating uncertainty for people and businesses. Consequently, insurance companies continue to assess the impact of COVID-19 on general insurance products. Considerable uncertainty remains around the development of COVID-19 claims and the response of our reinsurance covers.

The Group is closely monitoring the situation as it continues to develop, maintaining service to customers and managing both operational and economic risk. There is close alignment and interaction to ensure the Group is operating in accordance with government advice and benefiting from the wider Allianz SE Group response.

Our values continue to drive our decision making as we work through this challenging time, with a focus on putting our people first and prioritising existing and emerging customer needs.

The Group is responding to the COVID-19 situation using well-established business resilience and crisis management procedures.

The key risks this crisis presents are both operational and financial and are being actively monitored and managed on a daily basis. Regular communications are taking place to keep all staff informed throughout the period of uncertainty.

The operational risks from COVID-19 have largely been addressed by increasing homeworking capability. Work has been prioritised to support claims payments and existing customers.

Financial risks which are being assessed and responded to include adverse movements in investments held. The investment strategy of the Group has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. We invest in assets to ensure the security, liquidity and quality of the portfolio as a whole, while taking into account the nature and duration of our insurance liabilities. In respect of underwriting risk, we have seen an increase in Business Interruption claims. However, these were more than offset by fewer claims on Motor, Liability and Pet insurance products across the Group as a consequence of the government instruction for people to stay at home. Reinsurance arrangements are in place providing further mitigation.

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

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

The regulated Group companies continue to meet their solvency and capital requirements as required by regulation. The impact of Business Interruption claims is estimated to have been £175m before the quota share. This impact has been more than offset by the claims frequency benefits arising in other lines of business across the Group as described above.

Risk Appetite

The Group has a written statement confirming the degree of uncertainty (or risk) that the Group is willing to accept in the pursuit of its goals. The Group has a conservative and controlled risk appetite that is aligned to achieving corporate objectives and meeting regulatory requirements and those of our parent company.

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

At Allianz, Risk is split into categories using our risk taxonomy:

RISK	EXPOSURE	CONTROLS
Insurance Risk	Insurance risk concerns unexpected financial losses due to insufficient premiums, insufficient reserves or the uncertainty of, for example, catastrophic events, mortality or longevity.	The Group has a robust control environment around underwriting, comprising underwriting authority limits, inspections, underwriting training and testing. Reserve risk is mitigated through reinsurance and by a robust claims handling and actuarial reserving philosophy.
Market Risk	Market risk concerns unexpected losses arising due to changes in market prices or parameters, including changes driven by equity prices, interest rates, real estate prices, foreign exchange rates, credit spreads and implied volatilities.	The Group seeks to invest primarily in a well-diversified portfolio of liquid, traded assets primarily with a UK domicile.
Credit Risk	Credit risk concerns unexpected losses in the market value of the portfolio due to deterioration in the credit quality of all parties including their failure to settle payment obligations or due to non-performance of contractual parties in making payments.	Limits on individual parties are set by the Finance and Investment Committee, having considered limits proposed by Allianz SE Group. Utilisation and breaches of the limits set are monitored by the Risk Department.
Business Risk	The risk of not writing new business and thus not earning premiums needed to cover fixed acquisition costs. Renewal rates for existing contracts decreasing, leading to lower than expected earned premiums.	The Group is exposed to business risk. However, the Group controls and monitors its exposures by ensuring that it writes business in line with its Corporate Plan.
Operational Risk	Operational risks are unexpected losses resulting from inadequate or failed internal processes and systems, from human misbehaviour or errors, or from external events.	The Group accepts exposure to operational risk as a necessary consequence of doing business. There is a robust risk and control culture within the organisation, which is monitored and reported by the managers of the organisation and by the Risk, Compliance, Legal and Audit Departments through an IRCS.
Liquidity Risk	The risk of unexpected financial losses, due to a failure to meet current or future payment obligations, as well as the risk that in the event of the Group having a liquidity crisis and refinancing is only possible at higher interest rates.	The Risk Department monitors the liquidity position in stressed scenarios to ensure that should large amounts of liquidity be required at short notice, adequate liquidity would be available.
Reputational Risk	Reputational risk is revenue decline due to deteriorating reputation. This can be due to an action of the Group itself, or an association with another company.	The Group's underwriting controls screen all quotations for any sensitive business areas or negative media attention. Regular meetings between Risk and Communications ensure reputational risks and issues are controlled on a case-by-case basis.
Strategic Risk	Strategic Risk is defined as a negative effect on capital and earnings, due to business policy decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes.	Risk is considered as part of the Strategic and Planning Dialogues within the business in order to identify risks to plan and limit strategic risk while seeking to implement its Corporate Plan, adapting specific goals as necessary.

Risk Capital Framework

We define our risk capital as the capital required to protect us against unexpected extreme economic losses and forms the basis for determining our Solvency II regulatory capitalisation and the associated risk profile. We calculate risk capital on a quarterly basis and monitor more frequently in periods of market turmoil.

AZI

For AZI we adapt the Allianz SE Group internal model to our UK specific requirements to measure risk capital. The PRA and the College of Supervisors approved the model in 2015 to start on January 1, 2016. Subsequent model changes were approved in 2017, 2018, 2019 and 2020 including a change to better align our pension risk modelling with our accounting approach and a change to allow for the possibility that interest rates may become negative in future.

We validate the model and parameters through sensitivity analysis, internal peer reviews and, where appropriate, independent external reviews. We summarise these activities in an annual validation report.

For 2020 the model was found to be fully appropriate. Nevertheless, as with any model there are some limitations, including the reliance on historical data to characterise possible future outcomes, which may not capture unprecedented market conditions or events. During 2020 comprehensive scenario analysis continued from the previous year to consider potential Brexit impacts as well as impacts from the COVID-19 pandemic.

The model is used internally for determining capital adequacy and requirements. Capital is allocated to lines of business based upon the underlying risks the business presents. Each line of business is required to make a minimum return on its allocated capital. The minimum returns on allocated capital are incorporated into the trading division's objectives and the personal performance targets of senior management to ensure that the underlying business operations are run and managed in a manner consistent with the Board's appetite for risk and with the capital available.

The Solvency Capital Requirement ("SCR") for AZI as at December 31, 2020 was £600m compared with own funds of £911m, leading to a solvency coverage ratio of 152%. This compares to a ratio of 159% as at December 31, 2019.

LVGIG and FIL

On December 31, 2019 the Group completed the acquisition of the remaining 51% of LVGIG (including acquiring LVIC and HiCo), and the purchase of 100% of FIL.

The risk capital for the regulated entities is calculated quarterly using the Standard Formula.

The SCR for LVIC as at December 31, 2020 was £376m compared with own funds of £670m, leading to a solvency coverage ratio of 175%.

The SCR for HiCo as at December 31, 2020 was £175m compared with own funds of £223m, leading to a solvency coverage ratio of 128%.

The SCR for FIL as at December 31, 2020 was £79m compared with own funds of £141m, leading to a solvency coverage ratio of 179%.

Going Concern

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

There is continued uncertainty surrounding the impact of COVID-19 on the business as the length and scale of lockdowns in the UK continue to change. However, an assessment by line of business indicates that solvency can be maintained above regulatory requirements and there is liquidity to support operations.

In 2020 business continuity activity was effected at pace to allow home working for employees throughout the year, without material customer detriment. Key activities were, and continue to be maintained throughout the changes in government restrictions, e.g. frontline service, payments and IT systems.

The Group continues to work closely with its suppliers to understand and manage the impact of COVID-19 on our supply chain.

The COVID-19 pandemic has affected the global economy, but the economic impact has hit the UK particularly hard in comparison to international counterparts. The UK stock market fell sharply in the early parts of the pandemic, but has been gradually recovering since April 2020, albeit still below the average value seen in early 2020, before the decline. The UK Gross Domestic Product at the end of December 2020 was 6.3%[1] below the pre-pandemic levels seen in February 2020. The economy weakened in early 2021 due to further lockdowns but is expected to enter recovery later in the year as vaccines become widespread.

Management is regularly assessing the impact on the financial, liquidity and solvency position with actions in place to respond where appropriate. As at December 31, 2020, the total ultimate cost of Business Interruption claims in 2020 is estimated to be £175m, before the quota share. Reductions in claim frequency across a number of lines help serve to offset this. The impact of COVID-19 continues to evolve and there remains uncertainty in these impacts despite the UK government announcing their roadmap out of lockdown and subsequent easing of restrictions.

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

[1] Key Economic indicators- House of Commons Library (parliament.uk)

Section 172(1) Companies Act 2006 Statement

This statement sets out how the Directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when performing their duties. The Directors have acted in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. In doing so they have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in the decisions taken during the year.

Stakeholder Engagement

This section of the Company's report explains the Group and the Board's engagement activities in relation to its customers, suppliers and other stakeholders relevant to the Company.

Engagement with our stakeholders and understanding their interests are integral to how the Group conducts business and how the Company's Board makes decisions. When strategic and operational decisions are considered by the Board (and its committees), the broader impacts on stakeholders from both a Company and a Group-wide perspective are considered and this approach is embedded within the Group governance structure.

The Board and individual Directors engage with some stakeholders directly on specific issues. However, due to the size of the Group and how we operate across different business units, stakeholder engagement regularly takes place at an operational level as well as at Group level. This allows the Group to be responsive to stakeholder needs. The Board receives information from across the business in the form of Board reports and presentations when making decisions and these reports include information about how stakeholder interests have been considered. This provides the Board with an overview of stakeholder interests when making decisions even where they have not engaged directly with those stakeholders themselves.

Details of the Company's key stakeholders and how both the Board and others in the Group engage with them are as follows:

Employees

The Company does not employ any staff. During the year, Allianz Management Services Limited ("AMS"), a wholly-owned subsidiary of the Group and LVGIG provided administration services and staff to the Company and to other Group companies. AMS and LVGIG have a high level of resources and expertise which benefit the Group.

Our people and culture are key in achieving our strategic objectives and delivering for our customers across all areas of our business. To effectively enable our people to deliver our strategy to be the best in what we do for our customers we seek the feedback of employees regularly.

Various methods of engaging with employees are used by the Company and the Group. Engagement methods include pulse surveys sent to employees on various topics, town hall presentations (which have been virtual following the impact of COVID-19), and newsletters. Within the LVGIG business, the LVGIG executive management team conduct monthly webinars with the leadership team to share the LVGIG strategy and to provide updates on particular topical items of interest.

The Company also conducts the annual Allianz Engagement Survey ("AES"), which included colleagues from the LVGIG and FIL businesses for the first time in 2020. The AES is a valuable employee feedback platform and an indicator of the Group's corporate culture and employee engagement.

The AES results include the Inclusive Meritocracy Index ("IMIX") which covers aspects of leadership, performance, collaboration, trust and respect and the Work Well Index plus ("WWI+") is used to measure the quality of the work environment, practices and opportunities.

Inclusive Meritocracy is our target culture and can be described by three principles:

1 **People and performance matter in a culture of inclusive meritocracy**

2 **The 'what' and the 'how' count and define individual performance; and**

3 **People attributes set the aspiration for how each employee should act. The IMIX is derived from the responses to a specific series of questions asked in the annual AES.**

Employees continued

The AES results are collated to give a Group-wide result and also broken down by division and by teams within divisions. The survey results are shared with the Board and with the Management Board (the Company's executive committee) and action plans are developed based on the feedback received within teams. The results of the survey are directly linked to the performance objectives of the Management Board and executive Directors. This approach ensures that our people, matters of importance to them and the impact of decisions on the workforce are actively considered by the leadership team when making decisions.

In addition, within the LVGIG business there is an annual opportunity for colleagues to provide feedback via an LVGIG focused employee survey. This survey has continued this year following the acquisition of the business by the Group to allow focus on engagement within LVGIG. We recognise that the process of transformation we are currently working through, which will continue in the future, is challenging for our people, particularly those within the LVGIG and FIL businesses, and it is a key priority to ensure that employees are fully engaged as LVGIG continues to develop during 2021.

Since the beginning of restrictions in the UK due to COVID-19 and the resulting changes to the way in which we work, a variety of engagement methods have been introduced to keep our workforce informed and seek feedback on matters which affect them. Within both LVGIG and AZI, this includes regular COVID-19 update calls where senior leadership provide updates on developments, explain decisions and discuss the impact of home-working on the workforce. These calls include a question and answer forum whereby employees are encouraged to ask questions directly to key speakers. The Board received regular updates about the impact of COVID-19 on employees and their well-being during 2020.

In addition, employees with AZI were invited to participate in a wellbeing poll to shape future activity in relation to employee well-being through co-creation. The top rated ideas from the poll were introduced, including freestyle virtual meeting options and wellbeing expert talks.

Customers

Customer-centricity is fundamental to the Group's business strategy, which is explained in the Strategic Report on page 18. It is also key to the LVGIG strategy of "putting customers at the heart of what we do." During the pandemic, the Group's and the Board's focus across all businesses was on maintaining high levels of service and supporting our customers.

A key method of engaging with our customers across the business is the Top Down Net Promoter Score ("TDNPS"). The TDNPS is an important indicator that our customer-centric culture is embedded within the organisation. We ask our customers and those of our competitors for honest and anonymous feedback and then benchmark the results against our competitors. In our General Commercial and Engineering businesses (within AZI) we seek feedback from our brokers. For the Animal Health business and the LVGIG business, the feedback is collected from customers. The TDNPS results are a key performance indicator for the Company and the results are shared with the Board so this information can be considered when making decisions.

In addition, on a day-to-day basis our customer-facing people engage with and foster relationships with our customers directly. Direct and indirect feedback received from customers is collated and reviewed, together with other data such as complaints received and the number of complaints referred to, and upheld by, the Financial Ombudsman Service.

During 2020, the Board established a new Group Customer and Conduct Committee which is responsible for overseeing customer and conduct risk matters including customer relationships, engagement and culture. The Group Customer and Conduct Committee receives reports on a variety of matters across the business. The Committee receives reports from the AZI Strategic Customer Forum, which focuses on customer value in the AZI business underpinned by metrics around conduct risk, customer experience and customer culture. The Customer and Conduct Committee also receives reports from the LVGIG business in relation to these matters. The LVGIG business has its own executive customer and conduct committee to oversee customer culture and conduct risk in relation to the LVGIG business. The Group Customer and Conduct Committee reports into the Board on all matters, ensuring that the Directors are aware of customer engagement metrics to factor into their decision making.

The Board also oversaw the initiatives put in place to support customers during the COVID-19 pandemic, including the insurance industry fund to which a £10.1m donation was made by the Group and the Green Heart Fund which was an initiative to specifically support customers of LVGIG. The Green Heart Fund set aside funds to enable refunds to car insurance customers who were struggling financially and needed the most support. Administration and cancellation fees were also waived and payment holidays introduced across a number of products.

Suppliers

Proposed significant supplier contracts, either strategic or by reason of size and significance, which are relevant to the Group, are considered by the Board following initial meetings and negotiations by the procurement and commercial teams and direct engagement with senior management. Suppliers are required to comply with the Group's Vendor Code of Conduct, which ensures certain standards are met in relation to ethics, labour and the environment. In addition, the sourcing process itself is governed across the Group by adherence to requirements laid out in the Allianz Global Standard for Procurement via the Local Procurement Standard.

The Board assumes responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance assessment. As a consequence, the Board gives due consideration to significant intended supplier arrangements, their suitability and ability to meet the Group's requirements and the ease with which a productive and mutually beneficial working relationship can be established and maintained with each supplier.

The Supplier Relationship Management team has been set up in procurement specifically to assist teams across the Group with the management of supplier relationships by creating a framework of best practice controls and governance, and by supporting the business in managing significant supplier relationships. The team works in conjunction with our safeguarding functions such as Protection and Resilience, Information Security and Data Privacy. This ensures continued protection and continuity of services for our customers. The collaboration ensures we are able to effectively manage supply chain risks such as Brexit and COVID-19.

In addition, relationships are fostered with suppliers at an operational level with senior management fostering partnerships with insurance aggregators, brokers, reinsurers and other suppliers. These relationships are managed on a day-to-day basis by various relationship teams who have regular contact. They also seek regular feedback from suppliers and renewal rates are also monitored. This information is reported back to the Board for review and discussion.

During the year, the Group went to great lengths to support its suppliers and communities through what was undoubtedly a difficult time for many. Extra financial support was given to key suppliers severely affected by the lockdowns, including bodyshops, breakdown drivers and home contractors.

Regulators

While the Company itself is not regulated, its principal subsidiaries are authorised by the PRA and FCA. Ensuring there is a candid and transparent relationship with all of its regulators is of key importance to the Group and the Board. The Board ensures a culture of transparency and integrity across the Group.

Consultations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the Group's principal regulators from time to time are examined and discussed by the Board to the extent required and taken into account when considering matters for approval. In addition the Board carefully considers and takes into account communications received by the Group from the regulators, such as the periodic summary meeting letter following the annual risk assessment by the PRA and the firm evaluation letters by the FCA. Any reviews or changes required as a result of regulatory updates or recommendations are considered and the implementation of recommendations is owned and overseen by the Board. This ensures that regulatory matters are of key importance with a top-down approach led by the Board. More information on the Board decision-making in relation to the FCA pricing review is included below under principal decisions.

The executive and non-executive Directors have regular direct contact and dialogue with the regulators, giving them an understanding of the regulators' requirements and intentions, which will then be brought into discussions of the Board. Other engagement methods with the regulators include regular meetings and responding to regulatory market reviews.

Shareholders

The Company has regard to the interests of its immediate shareholder, Allianz (UK) Limited, and its ultimate shareholder, Allianz SE. The Company's strategy is closely aligned with the Allianz SE strategy. Allianz SE nominate a non-executive Director to the Board of the Company. This Director was N C Peiris to December 31, 2020. A new Allianz SE representative non-executive Director, C Townsend, was appointed in 2021. This ensures that the Company is aligned with and takes into account the views of the ultimate shareholder when making decisions, while also remaining independent from the ultimate shareholder.

Community and the environment

The Allianz SE Group global ESG strategy ensures it is a leader in sustainability, a responsible and trusted business, and a committed corporate citizen. Allianz SE Group focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of the business.

The Group has undertaken its own initiatives during the year in the area of ESG. The Board and Management Board are fully committed to ESG principles and consideration of our impact in these areas is an important part of Company and Group discussions. More information regarding the Group's ESG initiatives is set out in the Non-Financial information Statement on page 22 of the Annual Report.

The Non-Financial Information statement also sets out further information regarding the commitment of the Group and the Board to its stakeholders and its activities in relation to those stakeholders, including the non-financial KPIs, which are monitored by the Board.

Board decision-making

This part of our section 172 statement describes how the Board has had regard to the Company's stakeholders and other matters to be considered under section 172(1) of the Act in some of the key decisions taken by the Board during the year.

The Board continues to review its processes to ensure that a formal analysis is carried out of how material decisions that it is required to approve will impact the Company's key stakeholders groups. New reporting templates have been developed and rolled out to further improve the quality of Board reporting, ensure consistency and ensure that stakeholder considerations are properly incorporated into all Board reports.

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

During the year the Directors took the following principal decisions:

Dividend

Section 172 considerations: promoting the success of the Company for the benefit of the Company's members, long-term consequences, maintaining a reputation for high standards

Stakeholders: Shareholders, customers (policyholders), regulators

During the year, the Board approved the payment of interim dividends of £115.9m in aggregate in respect of the year ended December 31, 2020, to its immediate shareholder, Allianz (UK) Limited. In approving the payment of the interim dividends the Directors considered the impact on the Company and the views of its stakeholders. Amongst other things, the Directors considered the needs and views of the Company's immediate shareholder and its ultimate parent company, Allianz SE, who require dividends to be paid to ensure the long term success and viability of the Allianz SE Group as a whole. In addition, while the Company is not itself regulated, the Board took into account the regulatory environment and the views of the regulators in paying a dividend in the current economic climate, including ensuring the dividends were prudent from a regulatory perspective. The interests of wider stakeholders such as employees, customers (including policyholders) were also considered. These stakeholders need the Company and the Group as a whole to maintain a reputation for high standards in decision making and to hold sufficient capital to meet its requirements to them in the long term. After considering these factors, together with other considerations when paying dividends, the Directors concluded that the payment of the dividends would promote the success of the Company for the benefit of its members.

COVID-19 Pandemic Response

Section 172 considerations: interests of employees, long-term consequences of decisions, maintaining a reputation for high standards

Stakeholders: employees, customers, suppliers, regulators

The Group and its businesses have shown resilience through the COVID-19 pandemic both from a financial and an operational perspective. The Board met on approximately a bi-weekly basis during the first six months of the pandemic and continued to meet more regularly throughout the year. The Board received updates from both the AZI and the LVGIG businesses regarding their ongoing response to the pandemic. The reports focused on:

- **operational resilience** – enabling the business to quickly return to levels of customer service expected and ensuring that the business could continue to respond to customer needs;
- **employees** – supporting employees to work from home effectively and introducing additional measures to support well-being;
- **customers** – including customer support, particularly for vulnerable customers and monitoring service levels;
- **impacts on products** – including broker engagement, renewals and new business; and
- **regulators** – information and input received from regulators regarding the Group's or the industry's response

While being kept regularly updated on these matters, decisions were also taken at an operational level with the Board overseeing and providing constructive discussion and oversight around the response. The Board considered impacts and interests of all stakeholders when reviewing the information. For example, the Board considered a proposal for the Group to join the insurance industry's COVID-19 support fund to provide rapid assistance to frontline charities affected by the pandemic. The Board considered that this was the right thing to do considering all of its stakeholders and particularly the interests of the wider community and therefore the Group, via its regulated subsidiaries, committed £10.1m to the fund. The Group Board also actively supported and encouraged the independent initiatives undertaken by LVGIG including their Green Heart Support fund for vulnerable customers.

The Board and Management Board engaged with employees on the ongoing operational response of the business through weekly calls and broadcasts.

Product Value Review

Section 172 considerations: maintaining a reputation for high standards, fostering relationships with customers and suppliers

Stakeholders: customers, regulators

Following the FCA request to insurers to consider the value of products in light of COVID-19, during the year the Board also assessed product value offered to customers and whether each business was able to meet its contractual obligations to customers. In reviewing these topics the Board demonstrated its commitment to customer value and putting customers at the heart of the business. The Board assessed that the business divisions, each with a unique proposition to meet the needs of its specific customers, had adopted a flexible approach to meet customers changing needs. Support included automatic cover extensions, relaxing policy terms and giving refunds. Steps were also taken to ensure continuity of claims fulfilment both internally and with suppliers. The Board considered the findings across the business and focused on any areas identified as requiring further review. The Board was satisfied that there had been no material loss of value for customers in respect of LVGIG products. A small number of areas within AZI were highlighted for potential remedial action. The Board focused on customer interests and is ensuring that any remediation should be carried out quickly.

Pricing Strategy And Practices Review

Section 172 considerations: maintaining a reputation for high standards, fostering relationships with customers and suppliers

Stakeholders: customers, regulators

During the year the Board considered the pricing strategy and practices across the expanded Group to ensure fair pricing. The Board noted the interests of customers and the importance of treating customers fairly. The Board was satisfied that the Pricing Strategy considered customer outcomes appropriately. In order to embed the principles set out in the strategy the Board approved the use of an external provider to carry out an audit review. The Board was keen to ensure that customers across the Group as a whole were treated fairly and that there was appropriate alignment of practices across the expanded group. Later in the year the Board discussed the completed external review, focusing on both the AZI and LVGIG businesses and the interests of different types of customer across the business. Given the Group's culture of customer centricity it was agreed that the Board would continue to have oversight of the implementation of the recommendations from the review during 2021 to ensure a strong customer centric culture and fair pricing practices across the expanded group.

Non-financial information Statement

About the report

While the Company is not required to publish a non-financial statement, as it is covered by the Allianz SE Group statement, this report aims to bring transparency to our approach to non-financial matters.

ESG Strategy

The Group is committed to being socially responsible and our ESG strategy is being embedded across our business. Our global strategy is based on the five roles we believe the Group plays in society; a sustainable insurer, responsible investor, committed corporate citizen, attractive employer and trusted organisation.

We use our investment power to make a difference to our environment and monitor and set targets to reduce the environmental impact of our business. In addition, our partnerships with national and local charities make a positive impact in areas such as mental health and local communities. To be a trusted organisation, we know that customers have to be at the heart of what we do and we work to make Allianz a great place to work, to attract and retain the best talent.

1 Environmental Matters

The Group is passionate about protecting our environment and we believe that through our insurance solutions and investments, we have a key role to play in limiting the impact of climate risk, as well as compensating for climate-related damages.

We not only manage our own carbon footprint but also create insurance products and make investments which support the transition to a low carbon economy. We also have initiatives to ensure we can reduce waste and reuse materials as part of our claims process. Through our risk management content and sustainable procurement initiatives, we also help other businesses reduce their impact on the environment.

As an insurer and investor, protecting the environment is part of our core business. Our climate change strategy and our environmental management help us to anticipate climate risks, caring for the climate-vulnerable and enabling a low-carbon economy.
The Allianz SE Group has also been a carbon neutral company since 2012, offsetting the carbon it uses by investing in sustainability projects worldwide.

The Allianz SE Group's climate change strategy, which drives the Group's ESG plans has three elements:

1 **Anticipate:**
we anticipate the risks of climate change for our businesses.

2 **Care:**
we work to protect and care for our insurance customers who are vulnerable to climate changes.

3 **Enable:**
we enable the transition to a low carbon economy.

KPIs, TARGETS AND ACHIEVEMENTS

Greenhouse Gas emissions per employee

Achievement:
In 2020 we achieved an **81% reduction**, against a 2010 baseline.

Target:
Achieve a **33% reduction** in energy consumption per employee by 2020, against a 2010 baseline.

Energy consumption from office buildings per employee

Achievement:
In 2020 we achieved a **65% reduction**, against a 2010 baseline.

Target:
Achieve a **42% reduction** in energy consumption per employee by 2020, against a 2010 baseline.

Renewable Energy

Achievement:
In 2020 all of our electricity, where we have control over the supply, was **100% renewable**. If we include electricity where we don't have control, 81% of the overall total came from renewable sources.

Target:
Achieve **100% renewable** energy, across all sites by 2023.

The Allianz SE Group also strongly believe that, for customers and investors to be able to make informed decisions, companies must report comprehensively on how they tackle dominant global long-term trends, such as climate change. The Allianz SE Group advocated for greater transparency and reporting on climate change risks by companies for a number of years. As such, the Allianz SE Group strongly support the 2017 recommendations of the Task Force on Climate-related Financial Disclosures, which aim to provide guidelines for companies to consistently disclose on climate-related risks and opportunities, resulting in meaningful information to their stakeholders.

In the UK, the Group works to have a positive effect on the environment, whether it's through our investments in sustainability projects, our renewable energy insurance products or our sustainable claims options for customers.

Environmental

In the Group we work hard to minimise the environmental impact of our business. Our carbon reduction strategy aims to manage CO_2 emissions from our operations and prioritises energy-efficient planning, buying green electricity and using carbon efficient vehicles. We also work with our employees to reduce, reuse and recycle our resources effectively.

We are also creating change through our supplier relationships. In 2020 AZI committed to transitioning our 800 strong vehicle fleet away from diesel power to self-charging hybrid technology in order to reduce it's environmental footprint. LVGIG has also worked with ABL1 Touch Repair Group to develop the first sole vehicle repair site to achieve carbon neutrality.

The Allianz Environmental Management System ("EMS") provides clear standards and controls, supports environmental data collection and promotes transparent reporting of environmental impacts across the Group. It guides the monitoring and management of our carbon footprint and use of natural resources, such as water and energy, and reducing waste. The EMS reporting is audited externally at Allianz SE Group level.

Specific initiatives which promote a culture of inclusion include:

- **Events and workshops** led by our employee networks to raise awareness about specific topics and bring people together to share experiences and suggest improvements
- **Supporting female talent**, e.g. representation on leadership programmes
- **Signatory of the Race at Work Charter**, developed by Business in the Community
- **Listening sessions with employees** with particular focus on employee experience relating to race and ethnicity
- **Participation in external events and networks**, e.g. London Pride parade, insurance cultural awareness network ("iCAN") and Business Disability Forum
- **Training** of over 130 mental health first aiders
- **Mentoring programme** for our corporate charity Mind, for the British Paralympic Association and for the charity Home-Start
- **Signatory of the HM Treasury's Women in Finance Charter** and of the CEO pledge for Inclusive Behaviours in Insurance

2 Employee Matters

We aim to be the best in what we do for our customers. Enabling our people is one of our key strategic pillars to achieve this ambition. Our approach is built on managing and rewarding our people based on merit, developing future-focused skills, promoting diversity, inclusion and employee rights, as well as supporting mental health and general wellbeing. This is underpinned by our approach to leadership and supporting HR frameworks, principles and tools including our People Attributes (Customer and Market Excellence, Collaborative Leadership, Entrepreneurship and Trust) that play a key part in the engagement of our people and employee journey, from recruiting and talent management to learning and performance management.

The annual AES is a valuable employee feedback platform and an indicator of our corporate culture. Employee engagement is a high priority in the Group as we expect our people to perform with commitment and integrity delivering excellent outcomes for our customers. We monitor employee engagement and company culture through the IMIX which covers aspects of leadership, performance, collaboration, trust and respect. The slightly revised and more comprehensive WWI+ covers aspects of the quality of the work environment, practices and opportunities.

The Chief HR Officer is responsible for all people-related activities, and reports directly to the CEO. AES results are also directly linked to the performance objectives of the Management Board.

Our Management Board, with the full support of the Board is committed to enhancing diversity and inclusion in the Group. We have a Management Board member on the Global Inclusion Council that develops and drives the global strategy. Our local Diversity & Inclusion Steering Committee, which is sponsored by our CEO, complements this with a strategy and action plan for our UK business. Particular focus has been on developing a range of employee-led networks that each specialise in and promote aspects of diversity and inclusion. These include working parents, intergenerational working, gender balance, LGBT+, cultural and ethnic diversity, disability and mental health.

The Returners@Allianz programme offers opportunities for individuals to re-enter the workplace after taking a career break.

3 Social Matters

We believe the world would be a better place if people were more resilient. We know that insurance helps build resilience by enabling people and businesses to carry on when the worst happens, but also by helping them to manage potential risks in the first place. Our corporate responsibility activity is based around making our customers, employees and society more resilient. LVGIG specifically focuses on putting 'our heart into building better lives' with a particular emphasis on family and inclusion.

Social Inclusion

Our long-term partnership with the International Paralympic Committee and the Paralympics GB team is part of our commitment to diversity and inclusion that starts with our employees and reaches to our sponsorship of world class athletes. We value diversity of thought in our employees and now have eight thriving employee networks which offer support as well as reflecting the views of our workforce and shaping the inclusion agenda in the Group.

LVGIG's new partnership with the England and Wales Cricket Board (ECB) allows us to continue our involvement in cricket, which we know plays such an important role in rebuilding communities, positive wellbeing and inclusiveness. In 2020 we launched the #Funds4Runs Community Fund cementing our commitment to help local cricket clubs and communities recover from the financial implications of the COVID-19 pandemic. It will also support some of the ECB's priorities – promoting ethnic diversity, cricket for women and people with disabilities, as well as grassroots cricket.

As principal partners of the Saracens Sports Foundation we have supported the creation of their wheelchair rugby programme which has enabled young disabled people to learn new skills and enjoy sport. The Foundation's wider work supports local communities and uses sport as a catalyst for positive change.

KPIs, TARGETS AND ACHIEVEMENTS

Allianz Engagement Survey

AZI:

Achievement:
80% IMIX score in 2020, improved from 75% in 2019. 70% WWI+ score in 2020, improved from 66% in 2019.

Target:
To maintain and seek improvement of engagement scores in comparison to the previous year.

LVGIG:

Achievement:
80% IMIX score in 2020 (IMIX was not previously surveyed at LVGIG). 71% WWI+ score in 2020 (WWI+ was not previously surveyed at LVGIG).

Target:
To maintain and seek improvement of engagement scores in comparison to the previous year.

Diversity

AZI:

Achievement:
38.8% Females in management positions (2019: 36.8%)

Target:
We achieved our target of having **35%** females in management positions by December 2020 early (HMT Women in Finance Charter) however our dedication to diversity means we will aim to increase this going forward.

LVGIG:

Achievement:
38.5% females in management positions

Target:
We didn't quite reach our target of **40%** females in senior roles by December 2020 due to restructuring across the LVGIG business during 2020, however we are committed to diversity and inclusion and we'll aim to increase this in the future.

KPIs, TARGETS AND ACHIEVEMENTS

Mind and SAMH charities partnership

Achievement:
Since the partnership started in March 2019 we have raised **£698,000** through employee fundraising and company contributions including **£338,000** in 2020.

Target:
Raise £1m for Mind by the end of 2021.

LVGIG's community giving programme

Achievement:
£115,000 donated in total to local charities through employee fundraising and corporate contributions. Beneficiaries include Pride, AutoRaise, NHS Together and a range of local charities near the LV= office locations.

Employee volunteering

Achievement:
In 2020, **138 employees** gave over **50,000 minutes** to their local communities. We increased the available volunteering hours to 20 hours per employee in 2020, however we saw a significant decrease in uptake from 2019 due to the limitations created by the pandemic.

Target:
One million volunteering minutes over the three-year period to the end of 2021. The pandemic has heavily impacted on our employee volunteering and so we are unlikely to achieve our target, however we're finding virtual volunteering opportunities and encouraging employees to maximise opportunities to support their local communities as Government restrictions ease.

LVGIG employees also volunteered by writing letters of kindness to residents in care homes who were isolated and had little contact with their families because of the pandemic.

3 Social Matters continued

Corporate Charity Partnerships

Our corporate charity partnership with the mental health charities Mind (in England and Wales) and SAMH (in Scotland) aims to support those living with mental health issues. Throughout the year our employees have created virtual ways of fundraising replacing our traditional programme of fundraising events and office based initiatives. This ranged from running, walking and cycling as virtual teams to donating the money they have saved on their commutes and daily coffees. As well as raising £338,000 for Mind and SAMH, the initiatives have contributed to maintaining the health and wellbeing of our employees during a difficult time.

As well as fundraising, the partnership is part of our ambition to build further on our support for those with mental health issues in our workplace. We have trained 193 mental health first aiders, produced employee engagement campaigns talking about mental health issues, delivered a programme of webinars and extended the resources available around mental health. Our employee network for mental wellbeing, Embrace, has also created a range of initiatives aiming to raise awareness and create a culture where it is 'ok to not be ok'.

During Time to Talk Day, Mental Health Awareness Week, National Stress Awareness Day and World Mental Health Day, we ran activities for employees such as mindfulness exercises, exercise classes, family activities and promoted our mental health support resources and network.

3 Social Matters continued

Consumer/Responsible Sales

Our positive reputation is built on the trust that customers, shareholders, employees and the general public have in us. This trust depends on the quality of our products, the way we inform and advise our customers, and on the personal conduct and capability of our sales employees and representatives.

The globally binding Allianz Code of Conduct for Business Ethics and Compliance specifies, "Employees of Allianz Group must not, either by their action or statements, seek to mislead the market or customers; and when establishing a customer relationship or providing financial services to a client, appropriate care shall be taken to ensure that the customer receives information that is necessary for a reasonable decision to be taken by the customer."

A responsible approach to sales and service is more likely to lead to customer satisfaction and loyalty. Both AZI and LVGIG measure loyalty through the Net Promoter Score ("NPS"), which captures customer and brokers' willingness to recommend us and is benchmarked against our competitors. Actionable customer insights are gathered through several other customer metrics including journey NPS, customer effort, complaints levels and call transfer rates. This allows us to monitor our customers' journey and ensure a seamless, consistent customer experience.

There is a clear governance model in place that ensures we drive continuous improvement informed by the insights gathered. At AZI this takes the form of a Customer Value Model. This is a framework based on three components with a shared outcome of customer value but each having their own ambitions and metrics: Conduct Risk; Customer Experience; and Customer Culture. This is overseen by Customer Boards which feed into the quarterly-held AZI Strategic Customer Forum. At LVGIG, their Customer and Conduct Committee meets monthly and will make recommendations to the Executive Committee in relation to LVGIG interpretation and application of Conduct Risk, amendments or changes to controls and tolerances, actions arising from Emerging Risk assessment and any further investigations or actions required to manage risks or issues.

The new Customer and Conduct Committee, reporting in to the Group Board, in turn receives reporting, recommendations and escalations from the AZI Strategic Customer Forum and the LVGIG Customer Conduct Committee. This updated framework ensures that we put customers at the heart of all that we do as well as ensuring a regulated approach to treating our customer fairly.

KPIs, TARGETS AND ACHIEVEMENTS

Net Promoter Score performance – Commercial

Achievement:
Achieved Loyalty Leader in 2020.

Target:
Maintain Loyalty Leader by 2021.

Net Promoter Score performance – Engineering

Achievement:
Achieved Loyalty Leader in 2020.

Target:
Maintain Loyalty Leader in 2021.

Net Promoter Score performance – Pet

Achievement:
Achieved Loyalty Leader in 2020.

Target:
Maintain Loyalty Leader in 2021.

Net Promoter Score performance – Home and Motor

Achievement:
Achieved Loyalty Leader in 2020.

Target:
Maintain Loyalty Leader in 2021.

We also ensure that quality standards for handling complaints are met and that customers are treated fairly.

3 Social Matters continued

Data Privacy

We are committed to fulfilling our obligations under the UK GDPR and Data Protection Act 2018. We enforce robust security and privacy controls so our customers and employees can have peace of mind that their personal data is safe and secure. The Allianz Privacy Framework includes a global standard for data privacy, a privacy risk management process, integration with information security core functions, as well as training for employees on the appropriate processing of the personal data belonging to our customers, employees and third party partners. All measures are subject to regular audit and assurance oversight.

The Allianz Privacy Standard ("APS") defines rules and principles for collecting and processing personal data. It sets out privacy principles that all employees are expected to observe in relation to the collection and management of personal data. The standard applies to all Allianz SE Group companies and forms the basis of the Allianz SE Group's Binding Corporate Rules. We have implemented measures to ensure we meet the requirements of the APS.

We continue to build on our robust approach to data protection and have carried out the necessary preparation for Brexit changes to ensure the continued flow of personal data is protected.

Of equal importance is the security of the personal data we handle. Our robust Information Security Framework applies strict security processes, standards and tools, and defines minimum requirements. We keep abreast of regulatory and industry developments and aim to reflect these in our operational and governance processes and procedures.

We continue to build on our robust approach to data protection and have carried out the necessary preparation for Brexit changes to ensure the continued flow of personal data is protected.

We continue to strengthen employee engagement and understanding of privacy requirements. Our Digital Privacy Guidelines provide guidance on privacy-related topics impacting digital projects, both privacy by design (as part of new product and service design processes) and privacy by default (so that individuals are given choices around the use and onward sharing of their personal data and the initial settings restrict disclosure).

4 Respect For Human Rights

We actively support employee rights and we strive to apply core human rights principles. We also expect our suppliers to agree to a Code of Conduct, which stipulates standards with regards to fair labour practices, including adherence to the Modern Slavery Act and human rights.

In the Group, we're committed to working with suppliers who meet our high standards of sustainability, data security and financial health. The Group has zero tolerance towards human rights violations and is committed to having an ethical and sustainable supply chain. The Group therefore wholeheartedly supports the Modern Slavery Act, which aims to drive out all forms of modern-day slavery and human trafficking from business practices.

5 Anti-Corruption & Anti-Bribery Matters

Our reputation is based on the trust which our clients, shareholders, employees and the general public have in us. The Group is committed to complying fully with local and international anti-corruption and anti-bribery laws, promoting a culture of integrity which is safeguarded by strong and effective compliance controls.

Compliance is firmly embedded in the Group's corporate governance. We have a number of policies and controls designed to manage key risk areas for corruption including conflicts of interest, the giving and receiving of gifts and hospitality, and the keeping of adequate records. Our Code of Conduct, which applies to all employees, contains a strict prohibition against the offer, acceptance, payment or authorisation of any bribes and any other form of corruption. The Group also demands transparency and integrity from all its third party partners.

KPIs, TARGETS AND ACHIEVEMENTS

Data Protection

Achievement:
Completion of preparation work to deliver appropriate structures and procedures to assume statutory data protection responsibility for LVGIG and FIL, upon acquisition.

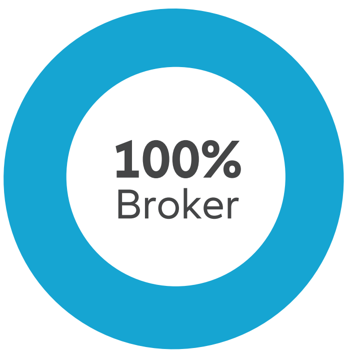
Target:
Continue to implement data management principles as noted in the Allianz Standard for Information and Document Management, ongoing management of third party contracts and strengthening the privacy by design culture.

Business Report

All figures below are shown before the Group's quota share reinsurance arrangement.

Products and Distribution by Net Written Premiums (after quota share)

Property and Pecuniary	17.5%
Liability and PA	10.4%
Packages	12.6%
Other	0.8%
Motor Trade	9.0%
Engineering	9.2%
Motor	40.6%



Commercial Lines

The Commercial Lines business provides a full range of commercial insurance products to a range of clients from sole traders to large commercial organisations. The business is distributed principally through intermediaries.

In aggregate, Commercial Lines net written premiums decreased to £1,134.7m from £1,191.9m in 2019, as a result of economic pressure driven from the COVID-19 pandemic, as well as underlying corrective action taken in the Property and Packages accounts. The underwriting result was a loss of £108.7m, a decline from a £18.8m profit in 2019 mainly due to the impact of COVID-19 and prior year reserve strengthening.

The main drivers of the loss are within Property dominated accounts, which were heavily impacted by COVID-19 Business Interruption claims, as well as the natural catastrophe claims from storms Ciara and Dennis in Q1 2020.

Business Interruption claims have increased dramatically due to government restrictions throughout 2020 and are estimated to be £175m (net of reinsurance but before the quota share), severely impacting profitability for the year. The Group adopted a responsible and market-leading approach to dealing with these claims, settling quickly and fairly from the outset. The Group has continued to review the applicability of coverage as the FCA test case has developed. Following the High Court ruling in 2020 we affirmed cover on a limited number of additional wordings and following the Supreme Court judgement in early 2021 a very small number of claims were affected. Further details of the impact of COVID-19 on the Group are noted within the principal risks and uncertainties section.

The Motor account performed well, despite a shortfall in premiums. Profitability was supported by the absence of large losses and low claims frequency environment offset by prior year reserve movements.

The Engineering Insurance and Inspection business is distributed through intermediaries. The Insurance account premiums grew by 6.7%, supported by growth in both Construction and Engineering and Power business, and delivered an underwriting result of £15.3m, an increase from £10.2m in 2019. Engineering Inspection business decreased by 0.6% as new business levels declined in 2020. In aggregate, the Engineering business delivered a strong year both in profit and growth, in a highly competitive market.

As market leader with unrivalled standards and levels of service to clients, the business is well positioned to maintain its market leading performance despite continuing competitive trading conditions.

Allianz Business Services Limited ("ABSL") is an intermediary which focuses on the distribution of Small-Medium Enterprise ("SME") products and some personal lines schemes for Corporate Partners. This business provides an advised broking service to direct clients placing risks with both Allianz and other insurers. Our income from ABSL for 2020 was £0.5m, a reduction from £0.6m in 2019.

Personal Lines

In aggregate, Personal Lines net written premiums were £2,446.8m, a substantial increase from £683.0m in 2019. This increase was largely driven by the consolidation of LVGIG and FIL as well as underlying growth in Animal Health.

The underwriting result was a profit of £215.8m largely driven by strong, profitable growth in both Animal Health and Motor. This compares to a profit of £26.7m reported last year.

LVGIG contributed £1,829.1m net written premium in 2020, the first year of consolidated results, up from £1,515.7m in 2019 prior to the acquisition of FIL. Considering the LVGIG results in isolation, Personal Motor grew by 2.5%, mainly in the broker account. Personal Home net written premium grew by 188%, driven by the FIL consolidation but also by 5.9% on an underlying basis.

Motor market conditions remained very competitive, leading to lower new business volumes but these were partially offset by increases in average premium and existing customer retention. Rate reductions in Direct Motor, in response to continued market softening, helped to stabilise policy volumes year–on-year. Despite this, significant reductions in frequency due to imposed COVID-19 lockdowns and restrictions have led to profitability increases.

Home profitability in 2020 was impacted by winter storms and heightened subsidence. Claims frequency remained fairly static but, as a result of an increase in people being at home more, a number of new trends in the year were observed including: 225% increase in fire claims, 40% increase in the proportion of blockages and 21% increase in the proportion of bicycle thefts from gardens.

Travel has been heavily impacted by COVID 19, with premiums reducing by 42% and an increase in claims.

Accident Sickness Unemployment ("ASU") gross written premium of £14m was introduced through the FIL acquisition. The account was adversely impacted in the year by a high number of unemployment claims as a result of the pandemic.

The Group is the clear market leader in the provision of Small Animal and Equine insurance for the leisure market through the widely recognised and well-established Petplan brand. Net written premiums rose by 8.7%, despite a competitive market, and the business continued to provide attractive returns. There is also a Small Pet account of £45m (increase on £10m in 2019) which has been introduced to the Group through LVGIG and FIL consolidation.

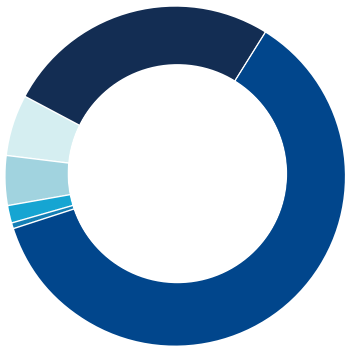
Profits were also strong in the market-leading specialist Musical Instruments account despite premiums being in line with prior year and commissions rising slightly.

The Legal Protection business returned to profit in 2020, delivering £0.2m compared to a £4.4m loss in 2019.

Home & Legacy Insurance Services Limited ("Home & Legacy") is a specialist insurance intermediary that distributes tailored products to mid and high net worth customers via both the intermediary and direct channels. The major product is household insurance. Our income from Home & Legacy for 2020 was £1.5m, a reduction from £2.1m in 2019.

Products and distribution by Net written premiums (after quota share)

Motor	**53.0%**
Household	**18.3%**
All Risk	**3.7%**
Pet	**24.1%**
Legal Expenses	**1.0%**



Broker	**26.3%**
Direct	**61.0%**
Retailer	**0.6%**
Affinity	**1.8%**
Vet	**4.5%**
Other	**5.8%**

Investments

Our investment strategy has continued to concentrate on managing risk to the core insurance operations that give us our investment cash flows. The allocation to property remains a small proportion of total assets. The allocation to high quality corporate and securitised bonds remained overweight in order to enhance returns. The Group continues to use the expert investment management facilities available within the wider Allianz SE Group, particularly in managing the fixed interest portfolio.

Assets backing technical reserves continued to be invested in cash, government bonds, and corporate and securitised bonds. The duration of the fixed interest portfolio is monitored closely with the duration of the insurance liabilities and strict limits are set on any variation from this benchmark. The total return on the fixed interest portfolio for the year was in line with the benchmark.

Following the acquisitions of the remainder of LVGIG and FIL, the size of our investment portfolio has approximately doubled. Our investment strategy for all entities has continued to concentrate on managing risk to the core insurance operations that give us our investment cash flows.

The Group's small commercial property portfolio consists of investments in office, retail and industrial properties. In a challenging year for the real estate sector, the portfolio outperformed the MSCI Quarterly Universe Benchmark. Performance was supported by the quality and diversity of our portfolio, which was enhanced during the year with the addition of one industrial property. Rental income is expected to remain a key contributor to performance going forward.

Within AZI, the allocation to high quality corporate and securitised bonds (ABS, covered bonds) remained overweight in order to enhance returns. We maintained a small allocation to property and sold our equity investments during the year, using the proceeds to further strengthen the quality of our fixed income portfolio. We also made a small investment in a real estate debt fund in order to enhance portfolio returns and increase diversification.

For LVGIG, we focused on improving the performance and managing concentration in sterling corporate bonds by adding a new asset class in covered bonds and investing a small proportion of total assets in an active fund of global, investment grade corporate bonds. For FIL, we maintain an overweight position in government bonds and high quality corporate bonds. Trafalgar Insurance Limited is invested in cash.

ESG considerations are fundamental to our investment strategy. As a member of the UN-convened Net-Zero Asset Owner Alliance (AOA), Allianz SE Group has committed to decarbonizing its proprietary investment portfolio to net-zero emissions by 2050. By 2025, emissions for listed corporate bonds and equities in the portfolio of customer funds for Allianz Group are to be reduced by 25 percent compared to 2019. We require all asset managers investing on our behalf to integrate ESG considerations into the investment process. Our ESG scoring and engagement approach systematically identifies and manages risks in our listed proprietary investment portfolio.

By order of the Board

F K Dyson
Director
June 10, 2021

Investment income was

£91.4m

in 2020

compared to

£92.9m

in 2019

Finance costs were

£18.6m

in 2020

compared to

£38.4m

in 2019

Realised gains amounted to

£36.9m

in 2020

compared to

£57.6m **in 2019**

realised gain arose on the acquisition of LVGIG (for further information, refer to note 7)

Looking ahead, investment income is likely to continue to be impacted by low reinvestment yields.

Directors and Officers

Non-Executive Directors

R O Hudson
Chair

C W T Dinesen

D J Larnder

R M Murison

D A Torrance

N Peiris
(resigned 31.12.2020)

Executive Directors

J M Dye

F K Dyson

S Treloar
(appointed 01.01.2020)

Management Board

J M Dye
CEO, Chair

J Berry
(appointed 01.01.2020)

F K Dyson

N A Clutterbuck

G A Gibson

J Harrison
(appointed 01.07.2020)

S C McGinn

K O'Keeffe
(appointed 14.02.2020)

S Smith

S Treloar
(appointed 01.01.2020)

K Wenzel
(appointed 01.01.2020)

Secretary

C M Twemlow
(appointed 01.09.2020)

T A Beicken
(resigned 01.09.2020)

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Registered Office

57 Ladymead
Guildford
Surrey GU1 1DB

Company Registered Number

5134436

Allianz Holdings plc Board

Non executive Directors

Richard Hudson
Chair of the Board (until 14.05.2021)

Richard joined the Board of Allianz Holdings plc in 2011. Richard has over 40 years' experience in the insurance industry and is a past President of the Chartered Institute of Insurers ("CII"). He sits on a number of Boards in the sector.

Paul Evans
Chair of the Board (from 14.05.2021)

Paul joined the Board of the Company in 2021. Paul is a Chartered Accountant with over 30 years' experience in the financial services industry, including PwC and AXA and is a former Chairman of the ABI. He is a Non-Executive Director of Swiss Re Europe SA, Swiss Re International SE, BUPA and Anorak. He is also Chairman of the board of trustees of Youth@Heart.

Rosanne Murison

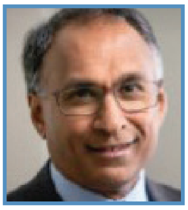
Rosanne joined the Board of the Company in 2013 and is Chair of the Compensation and Nomination Committee. Rosanne was formerly a Vice President of the Boston Consulting Group and a Client Director of Eden McCallum LLC. Rosanne is currently Group Strategy Director of SSP plc.

Christopher Townsend
(appointed 29.04.2021)

Chris joined the Board of Allianz Holdings plc in 2021. He was appointed to the Board of Management of Allianz SE in January 2021 and is responsible for Global Insurance Lines which includes AGCS, Euler Hermes, and Allianz Reinsurance, Anglo Markets, Middle East and Africa.

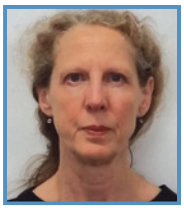
Christian Dinesen

Christian joined the Board of Allianz Holdings plc in 2014, and is Chair of the Audit Committee. He has over 30 years' experience across insurance, reinsurance, rating agency and capital markets. He is currently a management consultant, Board Director and executive coach.



Niran Peris
(resigned 31.12.2020)

Niran joined the Board of the Company in February 2019. Niran joined Allianz Australia in 2000 and was appointed Managing Director of Allianz Australia Insurance Limited in 2013. In 2018, he was appointed to the Board of Management of Allianz SE, responsible for Global Insurance Lines, Anglo Markets, Middle East and Africa.



Denise Larnder

Denise joined the Board of Allianz Holdings plc in 2018, and is Chair of the Board Risk Committee. She is a Chartered Accountant and a former partner at Ernst & Young with over 30 years' experience working with companies in the financial services sector. Denise is also a Non-Executive Director of ReAssure, and the University of Greenwich, where she chairs the Audit & Risk Committee.

Andrew Torrance

Andrew joined Allianz in 1999. He served as Chief Executive of Allianz from 2003 until 2013. Following that he served as President and CEO of Allianz's US property and casualty insurer, until the end of 2014. Andrew returned to the Board of Allianz Holdings plc in 2015 as a non-executive Director. He is also Chair of Tokio Marine Kiln Syndicates Limited.

Executive Directors

Jon Dye
Chief Executive Officer

Jon joined Allianz as Director, Claims in 2003 and was appointed General Manager, Retail in 2007. In 2013, he was appointed Chief Executive Officer and joined the Company's Board in 2013.

He previously held senior positions at Chubb Insurance between 1998 and 2003 and began his career at Commercial Union. He is currently Chairman of the Association of British Insurers.

Fernley Dyson
Chief Financial Officer

Fernley joined Allianz in 2019 as Chief Financial Officer and joined the Company's Board in April, 2019. He has over 30 years' experience in financial services and has previously held senior positions in the insurance industry with both Aviva and Ageas. He began his career in professional services with PricewaterhouseCoopers.

Stephen Treloar
Executive Director, LVGIG

Steve joined the Company's Board in January 2020. Steve joined LVGIG as Managing Director in May 2016 and became the Chief Executive of LVGIG in December 2017, having responsibility for the LVGIG business. Prior to this he was Managing Director of Personal Lines at Aviva and held a number of other senior roles at Aviva and RBS Insurance. Steve is a member of various ABI Committees, Chair of the ABI Property Committee and a member of the FCA Practitioner Panel.

Management Board of Allianz Holdings plc

In addition to the Executive Directors, the Management Board is made up as follows:

Stephanie Smith
Chief Operations Officer

Stephanie joined Allianz as IT Senior Manager in 2009. She was appointed Retail Operations Director in 2010 and Chief Operations Officer in 2015.

Julie Harrison
Chief HR Officer

Julie joined Allianz SE Group in 2004 and has held various senior roles within Allianz SE, Allianz Global Corporate & Specialty, Allianz Reinsurance and Allianz Asia Pacific. She was appointed Chief HR Officer for the Group in July 2020.

Graham Gibson
Chief Claims Officer

Graham joined Allianz in 2008 having previously held senior positions in Claims in the insurance industry.

John Berry
Chief Risk Officer

John joined Allianz in 2015 as Senior Retail Actuary then moved to the role of Head of Pricing, Personal Lines. He was appointed Director of Underwriting and Technical in 2017 and Chief Risk Officer in 2020.

Neil Clutterbuck
Chief Underwriting Officer

Neil joined Allianz in 2003 as Regional Manager, London and was appointed Chief Underwriting Officer in 2016.

Simon Mcginn
General Manager, Commercial & Personal, Allianz Insurance

Simon joined Allianz in 2004 as North and Midlands Trading Director. He was appointed Director of Commercial Broker Markets in 2008 and as General Manager, Commercial and Personal in 2016.

Kevin Wenzel
Chief Financial Officer, LVGIG

Kevin joined LVGIG in 2018 as Chief Financial Officer, when Allianz and LVGIG first entered into a joint venture. Kevin first joined Allianz in 1999 and has held a number of senior positions at Allianz, including Chief Actuary.

Kieran O'Keeffe
Chief Risk Officer, LVGIG

Kieran joined LVGIG as Finance Director in 2016 and was appointed Chief Risk Officer for LVGIG in 2018.

Corporate Governance Report

For the year ended December 31, 2020 the Company and its Group applied the Wates Corporate Governance Principles for Large Private Companies ("Wates Principles") to its business. This report sets out how the Wates Principles were applied.

Principle One
Purpose and Leadership

Purpose

The Group's purpose of "We Secure Your Future" is aligned with that of the wider Allianz SE Group. This is implemented through the business strategy of "Simplicity Wins." The key strategic objectives underpinning this strategy are "Outperform, Transform and Rebalance."

LVGIG's vision in relation to its business and brand remains to be Britain's best loved. This is achieved through people centricity, with a focus on both people in the business and customers. This vision is aligned with and complements the wider Group's purpose.

The Group's purpose is also reflected in its commitment to its employees and other stakeholders, as explained in other sections of this report. We Secure Your Future applies not only to customers, but to employees and the wider society in which we operate.

Values and Culture

In line with our purpose, the Group aims to offer peace of mind through its products and services so its customers know that, in moments that matter, we will deliver our promise. This commitment to our more vulnerable customers has been especially relevant during 2020 and the COVID-19 pandemic. See the Non-Financial Information Report on page 22 and the section 172 statement on page 17 for more information on how the Group has upheld its values and supported its customers and communities during COVID-19.

The Group's values are embedded within its culture and the policies it upholds. The Board leads by example with a strong emphasis on integrity and honesty.

To further enable a focus on culture and on customer and conduct issues and to help the Board monitor these areas, a new Customer and Conduct Committee was created by the Group Board during 2020. The Customer and Conduct Committee oversees these matters for all of the companies in the Group and receives reports and metrics relating to the Group as a whole and AZI, LVGIG and FIL Data such as customer feedback, complaints data, engagement with the trade union and employee engagement surveys are compiled into a culture dashboard. This has ensured more focus on these matters which are of critical importance to the Board and helped the Board to ensure that the customer centric culture is aligned and embedded across the expanded Group.

The Group's policies and practices help reinforce the Group's values and the required behaviours and attitudes amongst employees. The values are underpinned by the four "People Attributes" – customer and market excellence, collaborative leadership, entrepreneurship and trust, against which the performance of all of our people is measured. Behaviours are also reinforced through both the Allianz SE Group policies and the Group policies applied throughout the business to which all employees must adhere.

The Group takes the identification and prevention of fraud extremely seriously, at any stage of a customer's journey. This benefits both Allianz's other customers and the insurance industry generally.

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

The Group's ESG strategy is being embedded within the business. Under this strategy the Group strives to be a responsible insurer, responsible investor, committed corporate citizen and a trusted company. The Group knows that by acting responsibly it can provide products and services that meet its customers' needs, reduce operating costs by being environmentally efficient and work in partnerships to address the challenges that its communities face.

Strategy

The key strategic objectives underpinning the Company's and the Group's purpose of "We Secure Your Future" are "Outperform, Transform and Rebalance".

Following the acquisitions of the LVGIG and FIL businesses at the end of 2019, during the year and looking forward into 2021, The Group is a well-diversified business with a strong position in the markets in which we choose to operate. The successful integration of the two acquisitions continues at pace enabling the Group to diversify and rebalance, focusing on new growth.

Customer-centricity is of paramount importance across the Group's businesses. Customers are at the heart of our business with our customer centric culture embedded across the Group. The needs of our customers instruct directly our business and the products and services we design and sell. This clear focus on customers across all of our brands and markets enables the business to transform and outperform. We benchmark ourselves against best in class to continually improve the customer experience and leverage learning across AZI, LVGIG and FIL. We also leverage knowledge and capabilities from across the wider Allianz SE Group.

Our people are critical to our success and we create an engaged and inclusive culture, supporting our people to grow and develop through learning opportunities and training to ensure technical excellence.

There is a strategic focus on being simple, scalable and digital. Across the Group, we are also transforming our IT and digital capabilities through an Allianz SE group wide initiative, which will involve significant investment in IT infrastructure and aims to improve productivity, reduce complexity and increase customer satisfaction.

The Company's strategy and the strategy of the Group is developed by the Board and implemented by our CEO, Jon Dye, and the Management Board. The Board also develops and agrees the strategy of the divisions, with input from the senior management teams. The Board, the CEO and the wider Management Board lead our people in delivering the strategy through its diversified business model. The strategy is cascaded down to employees through roadshows, town hall meetings, internal communications and conferences to enable a collective responsibility and engagement in the business' strategy.

Principle Two

Board composition, size and structure

For the year ended December 31, 2020, the Board comprised an independent non-executive Chair, five non-executive Directors (which includes one shareholder nominated Director) and three executive Directors. The number and range of non-executive Directors is considered sufficient to offer constructive and independent challenge to the executive Directors.

The Directors' biographies which provide details of their skills and experience can be found on page 34. The Directors bring a variety of skills and experience from both the insurance industry and other industries. This composition was considered appropriate for the size and nature of the business during the year. The Board considers that it has an appropriate combination of skills, experience and knowledge to carry out its responsibilities.

The Board has delegated some functions to committees, which focus on specific areas of governance and risk for the Group. More information regarding the committees is included below under principle three and in the report on the Board and its committees on page 45.

The roles of Chair and CEO are separate and clearly defined. The independent non-executive Chair is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making. The CEO is responsible for executing the strategy of the Group together with implementing decisions of the Board and its committees and leading the Management Board.

On January 1, 2020 following the acquisition of the LVGIG and FIL businesses, the CEO of LVGIG, S Treloar, was appointed to the Board of the Company. This appointment ensured alignment between the different areas of the business in decision-making and ensured that the LVGIG and FIL businesses are fully represented on the Board.

During 2020, R O Hudson indicated his intention to step down as Chair in 2021 and a search for a new Chair was commenced. Following a comprehensive and transparent search overseen by the Group's Compensation and Nomination Committee in September 2020, P Evans was selected to become the new independent non-executive Chair and a Director of the Company, subject to regulatory approval. On May 14, 2021 P Evans was formally appointed as the independent non-executive Chair and a Director of the Company, following regulatory approval. Since November 2020, P Evans has attended Board meetings to observe and to allow an orderly hand over of responsibilities from R O Hudson.

In addition, on December 31, 2020, non-executive Director N C Peiris resigned from the Board. N C Peiris represented the ultimate shareholder, Allianz SE, and was replaced by a new non-executive Director representing Allianz SE, C Townsend, on April 29, 2021.

Balance and Diversity

The Board is committed to increasing diversity across the business and the Group operates a diversity policy to encourage a more diverse and inclusive environment at all levels of the business. Diversity and inclusion is an important topic within the Group and is fully supported by the Board. Initiatives across the Group have resulted in AZI being included in the Inclusive Top 50 UK employers in 2020, recognising work done by the Group. There is a Diversity and Inclusion Steering Committee, sponsored by the CEO which develops the diversity and inclusion action plan.

In relation to the Board's diversity, during the year there were two female non-executive Directors representing 22.2% of the Board. At Management Board level, there are two females representing 18.2% of the Management Board. New appointments to the Board are recommended by the Compensation and Nomination Committee after consideration of the Board's composition in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. The Board recognises that its own membership is not as diverse as it could be and this will be taken into account as and when new Directors are appointed to the Board, including when existing Directors come to the end of their term in office.

The non-executive Directors bring a broad range of experience and skills to the Board which are highly relevant to the sectors in which the Group operates and therefore they provide objective and constructive challenge to executive Directors.

During the year, the Compensation and Nomination Committee met the requirements of its clearly defined terms of reference, which included reviewing the Gender Pay Gap report. The Board approved the publication of the Gender Pay Gap report for 2020 which emphasises the approach of the Board to being an active and equal opportunities employer who promotes a workplace where everyone receives equal treatment regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability.

The Board is committed to ensuring there is an appropriate balance of expertise, diversity and objectivity both on the Board, at a senior management level and throughout the business. The commitment to diversity and inclusion is actively fostered across the Group. The number of females represented in management positions as at December 31, 2020 against the targets set by the different parts of the business are set out in the Non-financial Information Report on page 22.

Both the AZI and the LVGIG businesses signed up to the Race at Work Charter during 2020 as part of their commitment to diversity and inclusion. In addition AZI was ranked 29 in the Top 50 Inclusive Employers list in 2020.

Effectiveness

The Group is owned by the Allianz SE Group, which has elected to appoint a representative to the Board. The governance framework has been implemented to ensure that the Directors are able to make effective and objective decisions. This includes having regular meetings to direct and oversee the strategy of the Group and appointing independent non-executive Directors who are fully independent from the wider Allianz SE Group as well as from the Group in the UK.

The Board engages an external provider to carry out a Board effectiveness review every three years and in the intervening years there are annual Board self-assessment effectiveness reviews. The reviews are led by the Chair in conjunction with the Group Chief Legal Officer and Company Secretary. The Board completed an external effectiveness review at the end of 2019 with the results presented to the Board in early 2020.

During the year, the Board has implemented changes following the recommendations of the external effectiveness review. As a result of the acquisitions and other integration work being undertaken, it was decided that the next Board self-assessment effectiveness review would be completed during 2021.

The Directors are provided with a comprehensive and tailored induction on joining the Board and regularly meet with senior managers across the business. In addition, at the beginning of 2020, following the 100% acquisition of LVGIG by the Group, the non-executive Directors received a full induction in relation to the LVGIG business. This included visiting LVGIG sites in Bournemouth and Croydon and meeting with a number of senior executives and other employees within LVGIG to gain a detailed understanding of the business and to engage with LVGIG employees.

External advisors are invited to provide detailed updates and training on various topics as required in order to support ongoing professional development of the Directors. Non-executive Directors have access to the Chief Legal Officer and Company Secretary and can take independent professional advice at the Company's expense. During the year, the Directors received training by participating in deep dive sessions with management. The sessions cover updates on certain topics as well as discussion. The topics vary between those which focus on one area of the business and those which focus on the Group. There were four sessions during the year and the following topics were discussed:

- LVGIG Conduct Risk Framework deep dive;
- Information Security including cyber risks applicable to the UK business; Remuneration, focusing on reward, performance and the regulatory impacts on remuneration; and Tax Risks;
- Risk Management in the Motor Insurance market; the internal model and its application to and uses in the business; and
- Data Ethics and Artificial Intelligence; Cyber Risk focusing on the insurance policies and products of Allianz.

Principle Three

Director Responsibilities

Accountability

The Board operates under a corporate governance framework that provides the required structure to enable prudent yet entrepreneurial management. The Board held quarterly meetings during 2020 and two strategy and planning days with members of the Executive Team. There were also a number of additional meetings during the year, the majority of which were focused on the Group's response to the COVID-19 pandemic. The agenda for each meeting is carefully considered by the Chair, Group CEO and Company Secretary to ensure that all regulatory and governance matters are considered appropriately. This ensures that the Board is accountable and can effectively carry out its responsibilities.

The responsibilities of the Directors of the Board are clearly set out in the terms of reference for the Board and their letters of appointment. The division of responsibilities between the Chair and the Group CEO is also set out.

Both Allianz SE Group and Group policies, including those concerned with Solvency II requirements, are applied to the operation of the Board and its function, as well as to the wider business. Group policies, in particular the Governance and Control Policy, are reviewed and approved annually by the Board or its Committees to ensure continued relevance and effectiveness.

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

All Directors are expected to report any potential conflicts of interest. The Directors declare any actual conflicts of interest at each Board meeting and the conflicts of interest register is reviewed. Where required, appropriate mitigations will be put in place, including where necessary a member recusing themselves from a particular agenda item or decision to ensure the interests of the Company are not compromised.

Board Committees

The Board delegated certain activities to the Management Board (its principal executive committee), the Audit Committee, the Risk Committee, the Compensation and Nomination Committee, the Finance and Investment Committee and the Customer and Conduct Committee. All of these committees (save for the Management Board and the Finance and Investment Committee) were chaired by a non-executive Director who provides constructive challenge and influence across the work carried out by those committees. The Finance and Investment Committee has one non-executive Director who is a member, who was appointed during the year, following a recommendation from the Board effectiveness review. The Management Board is an executive committee and accordingly there are no non-executive Directors as members of that committee.

All of the Committees consider matters for the whole Group and matters which pertain to a particular division or subsidiary Company, as required. Each Committee has terms of reference approved by the Board which clearly set out its responsibilities.

The Customer and Conduct Committee was created during 2020 to focus specifically on customer, conduct and culture risks and issues, following a recommendation from the recent Board effectiveness review. These matters were previously the responsibility of the Risk Committee. The new approach has ensured more focus on these matters which are of critical importance to the Board.

Specific details of the Board Committees (and their sub-committees) including their membership and responsibilities can be found in the section of this report entitled "The Board and its Committees" on page 45.

Integrity of Information

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

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

Information provided to the Board includes financial information, review of actual performance against plan, strategy updates and market developments. Reports are also provided on matters such as investment performance, the customer including cultural indicators, risk and conflicts of interest.

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

Principle Four

Opportunity and Risk

Opportunity

The 2025 strategy for the Group was published in 2019.

This strategy is aligned with the Allianz SE Group's purpose and strategy, which is explained, from a governance perspective, under principle one. As part of the strategy, strategic opportunities are routinely considered, with the following examples of initiatives throughout 2020:

- Transformation of the IT platforms commenced in 2020 to enable increased standardisation and resilience, working in collaboration across the Allianz SE Group.
- The Group has continued to simplify customer and internal processes through digitalisation, automation and decommissioning of legacy applications.
- The Group continues to place a strong focus on Data and Machine Learning, exploiting Allianz SE Group capabilities and enabling increased pricing sophistication and data insights.

The LVGIG CRO is appointed to the Group Management Board and is also a standing invitee to the Board, which helps to ensure alignment in how risk is managed across the business.

Risk

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

The Board's responsibilities include strategy, strategic asset allocation, internal control and the overall operation of the Group. Within the Group governance structure, oversight of risk management is delegated to the Group CRO and the Board Risk Committee. The Board Risk Committee is responsible for oversight of risks both current and emerging that the Group faces. The Group CRO is a member of the Management Board and a standing invitee to the Board. The Group CRO is supported by the Risk Department – a team of qualitative and quantitative experts. However, managers in the business units are responsible for managing risk in their own areas. In addition, the LVGIG business and the FIL business have their own Chief Risk Officers and risk teams who are responsible for managing risk for those businesses, allowing flexibility between alignment with the Group and flexibility to meet the requirements of the different businesses where appropriate. The LVGIG CRO is appointed to the Group Management Board and is also a standing invitee to the Board, which helps to ensure alignment in how risk is managed across the business.

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

During 2020, a new corporate governance team was established, overseen by the Chief Legal Officer and Company Secretary, to support the Board and senior management in fulfilling their responsibilities in respect of the effectiveness of the Group's system of governance. A Governance and Control Committee consisting of senior leadership within the Group is in place to oversee the Group's system of governance and seek assurance that the governance framework is appropriate and effective. The system of governance is subject to annual review to ensure it continues to provide for sound and prudent management of the business of the Company. An annual Statement of Accountability is signed by the Group CEO and Group CFO and provided to the Allianz SE Group as part of its own governance review.

For further details on risk and its mitigation, please refer to the Risk and Capital Management section on page 10 of the Group Strategic Report.

Responsibilities

The Board's terms of reference specify that it is responsible for:

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

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

The Board is able to make informed and robust decisions due to the risk management systems described in the Risk Policy. The Risk Committee monitors performance against the risk management systems through the quarterly ORSA updates which it receives and reviews. Any significant deviations from the policy or other issues identified with the risk management system are communicated to the Board by the Board Risk Committee.

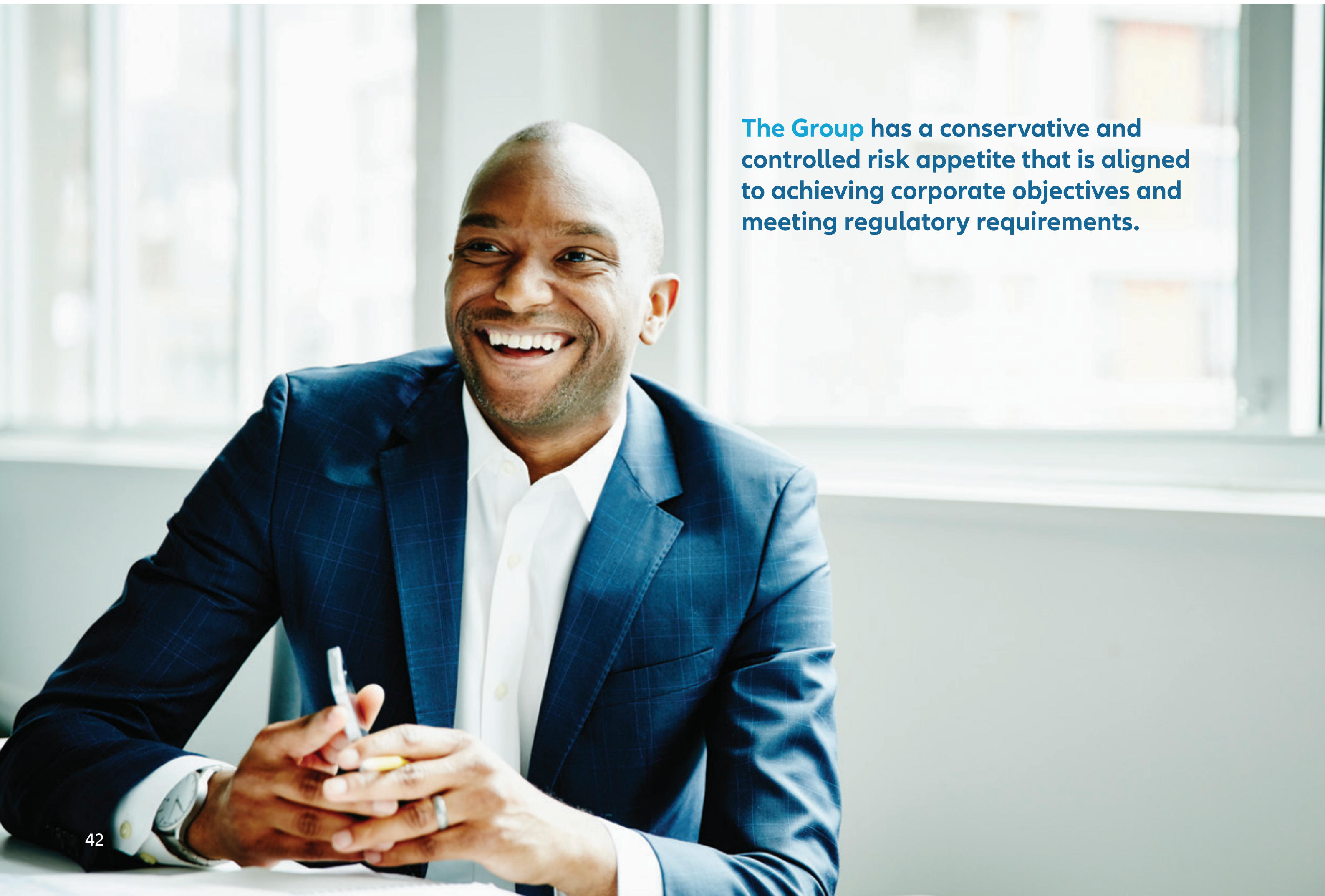
Specifically, the Group Risk department in conjunction with the LVGIG and FIL risk teams facilitates the top risk assessment with the Management Board and the senior managers, along with the emerging risk process and conduct risk framework. These are presented for discussion and debate to various committees including the Board Risk Committee.

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

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

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

The Group has established clear communication channels. Internally, risks are discussed and escalated to relevant committees including the Risk Committee. Externally, our risk profile is outlined in the Group's annual report and the Solvency and Financial Condition Reports of its regulated insurance subsidiaries.



The Group has a conservative and controlled risk appetite that is aligned to achieving corporate objectives and meeting regulatory requirements.

Principle Five

Remuneration Decisions

The Compensation and Nomination Committee is responsible for reviewing the Group's compensation strategy. It makes recommendations to the Board on matters concerning the remuneration of the Directors and senior executives in order to attract and retain quality people to enable the delivery of the Group's strategy.

The Group Remuneration Strategy and policies ensure that remuneration of all employees is aligned to the performance of the business and adheres to its values and behaviours. The Remuneration Policy also ensures that reputational and behavioural risks to the Company and Group from inappropriate incentives or arrangements are carefully considered and such arrangements are not put in place across the Group.

The Compensation and Nomination Committee is chaired by a non-executive Director and has a majority of members who are non-executive Directors.

Setting Remuneration

Compensation is set with reference to the Group's remuneration policy (which contains malus arrangements) and to the compensation framework set up by Allianz SE Group's compensation committee. The Compensation and Nomination Committee determines total remuneration in relation to Directors (executive and non-executive) and senior executives. The Compensation and Nomination Committee seeks external input from specialist advisors on, for example, market trends and benchmarking. When setting the bonuses to be paid in respect of the 2020 financial year, consideration was given to market conditions following the impact of COVID-19. Different stakeholder groups such as customers and the shareholder were considered, including the Committee being satisfied that customers had been protected, when determining appropriate levels of bonus payments. The Committee also takes into account relevant UK regulatory guidance on remuneration. Directors and Management Board members who sit on subsidiary Boards are remunerated at holding company level and are not remunerated separately for their subsidiary Board positions. The Directors' emoluments are disclosed in Note 13 on page 80. Salaries of all Group employees are aligned to the performance of the business and market conditions, with bonus (and long term incentives for senior executives) driven by a combination of personal and business performance.

Policies

The Group is an active equal opportunities employer who promotes a workplace where everyone receives equal treatment regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. It has set up successful employee-driven networks to further strengthen its work in this area, and publishes annually its Gender Pay Reporting information. Remuneration Policy also ensures that reputational and behavioural risks to the Company and Group from inappropriate incentives or arrangements are carefully considered and such arrangements are not put in place across the Group.

Principle Six

Stakeholder Relationships and Engagement

External Impacts

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

The Group is aware of the broader impact it has on its various environments, its customers and society in general, and has established corporate social responsibility policies and practices for the Group. In addition, sustainability is a key objective of the business, informing what it does and in particular the goods and services it procures.

The Group strives constantly to be a responsible and trusted business and a committed corporate citizen. The Board seeks to apply these principles to its decision making processes and actively promotes them to the Group's business, employees and other stakeholders. Social responsibility is fully supported, with every employee being able to undertake volunteering days for a wide range of charities and good causes, as well as the sponsorship of positive initiatives that are aligned with the ethos of the business.

Positive employee engagement is fundamental to achieving other key objectives, whether that might be in relation to policies and codes of conduct or encouragement to participate in social and environmental matters important to the business or the employees themselves. In addition, the Group's role as principal partner of the Saracens' Sports Foundation and partnership with the British Paralympics Association demonstrate our genuine desire to engage with our wider communities, make positive contributions and enable opportunities. Details of these and other initiatives can be found in the Corporate Social Responsibility section on page 5 of the CEO's Report and on page 25 of the non-financial information report.

The Group's day-to-day operations will have an impact on the environment, including the consumption of resources and energy. The Environmental Matters section on page 22 of the Non-Financial Information Statement provides more detail on how as a business the Group is looking to reduce its impact on the environment. The Group's SECR report is on page 51.

Stakeholders

The Group has a number of key stakeholders including: employees, suppliers, customers, brokers, regulators, its shareholder and wider society.

Further details in respect of stakeholders and their engagement can be found in the section 172 (1) Companies Act 2006 statement on page 17 of the Strategic Report as well as in the Non-Financial Information Statement on page 22.

By order of the Board

C M Twemlow
Secretary
June 10, 2021

The Board and its Committees

This section of our report explains the roles, responsibilities and membership of the Board and its main Committees, for the year ended December 31, 2020.

The Board

During the year the Board was led by R O Hudson, the independent non-executive Chair of the Group and the Company. On May 14, 2021 R O Hudson stepped down as Chair and was replaced by P Evans as the independent non-executive Chair of the Group and Company. The Board is comprised of the independent non-executive Chair, five non-executive Directors and three executive Directors.

The Board is responsible for the strategic direction of the Group and promoting the long-term sustainable success of the Company in the best interests of its stakeholders including its shareholder.

The Board has adopted Terms of Reference which it reviews annually. They set out the activities which must be approved by the Board and its key responsibilities. The Board's key responsibilities include:

- Setting the Group and the Company's purpose, values and strategy
- Ensuring the Group has the right culture and behaviours
- Overseeing risk and the system of internal control and governance to ensure the efficient and effective operation of the business
- Ensuring that the Group meets its legal and regulatory requirements
- Directing and overseeing the operations of the Group
- Approving major strategic decisions, and overseeing their implementation including acquisitions, disposals, integration of new businesses and large investments in infrastructure and systems

The Board has established a Statement of Business Principles to provide guidance on the standards expected from all employees when conducting business on behalf of the Group.

Committees

The Board has established a number of Committees to which it has delegated responsibility for oversight of some of its activities. Each of its Committees and their key responsibilities are set out below. Each Committee has adopted Terms of Reference, which are reviewed annually and any changes are approved by the Board.

Management Board

The Management Board is the principal executive Committee of the Board. Membership of the Management Board comprised the Group CEO (the Chair), the Group CFO, the General Manager Commercial & Personal, the Group CRO and the Executives responsible for the trading and service functions. The Management Board also includes the CEO, CFO and CRO of the LVGIG business to ensure that all areas of the newly diversified and enlarged Group are considered. The Management Board meets monthly to develop strategy for recommendation to the Board and, once approved, monitor its implementation, business performance against the plan, compliance and risk management, the governance and control structure and report any issues to the Board. They also provide a forum for making important operational decisions and for entering into material contracts. The Management Board holds additional meetings periodically to discuss strategic and operational matters where time does not permit full discussion during monthly meetings.

The Management Board is also responsible for the oversight of its Sub-Committees, which are referred to later in this report.

Audit Committee

The Audit Committee is a Committee of the Board. Membership of the Committee comprised a non-executive Director who acted as Chair and all the other non-executive Directors. A representative from the external auditors, the Head of Internal Audit and a representative from the Internal Audit Department of Allianz SE usually attend every meeting, as well as other guests. The Audit Committee monitors the integrity of the financial statements, financial reporting developments, financial controls and ensures that the system of internal control is effective. The Committee is responsible for Internal Audit matters including ensuring the function can operate effectively and can fulfil its mandate and safeguarding the function's independence from management. The Committee is also responsible for keeping the relationship with the external auditors under review and for pre-approving non-audit services provided by the auditors. Reports are provided to the Committee by the external auditors and Internal Audit as appropriate.

Risk Committee

The Risk Committee is a Committee of the Board. Membership of the Committee comprised a non-executive Director who acted as Chair and all the other non-executive Directors. The Group CFO and the Group CRO (who is not a Director of the Board itself) ceased to be members from February 2020. The Committee is responsible for oversight of risks, the links between different risks, the ERM Framework within which the Company manages those risks (including ORSA, risk appetite, risk policies and other matters). The Committee also has oversight of the activities and performance of the Risk Department, as well as safeguarding the independence of the risk and compliance functions. In addition, the Risk Committee is responsible for oversight of whistleblowing and anti-corruption procedures across the Group.

During the year, some of the Committee's responsibilities in relation to conduct risks were transferred to a newly established Customer and Conduct Committee.

Customer and Conduct Committee

The Customer and Conduct Committee was established by the Board during 2020, following a recommendation from the Board effectiveness review completed at the end of 2019. Membership of the Committee comprised a non-executive Director who acted as Chair, two non-executive Directors, the Group CEO and the CEO of the LVGIG business. The Committee was responsible for material customer and conduct matters both current

The Audit Committee monitors the integrity of the financial statements, financial reporting developments, financial controls and ensures that the system of internal control is effective.

and emerging as well as for oversight of culture. The Committee therefore has oversight of conduct risks on behalf of the Board and reports any important matters to Risk Committee and the Board.

Finance and Investment Committee

The Finance and Investment Committee is a Committee of the Board. Membership of the Finance and Investment Committee comprised the Group CEO as Chair, the Group CFO (who acted as Deputy Chair), the LVGIG CFO, the Group Chief Investment Officer, the Regional Chief Investment Officer of Allianz Investment Management SE and a non-executive director of the Company. The non-executive Director was appointed to the Committee during the year, following a recommendation from the Board effectiveness review.

The Committee is responsible for the investment management process and policies, including ensuring an effective system of investment risk management is established maintained and monitored and that reporting around investment activities is adequate. The Committee also has responsibilities concerning and reporting by exception on investment risk matters to the Risk Committee. In addition to its investment portfolio responsibilities, the Committee's objectives include overseeing the planning and development of the Group's asset allocation and investment income, overseeing the Group's capital structure and liquidity position and approving individual investment transactions with significant impact for one or more of the Group Companies.

Compensation and Nomination Committee

During 2020, the separate Compensation Committee and the Nomination Committee were combined to form the Compensation and Nomination Committee.

The Compensation and Nomination Committee is a Committee of the Board. The Committee's membership comprised a non-executive Director who acted as Chair, two further non-executive Directors and the Chief HR Officer. External advisers were also invited to attend and advise the Committee on compensation and nomination matters, as required.

The Committee is responsible for the design, governance and operation of the compensation system, including compensation strategy and ensuring the appropriateness of the Director and senior executive compensation system. The Committee is also responsible for the nomination of new non-executive Directors to the Board and for reviewing the size, structure, and composition of the Board and reviewing the leadership needs of the organisation. The Committee ensures that robust succession plans are in place for the Board and for the Management Board.

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

The Committee identifies new non-executive director candidates when vacancies arise against its requirements. During 2020, the Committee was actively involved in identifying candidates and selecting a new independent non-executive Chair of the Group.

Management Board sub-Committees

The Management Board is responsible for the oversight of its sub-Committees. Each sub-Committee is chaired by a senior executive, according to the responsibilities of the Committee. They also have Terms of Reference which set out its activities, members and reporting responsibilities.

The Operational Risk Committee, the Underwriting Committee and the Model Committee facilitate the bringing together of expertise for meetings focused on particular risk types and subjects, respectively: operational risk, insurance risk and internal model related matters.

The Reinsurance Panel monitors the performance of the Group's reinsurance programme and reinsurance security. It also determines future reinsurance purchasing policy after taking into account business requirements, risk appetite, cost, capital implications and developments in the insurance market.

The Financial and Reporting Committee is responsible for reviewing the draft annual and interim financial statements before they are submitted to the Financial Reporting and Disclosure Committee (another sub-Committee of the Management Board) and to the Group Audit Committee. The Committee is also responsible for considering the overall level of reserves held.

The Financial Reporting and Disclosure Committee has been established to assist the Group CEO and the Group CFO to fulfil their obligations to ensure that financial reports and related information, particularly those required by the ultimate parent company, Allianz SE are fully and accurately reported on a timely basis.

The Commercial and Personal Loss Reserving Committee considers and recommends loss reserves for the Commercial and Personal Division business to the executive Directors at the end of each quarter. The Run-Off Loss Reserving Committee considers and recommends to the executive Directors, loss reserves for run-off business that is not part of the trading division at the end of each quarter.

Attendance at Board and Committee meetings

The table below shows the attendance of the executive and non-executive Directors of the Company at Board and Committee meetings during the year.

	Board	Management Board	Compensation Committee (iii)	Nomination Committee (iii)	Compensation & Nomincation Committee (iv)	Audit Committee	Customer & Conduct Committee (v)	Finance & Investment Committee	Board Risk Committee
Number of Meetings	**16**	**14**	**2**	**1**	**3**	**9**	**3**	**4**	**5**
R O Hudson	16			1	3	9			5
C W T Dinesen	15		2	1	3	9			5
D J Larnder	16					9	3		5
R M Murison	15		2	1	3	8	3		5
N C Peiris (i)	11					6			4
D A Torrance	15					9	3	2 (vi)	5
J M Dye	15	14					3	4	
F K Dyson	14	13						3	
S Treloar (ii)	16	14					3		

The shaded area indicates the Board and Committee memberships of the Directors and the number of respective meetings they attended during the year.

Management Board member attendance at the Board and Committee meetings for the committees to which they are appointed is not provided.

The Finance and Investment Committee includes members who are not Board or Management Board members and the attendance of those individuals is not provided.

(i) resigned as a Director on 31.12.2020
(ii) appointed as a Director and a member of the Management Board with effect from 01.01.2020
(iii) last meeting held on 13.02.2020
(iv) first meeting held on 20.05.2020
(v) first meeting held on 06.07.2020
(vi) appointed as a member with effect from 14.02.2020

Report and Accounts

The Directors present their report and the audited consolidated financial statements for the year ended December 31, 2020.

Directors

The Directors of the Company who were in office during the year are shown on page 34. Following the year end, P Evans and C Townsend were appointed as Directors with effect from May 14, 2021 and April 29, 2021 respectively. R O Hudson resigned as Chair of the Board on May 14, 2021. On May 14, 2021 P Evans was appointed Chair of the Board.

P Evans and C Townsend having been appointed since the last Annual General Meeting of the Company retire and each offer themselves for re-appointment at the next Annual General Meeting.

Results and Dividends

The business results are outlined in the Chief Executive's Report and the Group Strategic Report beginning on page 2.

The Group results are set out in the Financial Highlights on page 1 and in the Group Statement of Comprehensive Income on page 56. The Group Balance Sheet is set out on page 57.

During the year, the Directors approved the payment of two interim dividends in respect of the year ended December 31, 2020 amounting to £50.9m (paid on September 7, 2020) and £65.0m (paid on December 10, 2020) respectively (2019: £nil). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2020 (2019: £nil).

At the time these financial statements are authorised, the Directors have proposed an interim dividend of £120.0m (representing 6.1p per share). The Directors of LVGIG have proposed to pay an interim dividend of £164.0m to the Company at the time these financial statements are authorised.

Future Outlook

The future outlook for the Company is outlined in the Group Strategic Report on page 10.

Going Concern

The going concern assessment for the Company is outlined in the Group Strategic Report on page 16.

One.Finance

In 2016, the Allianz SE Group launched a project "One.Finance". Included in the objectives is compliance with the forthcoming standards IFRS 9 "Financial instruments" and IFRS 17 "Insurance contracts". The project includes the development of central IT systems to support the analysis of investments and impairment tests required by IFRS 9 as well as supporting the calculation of insurance reserves required by IFRS 17. The project live date has been deferred to ensure alignment with the implementation date of IFRS 9 and IFRS 17, namely January 1, 2023, however the project work is steadily continuing to be ready well in advance. The Group has established parallel work streams in the UK supporting the overall Allianz SE Group project.

Charitable Donations

During the year donations to charities have been made amounting to £10,633,451 (2019: £467,957). No political donations were made.

Stakeholder and Employee Engagement Statements

Details on how the Board has had regard to the need to foster the Company's business relationships with suppliers, customers and other stakeholders and the effect of that regard on the principal decisions taken by the Company's Board is contained in the Section 172 statement on page 20 of the Group Strategic Report and within the "Stakeholder Relationships and Engagement" section of the Corporate Governance Report on page 44. Further details on employee engagement as required to be disclosed by the Companies Act 2006 are also contained within the "Employees" section below.

Employees

Equal opportunities employment

The Group firmly believes that its employees are at the core of achieving its business success and it ensures that policies and procedures are tailored to attract, develop and retain a workforce with the right skills, knowledge and behaviours for the long-term future success of the business. We believe in equality of opportunity and are committed to creating an environment where people can succeed regardless of gender, age, race, disability, religion, sexual orientation or other protected characteristics. We champion environments where we celebrate inclusion.

We encourage the employment of talent from all backgrounds and abilities. As part of this, we have been granted 'Disability confident Employer' status by the Department for Work and Pensions. Provided a candidate has made the Group aware they are disabled and meet the minimum requirements of a vacancy, they will be offered an interview for that position. The Group is dedicated to ensuring it is providing reasonable workplace adjustments to meet specific needs for candidates and employees with disabilities at any point.

The Group promotes diversity within its workforce and inclusion of all people. We promote the active participation of employees in staff networks to further improve inclusive working and recognise diversity.

The Group consults the expertise of membership organisations in the diversity and inclusion field and has signed up publicly to selected initiatives that promote diversity and inclusion. This includes a commitment to the aims of the Race at Work Charter across the Group.

Employee learning and development opportunities are provided including support for achieving professional qualifications through apprenticeship standards or direct study.

Employees continued

Equal opportunities employment continued

The Group aims to ensure that the health, safety and wellbeing of its staff is a core responsibility of its managers. This includes their mental health and wellbeing. It monitors accidents, incidents and work related ill-health. We have ensured that all offices have been 'Covid Secure' in line with Government guidance. Advice and guidance has been provided to all remote working teams who have continued to work in high risk environments during this period. A large emphasis has been placed on supporting staff's mental wellbeing with additional investment on tools to assist with this. More information on the impact of the pandemic and activities and support for employee mental health is available in the "Employee Matters" section of the Non-Financial Information Report on page 24.

Employee engagement and consultation

Employees are offered participation in a range of benefits, including participation in share schemes, which encourages involvement in Allianz SE Group's performance. Eligible employees also participate in a performance related bonus scheme which is linked to both the Group's and the individual's performance to incentivise achievement of the Group's strategic objectives.

Throughout the Group, consultative procedures are in operation to enable management and staff to discuss matters of mutual interest. Staff are kept informed about the affairs of the Group through departmental channels, team briefings or via consultative bodies and information disseminated electronically including via regular employee newsletters and ongoing intranet news.

Under the procedural agreement with the recognised trade union, the Group holds regular meetings on topics raised by both parties; this is in addition to the normal negotiating processes.

Further details of the Group's employee-related policies, practices and initiatives are detailed in the "Employee Matters" section of the Non-Financial Information Statement on page 24. Information regarding how the Board engages with and has regard to employee interests in decision-making is included in the section 172 statement on page 17.

Streamlined Energy and Carbon Reporting ("SECR")

The Group fulfils the statutory requirements for SECR which includes disclosure of the Group's carbon emissions. Under the Companies Act 2006/SECR Regulations, 'Large' companies' are required to report their annual emissions in their Directors' report.

The SECR statement has been prepared in line with the requirements of the SECR regulations and the relevant areas of the Greenhouse Gas ("GHG") Protocol Corporate Accounting and Reporting Standard.

A 'Dual Reporting' methodology has been used to indicate emissions using UK electricity grid average emission factors (known as the 'Location based' method), and also emissions using supplier specific generation emission factors (the 'Market Based' method).

'Location based' Method

The total energy consumption for 2020 was 24,192,352.04 kWh equating to 5,472.55 tCO2e.

Carbon intensity: Emissions of tCO2e/full-time equivalent during 2020 was 0.61 tCO2e.

However, the Group's strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin ("REGO") certificates. Through this strategy, within the above 2020 total energy consumption, the Group has sourced a total of 5,149,418.2 kWh of REGO backed (zero emission) electricity equating to 100% of total electricity use.

'Market Based' Method

The total energy consumption for 2020 was 24,192,352.04 kWh equating to 3,418.87 tCO2e

Carbon intensity: Emissions of tCO2e/ full-time equivalent during 2020 was 0.38 tCO2e

Energy Efficiency actions taken during the 2020 period:

LED lighting upgrades completed at multiple office locations.

Financial Instruments

The Group's policies in respect of financial instruments are given in Note 37.

Directors' Responsibility to the Auditors

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

Independent Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as independent auditors. A resolution proposing the re-appointment of PricewaterhouseCoopers LLP will be submitted at the Annual General Meeting.

By order of the Board

C M Twemlow
Secretary
Allianz Holdings plc
Registered Number: 5134436
June 10, 2021

Statement Of Directors' Responsibilities in respect of The Annual Report, Strategic Report, The Directors' Report and The Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and parent company financial statements in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

F K Dyson
Director
June 10, 2021

Independent auditors' report to the members of Allianz Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion, Allianz Holdings plc's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit and the group's and parent company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the group and parent company balance sheets as at 31 December 2020; the group statement of comprehensive income, the group and parent company statements of cash flows, and the group and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the directors' going concern assessment and challenging the material assumptions made using our knowledge of the business, review of regulatory correspondence and obtaining further corroborative evidence;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict the directors' assessment of going concern (including the impacts of Covid-19); and
- Enquiring and understanding the actions taken by management to mitigate the impacts of Covid-19, including review of Board Risk Committee minutes and attendance at all Audit Committees.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and parent company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

- Discussions with the Board of Directors, management, internal audit, senior management involved in the risk and compliance functions and the group's legal function, including consideration of non-compliance with laws and regulations and known or suspected fraud;

- Evaluating management's internal controls designed to prevent and detect irregularities;
- Assessing matters reported on the group and company's whistleblowing helpline and internal fraud reporting, including the results of management's investigation of such matters;
- Engaging our PwC pension experts to evaluate the methodologies and assumptions used by management's experts in relation to the defined benefit pension obligation;
- Engaging our PwC actuarial specialists to evaluate the methodologies and assumptions used in relation to the valuation of claims arising from insurance contract liabilities;
- Reading correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Directors;
- Attending relevant meetings of the Audit Committee and reviewing minutes of the Risk Committee;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 June, 2021

	Note	2020 £m	2019 £m
Gross earned premiums	3	3,944.6	1,981.1
Reinsurers' share of gross earned premiums	3	(1,516.1)	(863.5)
Net insurance revenue	3	2,428.5	1,117.6
Reinsurance commission		257.1	125.5
Investment income	4	91.4	92.9
Net realised gains	7	36.9	57.6
Net fair value gains	8	-	33.1
Income from inspection services	5	102.3	87.2
Other income		0.1	-
Other revenue		487.8	396.3
Total revenue		2,916.3	1,513.9
Gross insurance claims paid	32	(2,478.6)	(1,299.9)
Reinsurers' share of gross insurance claims paid	32	817.8	541.3
Gross change in insurance liabilities	32	(349.5)	16.8
Reinsurers' share of gross change in insurance liabilities	32	343.0	(0.5)
Net insurance claims		(1,667.3)	(742.3)
Commission		(459.1)	(306.2)
Net fair value losses	8	(9.0)	-
Finance costs	6	(18.6)	(38.4)
Other operating and administrative expenses	9	(524.3)	(280.6)
Other expenses		(1,011.0)	(625.2)
Total claims and expenses		(2,678.3)	(1,367.5)
Profit before tax		238.0	146.4
Income tax expense	12	(60.5)	(8.2)
Profit for the year wholly attributable to the equity holders		177.5	138.2
Other comprehensive income/(expense)			
Items that may be reclassified to profit and loss			
Net change in fair value of available for sale financial assets		116.1	53.2
Net change in fair value of available for sale financial assets transferred to profit or loss		(63.5)	(0.7)
Items that will not be reclassified to profit and loss			
(Loss)/gain on pension fund	18	(59.0)	2.5
		(6.4)	55.0
Tax on fair value movements		(14.0)	(6.7)
Tax on (loss)/gain on pension fund		18.2	(0.4)
Other comprehensive (expense)/income for the year, net of tax		(2.2)	47.9
Total comprehensive income for the year wholly attributable to the equity holders		175.3	186.1

The accounting policies and notes on pages 62 to 121 are an integral part of these financial statements.

	Note	2020 £m	2019 £m
Assets			
Intangible assets	17	851.8	1,024.4
Pension benefit surplus	18	150.9	65.5
Property and equipment	19	13.5	26.7
Right of use asset	22	56.1	49.0
Investment properties	20	190.9	182.1
Investment properties held for sale	20	3.9	11.6
Deferred acquisition costs	21	309.6	177.3
Deferred tax asset	23(b)	16.3	19.6
Reinsurance assets	24 & 32	2,200.4	1,817.8
Financial assets:			
Available for sale financial assets[(1)]	26(a)	4,621.4	3,605.9
Loans and receivables	26(b)	36.0	137.0
Derivative assets	26(c)	4.4	1.2
Prepayments and accrued income	25	64.4	70.6
Insurance receivables	27	1,199.5	1,301.2
Other receivables	28	345.8	220.0
Cash and cash equivalents	29	109.8	1,175.3
Total assets		10,174.7	9,885.2
Equity And Liabilities			
Equity attributable to equity holders of the parent			
Share capital	30	1,977.8	1,977.8
Fair value reserve		107.4	68.8
Retained earnings		1,255.7	1,232.6
Capital reserve		(650.5)	(650.5)
Total equity		2,690.4	2,628.7
Liabilities			
Provisions for other liabilities and charges	31	23.9	24.1
Insurance contract liabilities	32	5,656.5	5,329.6
Reinsurers' share of deferred acquisition costs	21	118.3	70.1
Insurance related payables	34	1,170.6	1,151.0
Financial liabilities	36	10.9	10.2
Current tax liabilities	23(a)	15.2	4.6
Deferred tax liabilities	23(b)	70.8	51.1
Accruals and other payables	35	418.1	615.8
Total liabilities		7,484.3	7,256.5
Total equity and liabilities		10,174.7	9,885.2

(1) Included within available for sale financial assets are £216.2m (2019: £101.0m) of lent securities. See Note 26.

The accounting policies and notes on pages 62 to 121 are an integral part of these financial statements.

	Note	2020 £m	2019 £m
Assets			
Investment in group undertakings	16	2,333.6	2,308.4
Current tax asset	23(a)	-	1.2
Financial assets:			
Loans and receivables	26(b)	-	0.4
Other receivables	28	57.8	135.7
Cash and cash equivalents	29	-	19.8
Total assets		2,391.4	2,465.5
Equity and Liabilities			
Equity attributable to equity holders of the parent			
Share capital	30	1,977.8	1,977.8
Retained earnings		394.1	352.0
Total equity		2,371.9	2,329.8
Liabilities			
Provisions for other liabilities and charges	31	17.7	114.2
Accruals and other payables	35	1.8	21.5
Total liabilities		19.5	135.7
Total equity and liabilities		2,391.4	2,465.5

The parent company profit for the year wholly attributable to the equity holders is £158.0m (2019: £279.8m).

The accounting policies and notes on pages 62 to 121 are an integral part of these financial statements.

These financial statements on pages 56 to 121 were approved by the Board of Directors on June 2, 2021 and signed on its behalf by:

F K Dyson
Director

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before tax		238.0	146.4
Non cash items	40	36.3	(5.8)
Changes in working capital	40	(201.4)	(71.5)
Income tax paid	12(c)	(23.3)	(3.6)
Net cash inflow from operating activities		49.6	65.5
Cash flows from investing activities			
Purchase of property and equipment	19	(3.5)	(4.6)
Proceeds from sale of property and equipment		13.1	-
Intangible assets cost capitalised	17	(7.3)	(6.1)
Goodwill capitalised	17	(9.3)	537.5
Consideration paid on acquisition	16	-	(805.2)
Proceeds from sale of investment property		7.2	4.0
Purchase of investment property	20	(17.6)	(16.5)
Purchase of available for sale financial assets		(4,263.4)	(646.4)
Proceeds from sale of available for sale financial assets		3,283.6	796.1
Disposal of associated undertaking	16	-	570.6
Intangible assets disposed of		9.3	-
Net cash (outflow)/inflow from investing activities		(987.9)	429.4
Cash flows from financing activities			
Proceeds from issue of shares	30	-	650.0
Dividend paid		(115.9)	-
Payment of lease liabilities		(11.3)	(6.1)
Net cash (outflow)/inflow from financing activities		(127.2)	643.9
Net (decrease)/increase in cash and cash equivalents		(1,065.5)	1,138.8
Cash and cash equivalents at the beginning of the year	29	1,175.3	36.5
Cash and cash equivalents at the end of the year	29	109.8	1,175.3

The accounting policies and notes on pages 62 to 121 are an integral part of these financial statements.

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before tax		161.2	278.6
Non cash items	40	(70.7)	(95.4)
Changes in working capital	40	2.3	12.2
Net cash inflow from operating activities		92.8	195.4
Cash flows from investing activities			
Consideration paid for acquisition of subsidiaries	16	(1.1)	(805.2)
Net cash outflow from investing activities		(1.1)	(805.2)
Cash flows from financing activities			
Proceeds from issue of shares	30	-	650.0
Dividend paid		(65.0)	-
Payment of lease liabilities		(2.2)	(0.4)
Decrease in loans from group undertakings		-	(20.0)
Purchase of additional share capital		(44.3)	-
Net cash (outflow)/inflow from financing activities		(111.5)	629.6
Net (decrease)/increase in cash and cash equivalents		(19.8)	19.8
Cash and cash equivalents at the beginning of the year	29	19.8	-
Cash and cash equivalents at the end of the year	29	-	19.8

The accounting policies and notes on pages 62 to 121 are an integral part of these financial statements.

	Attributable to equity holders of the parent				
Group	**Share capital £m**	**Fair value reserve £m**	**Retained earnings £m**	**Capital reserve £m**	**Total equity £m**
Balance as at January 1, 2019	1,327.8	23.0	1,092.3	(650.5)	1,792.6
Net change in fair value of available for sale financial assets	-	53.2	-	-	53.2
Net change in fair value of available for sale financial assets transferred to profit or loss	-	(0.7)	-	-	(0.7)
Gain on pension fund	-	-	2.5	-	2.5
Tax on fair value movements	-	(6.7)	-	-	(6.7)
Tax on gain on pension fund	-	-	(0.4)	-	(0.4)
Profit for the year	-	-	138.2	-	138.2
Total recognised comprehensive income for the year	-	45.8	140.3	-	186.1
Issue of ordinary share capital	650.0	-	-	-	650.0
Balance as at December 31, 2019	1,977.8	68.8	1,232.6	(650.5)	2,628.7
Net change in fair value of available for sale financial assets	-	116.1	-	-	116.1
Net change in fair value of available for sale financial assets transferred to profit or loss	-	(63.5)	-	-	(63.5)
Loss on pension fund	-	-	(59.0)	-	(59.0)
Tax on fair value movements	-	(14.0)	-	-	(14.0)
Tax on loss on pension fund	-	-	18.2	-	18.2
Profit for the year	-	-	177.5	-	177.5
Foreign currency revaluation	-	-	(0.4)	-	(0.4)
Adjustment to prior year contractual liability	-	-	2.7	-	2.7
Total recognised comprehensive income for the year	-	38.6	139.0	-	177.6
Dividends paid during the year	-	-	(115.9)	-	(115.9)
Balance as at December 31, 2020	1,977.8	107.4	1,255.7	(650.5)	2,690.4

Company	**Share capital £m**	**Retained earnings £m**	**Total equity £m**
Balance as at January 1, 2019	1,327.8	72.2	1,400.0
Profit for the year	-	279.8	279.8
Total recognised comprehensive income for the year	-	279.8	279.8
Issue of ordinary share capital	650.0	-	650.0
Balance as at December 31, 2019	1,977.8	352.0	2,329.8
Profit for the year	-	158.0	158.0
Total recognised comprehensive income for the year	-	158.0	158.0
Dividends paid during the year	-	(115.9)	(115.9)
Balance as at December 31, 2020	1,977.8	394.1	2,371.9

The accounting policies and notes on pages 62 to 121 are an integral part of these financial statements.

1 Accounting policies

1.1 Company and its operations

Allianz Holdings plc is a public limited company registered in England and Wales, whose shares are not publicly quoted. The Group transacts most classes of general insurance business. Products offered include Motor, Household, Property and Business Interruption, Liability and Speciality Pecuniary.

The consolidated financial statements for the year ended December 31, 2020 comprise the Company and its subsidiaries (together referred to as "the Group"). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

1.2 Statement of Compliance

The consolidated financial statements of Allianz Holdings plc have been prepared and approved by the Directors in accordance with International accounting standards in conformity with the requirements of Companies Act 2006 as applicable to companies reporting under IFRS. These financial statements do not include a Statement of Comprehensive Income for the parent company as the Company has taken advantage of the exemption conferred by Section 408(4) of the Companies Act 2006.

1.3 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the lease liability which is valued in accordance with accounting policy (e) and the following assets and liabilities that are stated at their fair value:

- Investment properties
- Own use properties
- Financial assets classified as available for sale
- Customer relationship acquired in business combinations

The functional and presentational currency is British Pounds.

Going Concern

These financial statements are prepared on a going concern basis. For more information on the going concern assessment, please refer to the Group Strategic Report on page 16.

New standards and interpretations adopted by the Group

There are no new standards and interpretations that are mandatorily effective from January 1, 2020.

UK-adopted international accounting standards

On December 31, 2020, EU-adopted IFRS was brought into UK law and became UK-adopted international accounting standards, with future changes to IFRS being subject to endorsement by the UK Endorsement Board ("UKEB").

New standards and interpretations not adopted by the Group

A number of new standards and interpretations which are not mandatorily effective, have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early; instead it will apply them from their effective dates as determined by their dates of endorsement. The Group is reviewing the upcoming standards to determine their impact:

IFRS 17 'Insurance Contracts' – In May 2017 the International Accounting Standards Board ("IASB") issued IFRS 17 and it was amended in June 2020. It will replace IFRS 4 'Insurance Contracts' for annual reporting periods beginning on or after January 1, 2023. The Group has completed an initial parallel run of the financial results under IFRS 17 in line with the "One.Finance" project to understand the impact of these changes. The Group is now refining new and updated processes whilst working with Allianz SE to ensure alignment of accounting policies, this is expected to be complete by 2022 to ensure compliance with the standard.

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

IFRS 9 introduces a forward looking ECL model. This requires judgement about how changes in economic factors affect ECLs which are determined on a probability weighted basis. Based on the assessment undertaken to date, no significant impact to the consolidated financial statements is anticipated in either net income or equity.

1 Accounting policies continued

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

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

The following table discloses whether the financial assets meet the solely payment of principal and interest ("SPPI") criterion (i.e. financial assets with contractual terms that give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, or that is managed and whose performance is evaluated on a fair value basis):

Financial assets under IFRS 9 classification rules:

	Financial assets that meet the SPPI criterion		Financial assets that fail to meet the SPPI criterion	
As at December 31, 2020	**Fair value £m**	**Fair value change during the year £m**	**Fair value £m**	**Fair value change during the year £m**
Cash and cash equivalents	64.2	-	-	-
Debt securities	4,184.4	57.6	205.6	(0.5)
Managed Funds	-	-	231.4	15.2
Total	4,248.6	57.6	437.0	14.7

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

As at December 31, 2020	**Cash and cash equivalents £m**	**Debt securities £m**
Investment grade		
AAA	-	1,372.8
AA	-	872.7
A	64.2	642.8
BBB	-	1,073.3
BB	-	175.5
B	-	40.5
Not rated	-	6.8
Total	64.2	4,184.4

1 Accounting policies continued

The Allianz Holdings plc group has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance contract liabilities, the ascertainment of fair values of financial assets and liabilities, the valuation of the defined benefit pension scheme and the valuation of assets and liabilities acquired. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgements based on information and financial data that may change in future periods.

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

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

a Basis of consolidation

The consolidated financial statements comprise the financial statements of Allianz Holdings plc and its subsidiaries. All the financial statements included are uniformly prepared in conformity with IFRS and adopting consistent accounting policies as at December 31, 2020.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

In the consolidated financial statements, the acquisition by the Company of Allianz Insurance plc (“AZI”) in 2005, which was a common control transaction, was accounted for by using the consolidated book values of the assets and liabilities of AZI. The consolidated financial statements are presented as if the companies had always been combined and include a capital reserve of £650.5m.

Investments in associated undertakings are shown in the Balance sheet at cost. The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The impairment assessment compares the carrying amount of the investment in the subsidiary with the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount is higher than the recoverable amount, an impairment is recognised in the statement of comprehensive income in the period in which it occurred.

b Property and equipment

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

Own use properties are initially recognised at cost and are subsequently carried at fair value, as assessed by qualified external valuers. Fair value is the estimated amount for which a property can be exchanged on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction.

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

1 Accounting policies continued

c Investment properties

Property held for long term rental yields and for capital appreciation is classified as investment property.

Investment properties are initially measured at cost. Subsequently, at each Balance Sheet date such properties are carried at fair value as assessed by qualified external valuers. Fair value is the estimated amount for which a property can be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Investment properties are derecognised when they are disposed of or when permanently withdrawn from use and no future benefit is expected from their disposal.

Gains or losses arising from changes in the fair values are recognised in the Statement of Comprehensive Income in the period in which they arise.

d Intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost. This is derived as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree at the date of acquisition.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstance indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised in the Statement of Comprehensive Income.

Where goodwill forms part of a cash generating unit or group of cash generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash generating unit retained.

Customer relationships acquired in business combinations

Customer relationships acquired in business combinations are measured at fair value at the date of business combination. The fair value of customer relationships is determined using a discounted cash flow analysis. Best estimate assumptions for renewal rates, claims experience and expenses are used in calculating the fair value.

The cost of acquiring customer relationships is amortised over 10 years, the period over which benefits are expected to be derived from these relationships. Customer relationships are reviewed annually for impairment.

Brand value

The brand value acquired in business combinations is measured at fair value at the date of the business combination. The fair value of the brand value is determined using a Relief from Royalty model.

The brand value is amortised over eight years, the period over which the Group has the right to utilise the brand. The brand value is reviewed annually for impairment.

Software

Expenditure on research activities is recognised in the Statement of Comprehensive Income as an expense as incurred.

Costs associated with the development of software for internal use, are capitalised only if the software is technically feasible for sale or use on completion and the Group has both the intent and sufficient resources to complete the development. Subsequent expenditure is capitalised only if the asset can be reliably measured, will generate future economic benefits and there is an ability to use or sell the asset. The cost is amortised over the expected useful life of the intangible asset on a straight line basis. The useful life is generally between two and five years.

The cost of externally generated software is amortised on a straight line basis over the expected useful life of the intangible asset. The useful life is between four and five years.

1 Accounting policies continued

d Intangible assets continued

Renewal Rights

The cost of acquiring renewal rights to portfolios of insurance business is amortised on a straight line basis over the expected life of the intangible asset. The Group has assessed the useful life of the renewal rights to be eight years.

For all intangible assets that are impaired, the carrying value is reduced to the estimated recoverable amount, and the impairment loss is recognised immediately in the Statement of Comprehensive Income.

e Leases

Group as a Lessee

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

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

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

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

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

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

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

Group as a Lessor

Where the Group acts as lessor, it determines whether each lease is a finance or operating lease.

Lease income from operating leases is recognised in the Statement of Comprehensive Income on a straight-line basis over the lease term. The respective leased assets are included in the Balance Sheet based on their nature.

The Group recognises its subleases under IFRS 16 as finance leases where the terms of the head lease and sublease are substantially the same. It establishes a lease receivable at inception and derecognises the right of use asset as a result of the head lease.

f Deferred acquisition costs

Commission and other acquisition costs (both gross and reinsurance) incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins.

Deferred acquisition costs are capitalised and amortised based on the incidence of risk of the underlying insurance contract. All other acquisition costs are recognised as an expense when incurred.

The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written which is unearned at the Balance Sheet date.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount, and the impairment loss is recognised immediately in the Statement of Comprehensive Income.

1 Accounting policies continued

g Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income. Current tax and deferred tax shall be recognised outside profit or loss if the tax relates to items that are recognised, in the same or a different period, outside profit or loss.

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

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

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

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

h Reinsurance assets

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

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

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

i Trade and other receivables

Trade and other receivables are initially recognised and subsequently remeasured at amortised cost after taking into account any impairment losses. Trade and other receivables shall be derecognised when the contractual right to receive cash flows expire or when the asset is transferred.

In the parent Company Balance Sheet, an expected credit loss ("ECL") provision is assessed as at the Balance Sheet date and the carrying amount of the receivables balance is reported after deduction of any ECL.

The Company has adopted the "simplified approach" in determining the ECL. Under this approach, the ECL is calculated as the book cost of the receivables multiplied by a 1 year probability of default ("PD"), an appropriate loss given default ("LGD") and the number of days to maturity as a fraction of a year ("tenor").

The Group has deferred the adoption of IFRS 9.

j Derivative financial instruments

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

1 Accounting policies continued

k Financial assets

The Group classifies its investments as either available for sale financial assets, derivative assets or loans and receivables.

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

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

Available for sale financial assets

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

Securities lending

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and are not quoted on an active market. Loans are subsequently measured at cost.

Impairments

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. At each Balance Sheet date, an assessment is made of whether there is any objective evidence of impairment.

The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

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

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

Impairment losses are recognised in the Statement of Comprehensive Income immediately.

l Reserves

Fair value reserve

The fair value reserve relates to fair value gains and losses on investments classified as available for sale and fair value gains on own use properties. Fair value losses on own use properties are recognised in the Statement of Comprehensive Income immediately.

Capital reserve

The capital reserve represents the difference between the nominal value of the shares issued by the Company in 2005 on its common control transaction with Allianz (UK) Limited, and the nominal value of the shares of AZI that were acquired. The nominal value of the shares issued of £828.0m was equivalent to the book value of the AZI group's assets and liabilities at the date of the common control transaction.

1 Accounting policies continued

m Insurance receivables

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

n Cash and cash equivalents

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

In the parent Company Balance Sheet, an ECL provision is assessed as at the Balance Sheet date and the carrying amount of the cash and cash equivalents balance is reported after deduction of any ECL.

The Company has adopted the "simplified approach" in determining the ECL. Under this approach, the ECL is calculated as the book cost of the cash and cash equivalents multiplied by a 1 year PD, an appropriate LGD and tenor.

The Group has deferred IFRS 9.

o Product classification

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

p Provisions for other liabilities and charges

A provision is recognised when the Group has a present legal or constructive obligation, as a result of a past event, which if probable, will result in an outflow of resources and when a reliable estimate of the amount of the obligation can be made. If the effect is significant, the provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects a current market assessment for the time value of money and, where appropriate, the risks specific to the liability.

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

q Insurance contract liabilities

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

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium over the duration of the insurance contracts and amortised based on the incidence of risk of the underlying insurance contract. The change in the provision for unearned premium is taken to the Statement of Comprehensive Income in order that revenue is recognised over the period of risk.

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

r Levies

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

s Employee benefits

Pension benefit obligation

The Group sponsors three pension schemes:

- The Allianz Retirement and Death Benefits Fund ("ARDBF") – this is a defined benefit pension scheme only. It is operated jointly by a subsidiary Company (namely Allianz Management Services Limited ("AMS") and a trustee board).
- A Group Personal Pension Plan ("GPPP") for employees of AMS and Allianz Engineering and Inspection Services Limited ("AEIS") – this is a defined contribution pension scheme only.
- A GPPP for employees of LVGIG – this is a defined contribution pension scheme only.

1 Accounting policies continued

s Employee benefits continued

AMS became the Principal Employer to the ARDBF on September 1, 2005. Since that date, the Group has accounted for pensions in accordance with IAS 19 and the disclosures given are those required by that standard.

For the ARDBF, the cost of providing benefits is determined using the projected unit credit method. For the GPPP, the cost of providing benefits is determined as the contributions payable during the year.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Contributions payable to the ARDBF do not affect the measurement of the defined benefit liability or asset recognised on the Company Balance Sheet on the grounds that the Company has an unconditional right to a refund, assuming the gradual settlement of ARDBF liabilities over time until all members have left. In considering this, the Group has taken into account that the Trustees do not have unilateral powers to wind up the ARDBF or modify benefits.

Share-based payments

Share-based compensation benefits are provided to members of the Management Board and other Executives via the Allianz Societas Europaea ("Allianz SE") Equity Incentive Scheme. Information relating to the scheme is set out in Note 14.

Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practise that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the Group or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (i) when the Group can no longer withdraw the offer of those benefits; and (ii) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

t Insurance payables

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

u Contract liability

Contract liabilities are stated at their cost. The contract liability recognised is equal to the amount of revenue allocated to performance obligations that have not yet been satisfied.

v Revenue recognition

Premium income

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

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

Reinsurance commission

A proportionate amount of reinsurance ceded to the reinsurers is paid back to the Group as commission for undertaking the business. This commission is accounted for according to the reinsurance contract entered on individual class of business. Commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy f.

Investment income

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

Rental income from investment property is recognised in the Statement of Comprehensive Income on a straight line basis over the term of the lease.

1 Accounting policies continued

v Revenue recognition continued

Realised gains and losses recorded in the Statement of Comprehensive Income

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

Other income

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. Revenue is recognised when the performance obligation has been satisfied with the exception of engineering business where revenue is recognised straight-line over the inspection period utilising the inputs basis available under IFRS 15. This is appropriate as it reflects the costs incurred servicing these contracts. Elsewhere, the Group has seven performance obligations within its revenue streams, the most significant are:

- **Introduction of insurance business and processing renewals** – the transaction price has been allocated to this obligation based on the average amount of time taken to introduce new business and process a renewal. This obligation is fully satisfied upon the introduction or renewal of insurance products and as such the revenue is recognised fully on the inception date of the underlying policy.
- **Processing mid-term adjustments** – the transaction price has been allocated to this obligation based on the average amount of time taken to process a mid-term adjustment and the number of policies that have been subsequently amended. This obligation is satisfied evenly over the coverage period of the insurance policy, and as such the revenue is recognised on a straight-line basis over the coverage period.
- **Claims handling under a delegated authority** – the transaction price has been allocated to this obligation based claims handling costs as a proportion of total expenses. This obligation is satisfied evenly over the coverage period of the insurance policy, and as such the revenue is recognised on a straight-line basis over the coverage period.
- **Other special services** – the performance obligation is the provision of the service. These are not covered by the longer term inspection contracts. Due to the one off nature of these services, the performance obligation is satisfied immediately and as such, the revenue is recognised in full.

Unrealised gains and losses recorded in the Statement of Comprehensive Income

Unrealised gains and losses relating to investment properties and derivative financial instruments are recognised immediately in the Statement of Comprehensive Income.

w Claims incurred

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

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

x Interest payable

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

y Foreign currency translation

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

1 Accounting policies continued

z Dividends

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

aa Business combinations and measurement of non-controlling interests

Where newly acquired subsidiaries are subject to business combination accounting, the provisions of IFRS 3 are applied. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation can be measured either at their fair value at the acquisition date or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This option is exercised on a case by case basis. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

2 Use of Critical Estimates, Assumptions and Judgements

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

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

a Valuation of general insurance contract liabilities

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

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

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

To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to the Statement of Comprehensive Income in future years. For COVID-19 Business Interruption reserves, the lack of historical claims experience means that the use of standard actuarial claims projection techniques are not appropriate and exposure based analyses have been used. The impact of COVID-19 on activity levels, such as in Motor, has also required a tailored treatment and specific assumptions around frequency and severity impacts.

Significant accounting estimate – Insurance contract liabilities

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

There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately be paid for such claims. A new uncertainty this year relates to the impact of COVID-19 on Business Interruption claims. PPO claims continue to be a significant uncertainty owing to the annuity-type structure of claim payments i.e. they are typically paid annually over the claimant's life. PPOs have to be projected over a longer-term period and reserved for on a discounted basis accordingly, and are therefore sensitive to the assumed inflation and discount rate.

Significant judgement applied to estimate

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

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

These include methods based upon the following:

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

2 Use of Critical Estimates, Assumptions and Judgements continued

a Valuation of general insurance contract liabilities continued

Significant judgement applied to estimate continued

At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Claims provisions are not discounted for the time value of money except for claims being settled by PPOs. For COVID-19 Business Interruption claims, the lack of historical claims experience means that the use of standard actuarial techniques based on historical experience projected forward is not appropriate and exposure based analyses have been used. Further details of the claims estimation process are described in note 33.

The carrying value at Balance Sheet date for these general insurance contracts is £5,656.5m (2019: £5,329.6m).

b Fair value of financial instruments

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

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

- Corporate Bonds
- Investment property
- Own use property

Corporate Bonds. As no market prices are available, a discounted cashflow model is used to determine the fair value of the fixed income financial instrument. Judgement is applied in determining the inputs to the model such as the reference spread for the discount rate and the deal specific spread. Further details concerning the valuation techniques can be found in Note 37.

Investment Property. An all risk yield investment method of valuation has been adopted for estimating the fair value of the investment properties. Judgement is applied in determining the significant unobservable inputs, these being rental growth, voids, occupancy rates, rent free periods and equivalent yields. Further details concerning the valuation techniques can be found in Note 37.

Own use Property. The vacant possession value has been considered in order to estimate the fair value of the own use properties. Judgement is applied in determining the significant unobservable inputs, these being rental growth, voids, market rent, rent free periods and letting fees. Further details concerning the valuation techniques can be found in Note 37.

c Assumptions used to determine the carrying amount of the defined benefit obligation

The key actuarial assumptions are the discount rate, RPI inflation, CPI inflation and life expectancy. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Group financial statements within the next year. Further information on the carrying amounts of the Group's defined benefit obligation and the sensitivity of those amounts to changes in the assumptions are provided in Note 18.

d Acquisitions

On December 31, 2019 the Company completed the acquisition of the remaining 51% of LVGIG and 100% of the General Insurance division of Legal & General.

Significant accounting estimates

The estimation of the consideration attributed to identifiable assets and liabilities acquired is deemed a critical accounting estimate. For details of the assets and liabilities acquired, refer to Note 16. In order to attribute the consideration paid to individual assets and liabilities, the fair value of these were determined. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction on the measurement date

Significant judgement applied to estimate

While management believes the values attributed to the identifiable assets and liabilities are reasonable, the determination of the fair value required significant judgement.

For the following classes of assets and liabilities, management applied judgement in determining that the IFRS valuation is a reasonable approximation for fair value. This is the valuation used in attributing consideration to the following identifiable assets and liabilities;

- Cash and cash equivalents
- Financial and derivative assets
- Insurance and other receivables
- Prepayments and accrued income
- Provisions for other liabilities and charges
- Insurance contract liabilities
- Accruals and other payables
- Software
- Insurance related payables

2 Use of Critical Estimates, Assumptions and Judgements

d Acquisitions continued

Significant judgement applied to estimate continued

For the following classes of assets and liabilities, management have applied judgement in determining the fair value, details of this has been described below:

Customer relationships

The fair value of existing customer relationships was determined as the value of the renewals for existing customers and was estimated using a discounted cash flow model. Assumptions modelled (by line of business) included:

- Expected retention period of those customers
- Net combined ratio
- Historic claims patterns
- The investment yield expected to be earned on the average capital and net insurance reserves

The amortisation rate is calculated on the basis of the average of the policies in force at the beginning and end of a given year based on retention rates relative to the total policies expected to be renewed over ten years.

Brand value

The fair value of the brand intangible was determined based on a "Relief from Royalty" model. The brand value is amortised over 8 years, in line with the brand licensing agreement.

Technical provisions

The fair value of the technical provisions on acquisition were determined using discounted cash flow models. The model took into consideration the expected underwriting profit, the amount of capital required, the release of the management margin and the related investment income. The unearned premium reserve was assumed to run-off within one year.

Property and equipment

The fair value of property and equipment was determined with reference to the Groups accounting policies. The Group's policy is to expense leasehold improvements and equipment, therefore no value has been attributed to these assets. The IFRS valuation of the right of use asset has been deemed to be a reasonable approximation of fair value.

Reinsurance assets

The fair value of reinsurance assets was determined alongside the valuation of the technical provision. Details of the valuation method used for technical provisions are disclosed in Note 2.

3 Net Insurance Revenue

	Note	2020 £m	2019 £m
a Gross written premiums			
Direct insurance[1]		3,914.5	1,989.8
Assumed reinsurance		7.3	0.9
Total gross written premiums	32	3,921.8	1,990.7
Gross change in unearned premium provision	32	22.8	(9.6)
Total gross earned premiums		3,944.6	1,981.1
b Reinsurers' share of gross written premiums			
Direct insurance		(1,550.9)	(865.4)
Assumed reinsurance		(2.9)	(0.4)
Total reinsurers' share of gross written premiums	32	(1,553.8)	(865.8)
Reinsurers' share of change in unearned premium provision	32	37.7	2.3
Total reinsurers' share of gross earned premiums		(1,516.1)	(863.5)
Total net insurance revenue		2,428.5	1,117.6

[1] The Group has incurred some costs for Payment Protection Insurance ("PPI") redress, for further details, please refer to Note 6.

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

4 Investment Income

	2020 £m	2019 £m
Available for sale financial assets		
Interest income	73.2	51.0
Dividend income	1.8	4.4
Interest income from loans	4.9	1.3
Cash and cash equivalents interest income	2.6	3.1
Rental income from investment properties	8.9	8.6
Share of profit of associate	-	24.5
Total investment income	91.4	92.9

5 Other Revenue

a Disaggregation of revenue from contracts with customers

The Group derives revenue through a number of revenue streams as outlined in accounting policy v.

	2020 £m	2019 £m
Engineering inspection fees	82.5	80.5
Other special services	5.1	5.0
Introduction of insurance business and processing renewals	14.1	11.0
Processing mid-term adjustments	0.4	5.8
Claims handling under a delegated authority	-	0.4
Other	0.2	0.3
Total revenue	102.3	103.0

b Liabilities related to contracts with customers

The Group has recognised the following liability related to contracts with customers.

	2020 £m	2019 £m
Engineering inspection services	38.9	39.1
Processing mid-term adjustments	1.1	1.1
Claims handling under a delegated authority	-	0.1
Other	-	4.2
Total contract liability	40.0	44.5

Revenue recognised during the year that was included in the contract liability balance at the beginning of the year:

	2020 £m	2019 £m
Engineering inspection services	39.1	37.5
Processing mid-term adjustments	1.1	1.1
Claims handling under a delegated authority	0.1	0.1
Other	4.2	-
Total	44.5	38.7

6 Finance Costs

	2020 £m	2019 £m
Impairment of equity securities	5.1	-
PPI redress[1]	(0.3)	25.1
Interest on lease liabilities	1.4	0.5
Loan guarantee fee	1.1	-
Ceded investment income[2]	11.3	12.8
Total finance costs	18.6	38.4

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

[2] This amount relates to interest payable on the ceded retained reserves under the quota share reinsurance contract.

7 Net Realised Gains

	2020 £m	2019 £m
Available for sale financial assets		
Realised gains		
Debt securities	54.1	8.9
Realised losses		
Equity securities	(12.8)	-
Debt securities	(10.1)	(1.8)
Investment properties		
Realised gains	0.6	-
Realised losses	-	(2.7)
Acquisitions		
Gain on consolidation	4.5	53.2
Disposal of subsidiary		
Gain on disposal	0.6	-
Total net realised gains recorded in the Statement of Comprehensive Income	36.9	57.6

8 Net Fair Value (losses)/gains

	Note	2020 £m	2019 £m
Net loss on investment properties	20	(11.4)	(3.0)
Net loss on own use properties		(2.9)	-
Net gain on financial liabilities		5.3	36.1
Total net fair value (losses)/gains recorded in the Statement of Comprehensive Income		(9.0)	33.1

9 Other Operating and Administrative Expenses

	Note	2020 £m	2019 £m
Acquisition costs		163.5	81.5
Movement in deferred acquisition costs	21	(84.1)	7.3
Administrative expenses		408.1	169.5
Restructuring and integration charges	31	35.8	21.4
Unwind of discount on PPO claims reserves		1.0	0.9
Total other operating and administrative expenses		524.3	280.6

10 Employee Related Costs

	2020 £m	2019 £m
Wages and salaries	337.4	173.6
Social security costs	37.6	21.6
Pension costs	29.2	27.5
Total employee related costs	404.2	222.7

	2020	2019
The average monthly number of employees including executive Directors during the year was:		
Management	493	449
Underwriting and claims	6,170	3,420
Finance and administration	847	368
Total	7,510	4,237

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

Following the acquisition of LVGIG on December 31, 2019, a total of 3,435 employees transferred into the Group. This is not included in the 2019 average monthly number of employees in the table above.

11 Auditors' Remuneration

	2020 £m	2019 £m
Fees payable to the Company's auditors and its associates for the audit of parent Company and consolidated financial statements	0.1	0.1
Fees payable to the Company's auditors and its associates for other services:		
The audit of Company's subsidiaries	1.7	1.7
Audit-related assurance services	0.3	0.1
Total auditors' remuneration	2.1	1.9

Included in the 2020 total above is remuneration for the annual audit of FIL, this was performed by BDO LLP.

12 Income Tax Expense

a Income tax recognised in profit or loss	2020 £m	2019 £m
Current tax:		
In respect of the current year	30.5	(2.3)
In respect of prior years	1.7	3.5
Total current tax charge	32.2	1.2
Deferred tax:		
In respect of the current year	22.4	10.3
In respect of prior years	(2.5)	0.2
Adjustments to deferred tax attributable to changes in tax rates and laws	8.4	(3.5)
Total deferred tax charge	28.3	7.0
Total income tax expense recognised in the current year	60.5	8.2

The income tax expense for the year can be reconciled to the accounting profit as follows:	2020 £m	2019 £m
Profit before tax	238.0	146.4
Income tax expense calculated at 19.0% (2019: 19.0%)	45.2	27.8
Effect of expenses not deductible for tax purposes	1.7	(4.3)
Effect of franked investment income	(1.5)	(5.7)
Effect of unrealised movement on real estate	6.1	(0.3)
Effect of capital gains	1.4	(9.6)
Effect of prior year adjustment	(0.8)	3.7
Effect of changes in statutory tax rate	8.4	(3.5)
Effect of imputed transfer pricing adjustments	-	0.1
Income tax expense recognised in profit or loss	60.5	8.2

The tax rate used for the 2020 and 2019 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax will be 19% for 2021. Deferred tax on temporary timing differences have been recognised at 19%.

b Income tax recognised in other comprehensive income	2020 £m	2019 £m
Deferred tax	(4.2)	7.1
Total income tax recognised in other comprehensive income	(4.2)	7.1

c Tax paid for cash flow purposes	2020 £m	2019 £m
Current tax payable at January 1	4.6	4.0
Amounts charged to the Statement of Comprehensive Income	60.5	8.2
Amounts recognised to other comprehensive income	(4.2)	7.1
Movements in deferred tax in the Statement of Comprehensive Income	(28.3)	(7.0)
Movements in deferred tax to other comprehensive income	4.2	(7.1)
Other movements	1.7	(0.3)
Additions through business combinations	-	3.3
Tax paid during the year	(23.3)	(3.6)
Current tax payable at December 31	15.2	4.6

13 Directors' Emoluments

	2020 £	2019 £
Emoluments[1]	3,898,847	3,221,656
The amounts in respect of the highest paid Director are as follows:		
Emoluments	1,372,430	1,850,737

[1] Emoluments include £209,099 (2019: £459,451) of payments received following the exercise of Restricted Stock Units ("RSUs") under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE.

The emoluments also include £231,167 of payments received during 2020 by the highest paid Director relating to the vesting of LVGIG Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £335,667 receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

The highest paid Director was a member of the My LVGIG Savings Plan (a Group Self Invested Personal pension scheme) and during the year employer contributions of £13,938 were made into that scheme in relation to that Director.

The Directors of the Company are also Directors of fellow Allianz Holdings plc Group companies. The emoluments disclosed above were the total emoluments received by the Directors in relation to their Allianz Holding plc Group directorships. Save for one Director, the Directors' emoluments were paid by AMS on behalf of the Group. One Directors' emoluments were paid by LVGIG on behalf of the Group.

There are no Directors accruing retirement benefits under a defined benefit scheme nor who are members of the GPPP.

One Director waived his right to receive emoluments.

14 Share Based Payments

Allianz Societas Europaea ("Allianz SE") Equity Incentive scheme

Members of the Management Board and other Executives participate in the Allianz SE Equity Incentive scheme. The scheme comprises RSUs.

RSUs constitute the right to receive the value of an Allianz SE share equivalent to the stock market price at the time of exercise. RSUs are subject to a vesting period of four years and Allianz SE exercises them uniformly for all participants.

The fair value of the RSUs (equal to the market price of one Allianz SE share less expected future dividends) is expensed over the respective vesting periods.

The fair value is remeasured at each reporting period. The amount charged to the Statement of Comprehensive Income was £1.8m (2019: £2.9m). The liability recorded in the financial statements in respect of the RSUs as at December 31, 2020 was £5.6m (2019: £5.3m).

RSUs are allocated annually. The number of RSUs allocated to an individual is based upon a combination of Allianz SE performance against Plan, Group performance against Plan and individual performance against predefined targets, the same rules that apply throughout the Allianz group. During 2020, RSUs were allocated to members of the Management Board and other executives.

RSU plan awards granted, forfeited and exercised as of December 31, 2020

Grant Date	Vesting period years	RSUs granted	RSUs forfeited	RSUs exercised	RSUs transferred in
March 2016	4	15,510	1,452	14,058	-
March 2017	4	15,190	1,205	2,475	368
March 2018	4	8,129	372	615	178
March 2019	4	13,925	-	-	51
March 2020	4	10,767	-	-	451

14 Share Based Payments continued

Employee Share Purchase Plan ("ESPP")

During the year, the Company offered employees the opportunity to participate in an Employee Share Purchase Plan ("ESPP"). The ESPP allows employees to purchase shares in Allianz SE by contributing a fixed monthly amount. The Company adds £1 for every £3 contributed by the employees. The terms of the scheme specify a qualifying period of employment and employees must contribute for the entirety of the plan to receive the matching amount. The maximum amount that can be invested is 8% of annual gross base salary (excluding any variable payments), up to a maximum investment of the British Pounds equivalent of €11,500. At the end of the plan period, there is a restriction period during which employees are entitled to all benefits arising from those shares but the shares cannot be sold. At the end of the plan period, the total (employee contribution plus matching amount) for each employee is used to purchase shares in Allianz SE and these are held in trust on behalf of the employee. As such, this transaction is a cash-settled share based payment and the vesting period has been completed by December 31, 2020. The total expense recognised in the year was £0.4m (2019:nil) and the corresponding provision held at year end is £0.4m (2019:nil).

During the year, the Company offered employees the opportunity to claim a free share in Allianz SE. The Company incurred the cost and a share in Allianz SE was purchased and held in trust on behalf of the employees that claimed the free share. As such, this transaction is a cash-settled share based payment. The cost of each share is determined as the average closing share price over the five trading days following the period the employees could claim the share. The terms of the scheme specify a qualifying period of employment and as such, the vesting period has been completed by December 31, 2020. There is a restriction period attached to the free share during which employees are entitled to all benefits arising from those shares but the shares cannot be sold. The total expense recognised in the year was £1.1m (2019:nil).

15 Dividends

An interim dividend of £115.9m was paid during the year ended December 31, 2020 (2019: £nil). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2020 (2019: £nil).

16 Investment in Group Undertakings

Group undertakings of Allianz Holdings plc

Group undertakings	Country of incorporation	Primary business operation	Percentage holding
Allianz Insurance plc	England	General Insurance	100
Liverpool Victoria General Insurance Group Limited	England	General Insurance Holding	100
Three Pillars Business Solutions Limited	England	Policy Administration	100
Allianz Management Services Limited	England	Management Services	100
Allianz Engineering Inspection Services Limited	England	Engineering Inspections	100
Home and Legacy Insurance Services Limited	England	Insurance Intermediary	100
Allianz Business Services Limited	England	Insurance Intermediary	100
Allianz International Limited	England	Dormant	100
The MI Group Limited	England	Dormant	100
Vet Envoy Limited	England	IT Data Services	100
Held by Allianz Insurance plc:			
Trafalgar Insurance Limited	England	General Insurance	100
Allianz Equity Investments Limited	England	Investing in Equity Shares	100
Pet Plan Limited	England	Insurance Intermediary	100
Allianz Properties Limited	England	Investing in Real Estate	100
Allianz Pension Fund Trustees Limited	England	Pension Fund Trustee	100
Held by Liverpool Victoria General Insurance Group Limited:			
Liverpool Victoria Insurance Company Limited	England	General Insurance	100
LV Assistance Services Limited	England	Road Rescue	100
LV Insurance Management Limited	England	Management Services	100
Fairmead Insurance Limited	England	General Insurance	100
Held by Liverpool Victoria Insurance Company Limited:			
LV Repair Services Limited	England	Repair Engineering Services	100
Highway Insurance Group Limited	England	General Insurance Holding	100
Held by Highway Insurance Group Limited:			
Highway Insurance Company Limited	England	General Insurance	100
Held by Fairmead Insurance Limited:			
Buddies Enterprises Limited	England	Insurance Intermediary	100
Fairmead Distribution Services Limited	England	Insurance Intermediary	100

All of the above shareholdings were also held at December 31, 2019. The figures for percentage holdings all relate to the ordinary share capital of the subsidiaries. The registered office for all undertakings is 57 Ladymead, Guildford, Surrey, GU1 1DB.

On January 1, 2020, the Company entered into an intra-group sale agreement to transfer the share capital of Fairmead Insurance Limited ("FIL"), including its subsidiaries Legal & General Distribution Services Limited, subsequently renamed Fairmead Distribution Services Limited ("FDSL") and Buddies Enterprises Limited ("BEL") to LVGIG. The price paid by LVGIG to the Company was the same headline price that the Company paid. The consideration has been settled through the issuance of 242m ordinary shares of £1 in LVGIG on January 1, 2020. The sale of FIL from the Company to LVGIG does not result in a change in control over the assets by the ultimate parent.

For transactions with and balances from and to related parties, refer to Note 41.

16 Investment in Group Undertakings continued

The Company has reviewed its investment in Group Undertakings for impairment. During the year, the Company received a dividend from Three Pillars Business Solutions Limited ("Three Pillars"). As a result of paying this dividend, the carrying amount of the investment in the subsidiary exceeded its estimated recoverable amount and subsequently the carrying amount was reduced. The recoverable amount of the Company's investment in Three Pillars was determined to be fair value less costs to sell, estimated using net asset value.

The recoverable amount of the Company's investment in Home and Legacy Insurance Services Limited ("Home & Legacy") and Allianz Business Services Limited ("ABSL") were determined to be value in use, using a forecasting method.

The impairment loss recognised as a result of the impairment test is summarised below.

December 31, 2020	Home & Legacy £m	ABSL £m	Three Pillars £m	Total £m
Carrying amount	24.4	8.4	4.8	37.6
Impairment loss recognised	(15.1)	(2.0)	(3.1)	(20.2)
Recoverable amount	9.3	6.4	1.7	17.4

December 31, 2019	Home & Legacy £m	ABSL £m	Vet Envoy £m	Three Pillars £m	Total £m
Carrying amount	42.2	31.4	1.5	5.4	80.5
Impairment loss recognised	(17.8)	(23.1)	(1.0)	(0.6)	(42.5)
Recoverable amount	24.4	8.3	0.5	4.8	38.0

Acquisitions

On December 31, 2019, Allianz Holdings plc acquired the remaining 51% of shares in LVGIG and 100% of the shares in FIL. The main rationale for both acquisitions is to significantly increase the position of the Group in the UK personal lines sector, in particular in Motor and Household insurance, diversifying customer, product and distribution mix and unlocking synergies across the Group. The scale of the combined entities is considered to provide a competitive advantage.

16 Investment in Group Undertakings continued

The following table summarises the total consideration transferred, the amounts recognised as at the acquisition date for goodwill and the identifiable assets acquired and liabilities assumed:

Consideration Transferred	**LVGIG £m**	**FIL £m**
Amount settled in cash	585.4	247.7
Contingent consideration	15.0	-
Total consideration transferred	600.4	247.7
Previously held investment in associate	577.4	-
Total investment in group undertakings	1,177.8	247.7

Identifiable assets and liabilities	**£m**	**£m**
Intangible assets	292.1	42.9
Property and equipment	14.1	4.0
Reinsurance assets	455.1	93.7
Financial and derivative assets	1,412.3	-
Prepayments and accrued income	37.8	1.7
Insurance and other receivables	364.2	183.4
Cash and cash equivalents	706.5	393.8
Provisions for other liabilities and charges	(6.9)	-
Insurance contract liabilities	(2,215.7)	(388.9)
Insurance related payables	(77.4)	(43.6)
Current and deferred tax liabilities	(30.4)	(0.5)
Accruals and other payables	(265.3)	(93.0)
Net identifiable assets and liabilities	686.4	193.5
Goodwill	491.4	54.2
Total investment in group undertakings	1,177.8	247.7

16 Investment in Group Undertakings continued

Disposal

On August 24, 2020, AZI, a wholly owned subsidiary, entered into a sale agreement to dispose of wholly owned subsidiary, British Reserve Insurance Company Limited ("BRIC"). The disposal was effected in order to focus on AZI's core activities. The disposal was completed on December 31, 2020, on which date control of BRIC passed to the acquirer. Details of the assets and liabilities disposed of, and the derivation of the gain on disposal, are disclosed below:

	£m
Cash and cash equivalents	6.4
Deposits with credit institutions	0.4
Reinsurance assets	2.6
Insurance contract liabilities	(2.9)
Deferred tax liability	(0.1)
Total net assets	6.4
Cost of disposal	(0.2)
Gain on disposal	0.6
Total consideration	6.8

There were no disposals of subsidiaries made in 2019.

The gain on disposal of £0.6m is included in Note 7.

17 Intangible Assets

Group	Goodwill £m	Software £m	Other intangible assets £m	Total £m
Cost				
At January 1, 2019	77.5	63.2	84.4	225.1
Additions	537.5	6.1	-	543.6
Additions through business combinations	-	86.2	254.0	340.2
At December 31, 2019	615.0	155.5	338.4	1,108.9
Additions	3.9	12.5	-	16.4
Additions through business combinations	5.4	-	(5.2)	0.2
Disposals	-	(11.7)	-	(11.7)
At December 31, 2020	624.3	156.3	333.2	1,113.8
Accumulated amortisation and impairment				
At January 1, 2019	2.9	29.8	38.9	71.6
Amortisation charge for the year	-	6.4	6.5	12.9
At December 31, 2019	2.9	36.2	45.4	84.5
Amortisation charge for the year	-	29.2	150.7	179.9
Disposals	-	(2.4)	-	(2.4)
At December 31, 2020	2.9	63.0	196.1	262.0
Carrying amount				
At December 31, 2019	612.1	119.3	293.0	1,024.4
At December 31, 2020	621.4	93.3	137.1	851.8

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

The Company itself does not have any intangible assets.

Goodwill is tested annually for impairment at the relevant cash generating unit ("CGU") level, this is the lowest level that it is monitored at for internal management purposes. The Group is considered to be two CGUs.

The carrying value (including goodwill) of the CGUs is compared to the discounted future pre-tax cashflows of those CGUs. The cashflows are discounted at the Group's cost of capital rate, 9.88% and are based on the annual 3 year plan figures, with no assumed growth beyond this period. The plan figures are based on the Group's expectation of future performance taking account of past performance. The recoverable amount is a value in use calculation.

The result of the test indicated that no impairment was required to the carrying value of goodwill in the CGU as at December 31, 2020. The estimated recoverable amount of the CGUs exceeded their carrying amounts by £828.7m (2019: £628m). Management has identified that a change in two key assumptions could cause the carrying amount to exceed the recoverable amount. The following shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

CGU 1

- Discount rate +2.8%
- Budgeted growth rate -4.6%

CGU 2

- Discount rate +2.7%
- Budgeted growth rate -4.4%

If actual cashflows were to fall to a level of 5% below those assumed in the plan, there would be no impact on the decision not to impair the goodwill in the CGU.

18 Pension Benefit Surplus

The Group sponsors three pension schemes:

- **The ARDBF** – this is a defined benefit pension scheme only. It is operated jointly by a subsidiary Company (namely AMS) and a trustee board.
- **A GPPP for employees of AMS and AEIS** – this is a defined contribution pension scheme only.
- **A GPPP for employees of LVGIG** – this is a defined contribution pension scheme only.

The Group accounts for post retirement benefits in accordance with IAS19 and the disclosures given are those required by that standard.

GPPP

The assets of the GPPP are held separately in independently administered funds. The cost of providing benefits in the GPPP is determined as the contributions payable during the year which was £29.2m during 2020 (2019: £27.5m).

ARDBF

The ARDBF is a Registered Scheme under the provisions of Schedule 36 of the Finance Act 2004 and is a funded pension scheme providing benefits for some of its employees with each member's pension at retirement based on pensionable service and final pensionable pay.

The ARDBF is subject to the Statutory Funding Objective under the Pensions Act 2004. A valuation of the ARDBF is carried out at least once every three years to determine whether the Statutory Funding Objective is met. As part of the process, the Group must agree with the trustees of the ARDBF the contributions to be paid to address any shortfall against the Statutory Funding Objective.

The trustee board of the ARDBF is required by law to act in the best interests of members and is responsible for setting certain policies (e.g. investment and contribution policies). The ARDBF is currently being funded by the Group based on an actuarial valuation with an effective date of March 31, 2017. At that date, the market value of the assets in the ARDBF was £1,036m.

Based on the assumptions used for funding purposes, the value of the assets was sufficient at that date to cover 80% of the value of the benefits that members had accrued and so deficit contributions were agreed.

The assumptions used are set out in the 'Statement of Funding Principles' document agreed by the trustee board and Group, but the key assumptions were:

- Investment return of 2.05% p.a.; and
- RPI inflation of 3.4% p.a.

These assumptions used for funding purposes are different from those used in this disclosure for IAS19 purposes.

The AGF Pension and Life Assurance Scheme ("AGF Scheme") merged into the ARDBF in April 2018. Reflecting the overall funding level of both the ARDBF and the transferring AGF Scheme membership at March 31, 2017, the trustee board and the Group agreed a recovery plan including additional deficit contributions of £40.0m in February/March 2018, £60.0m paid in April 2018, deficit contributions of £44.4m payable annually until March 31, 2022 and a final payment of £11.1m in 2022.

The more recent actuarial valuation is currently underway with an effective date of March 31, 2020. As part of this valuation, a new recovery plan may be agreed.

The total amount of Group contributions paid into the ARDBF during 2020 was £44.4m (2019: £44.4m). Group contributions to the ARDBF over 2021 are expected to be £44.4m (based on the current recovery plan).

An approximate split of the defined benefit obligation by member status is as follows:

Deferred members	50%
Pensioner members	50%
	100%

Based on the Group's interpretation of the rules, any surplus is recognised on the Balance Sheet and there is no additional liability arising from a minimum funding requirement under IFRIC14.

This is on the basis that:

- Under IFRIC14 paragraph 11, a refund is available to the company if the entity has an unconditional right to a refund assuming gradual settlement of the fund liabilities over time until all members have left the fund. The Group's interpretation is that the Group does have such a right.
- IFRIC14 paragraph 12 clarifies that if the entity's right to a refund of a surplus depends on the occurrence or non-occurrence of events not wholly within its control, the entity does not have an unconditional right and shall not recognise an asset. The 2015 exposure draft of IFRIC14 further clarified that if the trustees of the Fund have the power to wind up the Fund, or augment benefits, without the company's consent, then the company would not have an unconditional right. A layman's reading of the rules is that the trustees of the ARDBF do not appear to have the power to wind-up the ARDBF or augment benefits without the Group's consent.

18 Pension Benefit Surplus continued

The assets of the ARDBF are held in separate trustee administered funds. In consultation with the Group, the trustee board periodically reviews the investment strategy of the ARDBF with the aim of meeting benefit payments as they fall due and maintaining the funding position at an appropriate level subject to an appropriate level of risk. These broad principles have led to the investment strategy below. There is no exact matching of assets and liabilities in the form of insurance policies or derivatives.

The approximate split of the ARDBF assets at the reporting date is as follows:

Growth assets	9%
Matching assets	91%
	100%

A significant part of the assets of the ARDBF are invested so as to mitigate fluctuations in the ARDBF's funding levels due to changes in the value of the liabilities. This is primarily achieved through the use of 'liability driven investments' (LDI), whose main goal is to hedge movements in the liabilities due to changes in interest rate and inflation expectations. Currently, the LDI portfolio targets a high hedging level for interest rates and inflation expectations on a gilts-based funding measure, as opposed to the IAS19 accounting measure.

The ARDBF's approach to LDI involves the use of fixed-interest and index-linked government bonds – currently, there is no use of derivatives (such as interest rate, inflation and longevity swaps) or annuities. Given that the purpose of LDI is to hedge corresponding liability exposures, the main risk is that the investments held move differently to the liability exposures. This risk is managed by the trustees, their advisers and the ARDBF's LDI manager, who periodically assess the position.

The liability figures in this disclosure also include figures in respect of a small unfunded post-retirement medical healthcare arrangement and a small unfunded top-up pension benefit arrangement provided to certain senior employees, with a combined IAS19 defined benefit liability at December 31, 2020 of around £6.5m.

The ARDBF, unfunded post-retirement medical healthcare arrangement and unfunded top-up pension benefit arrangement expose the Group to a number of risks:

Risk	Detail
Uncertainty in benefit payments	The value of the Group's liabilities for post-retirement benefits will ultimately depend on the amount of benefits paid out. This in turn will primarily depend on the level of inflation (for those benefits that are subject to some form of inflation protection) and how long individuals live. In particular, the ultimate impact of COVID-19 on life expectancy is uncertain at this stage.
Volatility in asset values	The Group is exposed to future movements in the values of assets held in the ARDBF to meet future benefit payments.
Uncertainty in cash funding	Movements in the values of the obligations or assets may result in the Group being required to provide higher levels of cash funding, although changes in the level of cash required can often be spread over a number of years. In addition the Group is also exposed to adverse changes in pension regulation.

18 Pension Benefit Surplus continued

On June 30, 2020, the Trustee of the ARDBF and the Group jointly agreed to change the indexation of certain members' future benefits to be linked to the CPI measure of inflation rather than the RPI measure. The agreement changed the indexation for the pre-retirement increases to the affected members' pensions with immediate effect. The indexation for future increases in payment to the affected members' pensions will be reflected at the next annual pension increase date.

This change in indexation results in a past service credit of £101.2m being recognised at June 30, 2020, based on assumptions as at this date.

To allow for this event, the defined benefit obligation has been remeasured as at June 30, 2020. The following table sets out the key IAS19 assumptions used for the ARDBF, the unfunded post-retirement medical healthcare arrangement and the unfunded top-up pension benefit arrangement.

	December 31, 2020	June 30, 2020	December 31, 2019	December 31, 2018
Discount rate	1.3% p.a.	1.5% p.a.	2.1% p.a.	2.7% p.a.
RPI inflation	2.9% p.a.	2.8% p.a.	3.0% p.a.	3.3% p.a.
CPI inflation	2.3% p.a.	2.0% p.a.	1.9% p.a.	2.2% p.a.
Life expectancy of male aged 60 at the Balance Sheet date	27.1 years	27.1 years	27.1 years	27.3 years
Life expectancy of male aged 60 at the Balance Sheet date plus 20 years	28.6 years	28.7 years	28.6 years	28.8 years
Life expectancy of female aged 60 at the Balance Sheet date	29.7 years	29.3 years	29.2 years	29.4 years
Life expectancy of female aged 60 at the Balance Sheet date plus 20 years	31.1 years	30.8 years	30.8 years	30.9 years

- **Discount rate** – in line with December 31, 2019, as at December 31, 2020 the Group continue to adopt the LCP Treasury Model to determine the discount rate.
- **RPI inflation rate** – The RPI inflation assumption is set by reference to swap market rates and reflects the duration of the pension liabilities. An inflation risk premium of 0.3% pa (0.2% pa at 2019 year-end) is deducted from the swap rate at both June 30, 2020 and December 31, 2020.

  These changes to the inflation assumptions were driven by market reaction to the UK Statistics Authority's September 2019 announcement that the RPI inflation measure would change to be equal to CPIH inflation from no later than 2030. When combined, the change in the inflation assumptions resulted in a decrease in the defined benefit obligations of approximately £15m at June 30, 2020.

  Following further announcements in November 2020 clarifying that RPI will effectively become CPIH from 2030 onwards, the CPI inflation assumption was set as the RPI assumption less an average deduction of 0.6% pa at December 31, 2020. This led to an increase in the defined benefit obligation of approximately £30m at December 31, 2020.
- **CPI inflation rate** – At June 30, 2020, the CPI inflation assumption was set as the RPI assumption less a deduction of 0.8% pa (deduction of 1.1% pa at 2019 year-end).
- **Life expectancies (for both male and female, current and future)** – the Group have updated the mortality assumption as at December 31, 2020 to reflect the latest available industry-wide data for future improvement projections. This change leads to a decrease in the defined benefit obligations of approximately £2.0m.

18 Pension Benefit Surplus continued

Other IAS19 assumptions used include:

	December 31, 2020	June 30, 2020	December 31, 2019	December 31, 2018
Pension increases in deferment for ARDBF membership	2.9% p.a./2.3% p.a.	2.8% p.a./2.0% p.a.	3.0% p.a.	3.3% p.a.
Pension increases in deferment for legacy AGF Scheme membership	2.3% p.a.	2.0% p.a.	1.9% p.a.	2.2% p.a.
Pension increases in payment (RPI up to maximum of 5% p.a.)	2.8% p.a.	2.7% p.a.	2.9% p.a.	3.1% p.a.
Pension increases in payment (RPI up to maximum of 2.5% p.a.)	N/A	N/A	2.0% p.a.	2.1% p.a.
Pension increases in payment (RPI, minimum of 3% up to maximum of 4% p.a.)	3.4% p.a.	3.4% p.a.	3.4% p.a.	3.5% p.a.
Pension increases in payment (RPI, minimum of 3% up to maximum of 5% p.a.)	3.6% p.a.	3.5% p.a.	3.6% p.a.	3.7% p.a.
Pension increases in payment (CPI, up to a maximum of 5% p.a.)	2.3% p.a.	2.1% p.a.	N/A	N/A
Pension increases in payment (CPI, up to a maximum of 2.5% p.a.)	1.8% p.a.	1.7% p.a.	N/A	N/A
Pension increase in payment (CPI, up to a maximum of 3% p.a)	2.0% p.a.	1.8% p.a.	1.8% p.a.	2.0% p.a.
Real long-term healthcare inflation	2.5% p.a.	2.5% p.a.	2.5% p.a.	2.5% p.a.

At December 31, 2020, the weighted average duration of the defined benefit obligation of the ARDBF was 17.3 years (2019: 17.7 years).

At December 31, 2018 (and 2019) the Group made an allowance on the Balance Sheet to make provision for the estimated costs of removing Guaranteed Minimum Pension ("GMP") inequalities as c0.8% of total IAS19 liabilities. The Group has adopted a consistent approach at December 31, 2019 and December 31, 2020.

Following a further judgment issued on November 20, 2020, the Group have also included an additional reserve to allow for the impact of GMP equalisation in respect of historical individual transfer payments from the Fund (where not already allowed for) of £1.0m.

The actual return on the ARDBF assets over the year was a gain of £155.2m (2019: £109.8m gain). The current allocation of the ARDBF assets is as follows:

	2020 £m	2019 £m	2018 £m
Assets with a quoted market price in an active market			
- Equity instruments	-	12.1	14.1
- Debt instruments	1,221.0	1,156.2	1,060.3
- Other	71.4	11.9	11.4
	1,292.4	1,180.2	1,085.8
Assets without a quoted market price in an active market			
- Debt instruments	104.2	77.5	49.1
- Property	83.9	84.2	119.9
	188.1	161.7	169.0
Total	1,480.5	1,341.9	1,254.8

None of the ARDBF assets (2019: £0.2m) are invested directly in the Allianz SE Group's own financial instruments or any property occupied by, or assets used by, the Allianz SE Group.

18 Pension Benefit Surplus continued

In respect of the ARDBF, the unfunded post-retirement medical healthcare arrangement and the unfunded top-up pension benefit arrangement combined, the following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability/(asset) and its components over 2019 and 2020.

	Liabilities		Assets		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Balance at January 1	1,276.4	1,234.4	(1,341.9)	(1,254.8)	(65.5)	(20.4)
Included in profit or loss						
Interest cost/(income)	22.7	32.5	(25.2)	(33.9)	(2.5)	(1.4)
Past service credit	(100.4)	-	-	-	(100.4)	-
Total (income)/expense included in profit or loss	(77.7)	32.5	(25.2)	(33.9)	(102.9)	(1.4)
Included in OCI						
Re-measurement loss/(gain):						
- actuarial loss/(gain) arising from:						
- demographic assumptions[1]	18.5	(15.5)	-	-	18.5	(15.5)
- financial assumptions	207.8	100.0	-	-	207.8	100.0
- experience adjustment[2]	(37.3)	(11.1)	-	-	(37.3)	(11.1)
- return on plan assets excluding interest income on assets	-	-	(130.0)	(75.9)	(130.0)	(75.9)
Total loss/(gain) included in OCI	189.0	73.4	(130.0)	(75.9)	59.0	(2.5)
Other						
Contributions by the employer	-	-	(44.7)	(44.9)	(44.7)	(44.9)
Benefits paid	(58.1)	(63.9)	58.1	63.9	-	-
Total other	(58.1)	(63.9)	13.4	19.0	(44.7)	(44.9)
Administration costs	-	-	3.2	3.7	3.2	3.7
Balance at December 31	1,329.6	1,276.4	(1,480.5)	(1,341.9)	(150.9)	(65.5)
Represented by: Net defined benefit surplus					(150.9)	(65.5)

[1] Due to update in mortality assumption and change in the commutation factors set by the Trustee of the ARDBF.
[2] Due to pension increases being lower than expected and experience as a result of updating to the 2020 valuation membership data.

The Company has entered into a guarantee in favour of the ARDBF. The guarantee covers all present and future obligations and liabilities to make payments to the ARDBF (up to a maximum amount equal to the entire aggregate liability of each participating employer) should they fail to meet any obligation when due.

The following sensitivities have been calculated to show the movement in the defined benefit obligation in isolation due to changes in assumptions, and assuming no other changes in market conditions at the accounting date and holding all other assumptions constant. This is unlikely in practice – for example, a change in discount rate is unlikely to occur without any movement in the value of the assets held by the ARDBF.

	Increase in assumption £m	Decrease in assumption £m
Discount rate (0.5% movement)	(109)	124
RPI and CPI inflation assumptions (0.25% p.a. movement)[1]	45	(43)
Life expectancy (one-year movement)	56	(56)

[1] Including a consistent movement in the pension increase assumptions.

19 Property and Equipment

Group	Property £m	Dilapidations £m	Motor vehicles £m	Total £m
Cost				
At January 1, 2019	15.9	3.5	19.0	38.4
Adjustment on transition to IFRS 16	-	(3.5)	-	(3.5)
Additions	-	-	4.6	4.6
Disposals	-	-	(5.7)	(5.7)
At December 31, 2019	15.9	-	17.9	33.8
Additions	-	-	3.5	3.5
Disposals	-	-	(20.6)	(20.6)
At December 31, 2020	15.9	-	0.8	16.7
Accumulated depreciation				
At January 1, 2019	-	0.6	7.7	8.3
Adjustment on transition to IFRS 16	-	(0.6)	-	(0.6)
Depreciation charge for the year	-	-	3.6	3.6
Disposals	-	-	(4.2)	(4.2)
At December 31, 2019	-	-	7.1	7.1
Depreciation charge for the year	-	-	2.9	2.9
Disposals	-	-	(9.6)	(9.6)
Impairment	2.8	-	-	2.8
At December 31, 2020	2.8	-	0.4	3.2
Carrying amount				
At December 31, 2019	15.9	-	10.8	26.7
At December 31, 2020	13.1	-	0.4	13.5

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

Had the property been carried under the cost model, the carrying amount would have been £23.7m (2019: £23.5m).

In September 2020, the Group sold its fleet of motor vehicles and has subsequently entered into a leasing arrangement for the aforementioned fleet. For further details please see Note 22.

20 Investment Properties

Group	Note	2020 £m	2019 £m
At January 1		182.1	182.9
Acquisitions		17.6	16.5
Lease incentive movement		1.5	-
Net fair value losses	8	(10.3)	(5.7)
Transfer to investment properties held for sale		-	(11.6)
At December 31		190.9	182.1

Investment properties held for sale	Note	2020 £m	2019 £m
At January 1		11.6	4.0
Transfer from investment properties		-	11.6
Net fair value (losses)/gains	8	(1.1)	2.7
Realised gains/(losses)	7	0.6	(2.7)
Disposals		(7.2)	(4.0)
At December 31		3.9	11.6

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

The rental income arising from investment properties during the year amounted to £10.8m (2019: £10.3m), which is included in investment income. Direct operating expenses (charged against investment income) arising in respect of such properties during the year amounted to £1.9m (2019: £1.6m).

One property was classified as investment properties held for sale (2019: two properties). The property was sold in January 2021 for £3.8m.

Included within the investment properties balance are tenant lease incentive balances totalling £1.5m (2019: £nil).

21 Deferred Acquisition Costs

Group	Gross 2020 £m	Reinsurance 2020 £m	Gross 2019 £m	Reinsurance 2019 £m
At January 1	177.3	(70.1)	189.4	(75.0)
Costs deferred during the year	568.7	(313.3)	412.7	(243.5)
Amortisation charge for the year	(436.4)	265.1	(424.8)	248.4
At December 31	309.6	(118.3)	177.3	(70.1)

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

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

22 Leases

a Lease agreements where the Group is lessee

Right of use assets

The movements for the year in the value of right of use assets can be analysed as follows:

	Property		Motor vehicles		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
At January 1	49.0	39.5	-	-	49.0	39.5
Additions	13.1	4.2	6.9	-	20.0	4.2
Additions through business combinations	-	18.8	-	-	-	18.8
Disposals	(1.0)	(2.7)	-	-	(1.0)	(2.7)
Modifications to the lease	(0.7)	(0.8)	-	-	(0.7)	(0.8)
Impairment	-	(2.2)	-	-	-	(2.2)
Depreciation charge for the year	(10.7)	(7.8)	(0.5)	-	(11.2)	(7.8)
At December 31	49.7	49.0	6.4	-	56.1	49.0

Amounts recognised in Statement of Comprehensive Income

	Property		Motor vehicles		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Interest paid on lease liabilities	0.4	0.5	-	-	0.4	0.5
Expenses relating to short-term leases	0.5	0.8	-	-	0.5	0.8
Variable lease payment not included in lease liability measurement	-	0.1	-	-	-	0.1
Depreciation charge	10.7	7.8	0.5	-	11.2	7.8

The Group is committed to £31.2m (2019: £4.0m) for short-term leases.
The total cash outflow for leases amounted to £12.2m (2019: £7.1m).

Lease Liabilities

	Property		Motor vehicles		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Current	9.5	10.1	2.9	-	12.4	10.1
Non current	40.7	39.9	3.4	-	44.1	39.9
Total lease liability	50.2	50.0	6.3	-	56.5	50.0

Maturity analysis – contractual undiscounted cash flows

	Property		Motor vehicles		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Year 1	9.5	10.1	2.9	-	12.4	10.1
Year 2	9.2	7.8	2.0	-	11.2	7.8
Year 3	7.1	7.6	1.2	-	8.3	7.6
Year 4	7.6	7.3	0.2	-	7.8	7.3
Year 5	6.2	6.7	-	-	6.2	6.7
Onwards	10.8	10.8	-	-	10.8	10.8
Total	50.4	50.3	6.3	-	56.7	50.3

22 **Leases** continued

b Lease agreements where the Group is lessor

Investment property

The properties are let under operating leases. The future minimum lease receipts under non-cancellable leases are as follows:

	2020 £m	2019 £m
No later than 1 year	9.2	9.8
After 1 year but no more than 5 years	25.2	31.3
After 5 years	6.6	7.8
Total	41.0	48.9

23 Tax Assets and Liabilities

a Current tax assets and liabilities	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Current tax assets	-	-	-	1.2
Current tax liabilities	15.2	-	4.6	-

b Deferred tax assets	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Tax losses	17.3	-	12.4	-
Defined benefit pension obligations	140.2	-	93.3	-
Pension spreading	2.7	-	4.8	-
Unrealised losses on bonds	1.5	-	4.3	-
Properties	-	-	3.0	-
Provisions	0.6	-	1.3	-
Capital allowances	10.1	-	4.2	-
Bonds transitional relief	-	-	0.7	-
Technical provisions	3.6	-	-	-
Deferred tax assets	176.0	-	124.0	-
Set-off of deferred tax liabilities pursuant to set-off provisions	(159.7)	-	(104.4)	-
Net deferred tax assets	16.3	-	19.6	-
Deferred tax liabilities				
Unrealised gains on Bonds	(29.1)	-	(17.9)	-
Pension asset	(62.8)	-	(34.1)	-
Claims equalisation reserve	(5.6)	-	(6.8)	-
Pension contributions	(106.0)	-	(70.2)	-
Intangibles	(26.3)	-	(26.5)	-
Properties	(0.7)	-	-	-
Deferred tax liabilities	(230.5)	-	(155.5)	-
Set-off of deferred tax liabilities pursuant to set-off provisions	159.7	-	104.4	-
Net deferred tax liabilities	(70.8)	-	(51.1)	-

Deferred tax assets

2019 Movements	Tax Losses £m	DBO Pension £m	Pension spreading £m	Unrealised losses on Bonds £m	Other £m	Total £m
At January 1	13.4	80.8	7.1	2.2	7.3	110.8
(Charged)/credited						
– to profit or loss	(1.0)	-	(2.3)	-	(0.2)	(3.5)
– to other comprehensive income	-	12.5	-	(1.5)	-	11.0
At December 31	12.4	93.3	4.8	0.7	7.1	118.3
Transfer in on consolidation	-	-	-	3.6	2.1	5.7
At January 1	12.4	93.3	4.8	4.3	9.2	124.0

2020 Movements	Tax Losses £m	DBO Pension £m	Pension spreading £m	Unrealised losses on Bonds £m	Other £m	Total £m
At January 1	12.4	93.3	4.8	4.3	9.2	124.0
(Charged)/credited						
– to profit or loss	4.9	-	(2.1)	-	0.9	3.7
– to other comprehensive income	-	46.9	-	(2.8)	-	44.1
Other Movement	-	-	-	-	4.2	4.2
At December 31	17.3	140.2	2.7	1.5	14.3	176.0

23 Tax Assets and Liabilities continued

Deferred tax liabilities

2019 Movements	Tax Losses £m	DBO Pension £m	Pension spreading £m	Unrealised losses on Bonds £m	Other £m	Total £m
At January 1	63.1	21.2	10.6	6.1	-	101.0
– to profit or loss	7.2	-	(3.8)	-	-	3.4
– to other comprehensive income	-	12.9	-	5.3	-	18.2
At December 31	70.3	34.1	6.8	11.4	-	122.6
Transfer in on consolidation	-	-	-	6.5	26.4	32.9
At January 1	70.3	34.1	6.8	17.9	26.4	155.5

2020 Movements	Tax Losses £m	DBO Pension £m	Pension spreading £m	Unrealised losses on Bonds £m	Other £m	Total £m
At January 1	70.3	34.1	6.8	17.9	26.4	155.5
(Charged)/credited						
– to profit or loss	35.7	-	(1.1)	-	(2.6)	32.0
– to other comprehensive income	-	28.7	-	11.2	-	39.9
Other movement	-	-	(0.1)	-	3.2	3.1
At December 31	106.0	62.8	5.6	29.1	27.0	230.5

	Group 2020 £m	Group 2019 £m
Deferred tax asset	16.3	19.6
Deferred tax liability	(70.8)	(51.1)
Current deferred tax asset	6.7	3.1
Current deferred tax liability	-	(3.5)
	6.7	(0.4)
Non current deferred tax asset	9.6	16.5
Non current deferred tax liability	(70.8)	(47.7)
	(61.2)	(31.2)

The UK Government announced its intention in the budget of March 3, 2021 to legislate to increase the rate of corporation tax from 19% to 25% with effect from April 1, 2023. This legislation was substantively enacted on May 24, 2021. If the deferred tax balance less amounts expected to reverse within one year is re-measured using a rate of 25% at December 31, 2020, the deferred tax asset would increase to £62.4m and the liability would increase to £138.3m.

24 Reinsurance Assets

Group	Note	2020 £m	2019 £m
Reinsurers' share of insurance contract liabilities	32	2,200.4	1,817.8
Total reinsurance assets		2,200.4	1,817.8

For the current and non current split, refer to Note 32.

25 Prepayments and Accrued Income

Group	2020 £m	2019 £m
Prepayments	23.4	28.5
Accrued income	41.0	42.1
Total prepayments and accrued income	64.4	70.6

The carrying amount disclosed above is reasonably approximate to its fair value at year end and is expected to be earned within 12 months from the Balance Sheet date.

26 Financial Assets

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Available for sale financial assets	4,621.4	-	3,605.9	-
Loans and receivables	36.0	-	137.0	0.4
Derivative assets	4.4	-	1.2	-
Total financial assets	4,661.8	-	3,744.1	0.4

a **Available for sale financial assets**	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
At fair value				
Managed funds	231.4	-	208.5	-
Debt securities	4,390.0	-	3,397.4	-
Total available for sale financial assets at fair value	4,621.4	-	3,605.9	-
At cost				
Managed funds	221.3	-	187.1	-
Debt securities	4,260.1	-	3,322.3	-
Total available for sale financial assets at cost	4,481.4	-	3,509.4	-

The Group has entered into securities lending whereby blocks of securities are loaned to third parties. The amounts of collateral required to be held above the fair value of the loaned securities is dictated by the agreements and depends on the quality of the collateral provided and is calculated on a daily basis. The loaned securities are not removed from the Group's Balance Sheet, they continue to be recognised within the appropriate investment classification. The Group has lent £216.2m (2019: £101.0m) and holds collateral under such agreements of £220.1m (2019: £117.0m).

b **Loans and receivables**	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Loans	29.9	-	130.3	0.4
Deposits with credit institutions[1]	6.1	-	6.7	-
Total loans and receivables	36.0	-	137.0	0.4

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Current loans and receivables	-	-	0.4	0.4
Non current loans and receivables	36.0	-	136.6	-

[1] Included within the deposits with credit institutions is £6.1m (2019: £6.7m) which the Group has pledged as collateral relating to the future settlement of insurance contract liabilities. The collateral is all in the form of letters of credit which attract a commercial rate of interest. The claimants have the right to draw on the funds but would ordinarily be expected to gain prior approval from the Group before doing so.

The carrying amount disclosed above is reasonably approximate to its fair value at year end.

26 Financial Assets continued

c Derivative assets	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Forward contracts	4.4	-	1.2	-
Total derivative assets	4.4	-	1.2	-

The carrying amount disclosed above is reasonably approximate to its fair value at year end.

27 Insurance Receivables

Group	2020 £m	2019 £m
Due from policyholders	731.1	739.6
Due from reinsurers	59.6	107.8
Due from agents, brokers and intermediaries	408.8	453.8
Total insurance receivables	1,199.5	1,301.2

Group	2019 £m	2019 £m
Current insurance receivables	1,145.9	1,218.2
Non current insurance receivables	53.6	83.0

28 Other Receivables

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Amounts due from related parties	238.1	57.0	92.2	135.7
Other receivables	107.7	0.8	127.8	-
Total other receivables	345.8	57.8	220.0	135.7

The carrying amount disclosed above is reasonably approximate to its fair value at year end. The other receivables are all current. The Company has concluded that the ECL model has made no significant impact on the valuation of receivables reported in the financial statements.

29 Cash and Cash Equivalents

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Cash at bank	109.7	-	103.9	19.8
Short-term deposits (including demand and time deposits)	0.1	-	1,071.4	-
Total	109.8	-	1,175.3	19.8

Deposits are subject to an average interest rate of 0.9% (2019: 1.0%) and have an average maturity of 1 day (2019: 1 day). The carrying amount disclosed above is reasonably approximate to its fair value at year end. The company has concluded that the ECL model has made no significant impact on the valuation of cash and cash equivalents reported in the financial statements.

30 Share Capital

Group and Company	2020 £	2019 £
Ordinary shares of £1 each fully paid	1,977,796,234	1,977,796,234

The ordinary shares entitle the holders to vote at meetings of the Company and grant the right to receive dividends as declared.

31 Provisions for other liabilities and charges

Group	Restructuring £m	Indemnities £m	Contingent consideration £m	Dismantling or restoring a leased asset £m	Total £m
At January 1, 2019	4.1	0.3	8.0	5.4	17.8
Adjustment on transition to IFRS 16	-	-	-	(0.6)	(0.6)
Amount charged to the Statement of Comprehensive Income	6.6	1.4	-	-	8.0
Additions through business combinations	-	5.7	-	1.2	6.9
Utilised in the year	(6.1)	-	(1.9)	-	(8.0)
At December 31, 2019	4.6	7.4	6.1	6.0	24.1
Amount (credited)/charged to the Statement of Comprehensive Income	(1.2)	2.3	(6.1)	(0.9)	(5.9)
Established in the year	9.9	10.9	-	0.9	21.7
Utilised in the year	(4.5)	(11.2)	-	(0.3)	(16.0)
At December 31, 2020	8.8	9.4	-	5.7	23.9
Current	3.9	0.8	-	-	4.7
Non current	4.9	8.6	-	5.7	19.2

Company	Indemnities £m	Contingent consideration £m	Letter of support £m	Dismantling or restoring a leased asset £m	Total £m
At January 1, 2019	0.3	8.0	131.6	0.3	140.2
Amount charged to the Statement of Comprehensive Income	1.4	-	(25.5)	-	(24.1)
Utilised in the year	-	(1.9)	-	-	(1.9)
At December 31, 2019	1.7	6.1	106.1	0.3	114.2
Amount charged/(credited) to the Statement of Comprehensive Income	1.0	(6.1)	(90.9)	-	(96.0)
Utilised in the year	(0.2)	-	-	(0.3)	(0.5)
At December 31, 2020	2.5	-	15.2	-	17.7
Current	-	-	-	-	-
Non current	2.5	-	15.2	-	17.7

31 Provisions for other liabilities and charges continued

Indemnities

During 2013, indemnities were transferred to the Company from Allianz (UK) Limited. These indemnities relate to the sale of M.I. Group Limited to Sanlam Netherlands Holding BV ("Sanlam"), in particular, provisions against pensions mis-selling. Under the indemnity the Company will reimburse Sanlam if the costs of compensation and administrative expenses exceed agreed amounts. The addition through business combinations relates to onerous contracts resulting from changes in the way that some lines of business are being written. There is uncertainty regarding the future payments to be made under these indemnities but the provision at December 31, 2020 is considered to be reasonable.

Contingent consideration

The sale and purchase agreement for LVGIG contained a specific section on the implications of a change in the Ogden Discount Rate. No benefit from such a rate change was realised and consequently the provision was released during the year.

Dismantling or restoring a leased asset

The Group leases operational properties located throughout Great Britain. Within most of the agreements is a condition requiring the Group to make restorations upon the termination of a lease.

Restructuring

Restructuring activity initiated in previous years continued within claims and operations. The claims reorganisation involved consolidation of a number of claims handling centres and within Operations, efficiency measures continued including the review of organisation design.

Following the acquisitions of LVGIG and FIL, the Group has entered a programme of restructuring work in order to support the ongoing personal lines business and realise synergies across the enlarged Group. During the year, additional provisions were established relating to the transfer of business from FIL to LVGIG.

Letter of support

AMS, a subsidiary of the Company, has net liabilities of £15.2m (2019: £106.1m). As the sponsoring employer for the ARDBF, AMS reports the net asset or liability of the ARDBF on its Balance Sheet under IAS 19. Until 2012 this was reported under the "corridor" method, which allowed deferred recognition of actuarial gains and losses, thus leading to less volatility in the Balance Sheet. In 2013 the corridor method was abolished and the ARDBF was reported at its full IAS 19 liability. This restatement caused the net equity of AMS to move from an asset to a liability. Since 2013, AMS has continued to report net liabilities and the Company provides a letter of support to the Directors of AMS which has been refreshed annually.

32 Insurance Contract Liabilities

	2020			2019		
Group	**Insurance contract liabilities £m**	**Reinsurers' share of liabilities £m**	**Net £m**	**Insurance contract liabilities £m**	**Reinsurers' share of liabilities £m**	**Net £m**
Provisions for claims reported by policyholders	3,312.1	(1,439.8)	1,872.3	3,279.8	(1,269.2)	2,010.6
Provisions for claims incurred but not reported	341.1	(196.5)	144.6	23.7	(22.2)	1.5
Total claims reported and IBNR	3,653.2	(1,636.3)	2,016.9	3,303.5	(1,291.4)	2,012.1
Provision for unearned premiums	2,003.3	(564.1)	1,439.2	2,026.1	(526.4)	1,499.7
Total general insurance contract liabilities	5,656.5	(2,200.4)	3,456.1	5,329.6	(1,817.8)	3,511.8
Current general insurance contract liabilities	2,911.9	(1,101.2)	1,810.7	2,721.3	(835.2)	1,886.1
Non current general insurance contract liabilities	2,744.6	(1,099.2)	1,645.4	2,608.3	(982.6)	1,625.7

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

	2020			2019		
Group	**Insurance contract liabilities £m**	**Reinsurers' share of liabilities £m**	**Net £m**	**Insurance contract liabilities £m**	**Reinsurers' share of liabilities £m**	**Net £m**
At January 1	3,303.5	(1,291.4)	2,012.1	1,713.2	(817.9)	895.3
Foreign exchange adjustment	(3.9)	1.2	(2.7)	(3.9)	2.5	(1.4)
Unwind of discount on PPO claims reserves	4.1	(3.1)	1.0	7.1	(5.3)	1.8
	3,303.7	(1,293.3)	2,010.4	1,716.4	(820.7)	895.7
Claims incurred in the current accident year	2,849.6	(1,130.6)	1,719.0	1,187.9	(456.4)	731.5
Movement on claims incurred in prior accident years	(21.5)	(30.2)	(51.7)	95.2	(84.4)	10.8
Increase in claims incurred through business combinations	-	-	-	1,603.9	(471.2)	1,132.7
Claims paid during the year	(2,478.6)	817.8	(1,660.8)	(1,299.9)	541.3	(758.6)
At December 31	3,653.2	(1,636.3)	2,016.9	3,303.5	(1,291.4)	2,012.1

The provision for unearned premiums may be analysed as follows:

	2020			2019		
Group	**Insurance contract liabilities £m**	**Reinsurers' share of liabilities £m**	**Net £m**	**Insurance contract liabilities £m**	**Reinsurers' share of liabilities £m**	**Net £m**
At January 1	2,026.1	(526.4)	1,499.7	1,014.5	(446.3)	568.2
Premiums written in the year	3,921.8	(1,553.8)	2,368.0	1,990.7	(865.8)	1,124.9
Premiums earned during the year	(3,944.6)	1,516.1	(2,428.5)	(1,981.1)	863.5	(1,117.6)
Increase in provision through business combinations	-	-	-	1,002.0	(77.8)	924.2
At December 31	2,003.3	(564.1)	1,439.2	2,026.1	(526.4)	1,499.7

33 Insurance Contract Liabilities And Reinsurance Assets – Terms, Assumptions and Sensitivities

The major classes of general insurance written by the Group include Motor, Household, Property and Business Interruption, Liability and Speciality Pecuniary. Risks under these policies usually cover a 12 month duration. The Group also writes several more specialist lines of business such as legal protection and travel insurance. Risk durations under these policies can vary.

The Group calculates adequate provisions for these contracts. The overriding aim is to establish reserves which are expected to be at least adequate and that there is consistency from year to year. However, there is a risk that, due to unforeseen circumstances, the reserves may be insufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

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

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of PPOs established under the Courts Act 2003. During 2020, five new settlements were agreed on this basis and two claimants under this settlement coming off the book, making the total number of PPOs 74. Total reserves are £252.4m (2019: £340.9m) gross and £66.6m (2019: £187.3m) net of reinsurance. The corresponding undiscounted amounts are £546.4m (2019: £636.3m) gross and £133.2m (2019: £187.3m) net.

The interest rate used to discount PPOs is assumed to be in line with inflation. The following sensitivities show the impact of changing the interest rate and inflation assumptions:

- increase of interest rate by 1% would decrease the discounted PPO reserves by £42.6m gross and £9.6m net
- A decrease of interest rate by 1% would increase the discounted PPO reserves by £60.0m gross and £13.4m net
- An increase of inflation rate by 1% would increase the discounted PPO reserves by £61.1m gross and £17.6m net
- A decrease of inflation rate by 1% would decrease the discounted PPO reserves by £44.4m gross and £13.0m net

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. The Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. The current rate is -0.25%, as set by the Lord Chancellor in July 2019. The rate will be reviewed by the Lord Chancellor by the summer of 2024.

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

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

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

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

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

During 2020, COVID-19 has had a direct impact on claims from Business Interruption covers. Additionally, there are indirect impacts such as reduced claim frequency due to lower activity levels as a result of government restrictions.

The ultimate cost of Business Interruption claims has been estimated using an exposure based approach involving an assessment of policy wordings, legal advice and the emerging claims experience. Claims arising from the national lockdowns and tiering have been allowed for, with a full national lockdown assumed until the end of March 2021 and an easing in April. The total ultimate cost of Business Interruption claims in 2020 is estimated to be £175m, net of reinsurance but before quota share.

33 Insurance Contract Liabilities And Reinsurance Assets – Terms, Assumptions and Sensitivities continued

There is significant uncertainty surrounding the ultimate cost of these claims, for example the length of government restrictions is an area of uncertainty. As an indication, anticipating three additional months of a full lockdown would increase net claims in respect of the 2020 accident year by £8m.

The indirect impacts of COVID-19 on claims have been considered, with allowances made in the actuarial claims projections. This is another area of uncertainty, requiring expert judgement.

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

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

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

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

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

- claim reporting patterns being different from those expected;
- claim handling costs being different from those expected;
- future claims inflation being different from that expected; and
- the emergence of currently unknown latent diseases.

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

Changes in assumptions have caused a £21.5m increase (2019: £169.5m reduction) in gross insurance provisions in respect of the prior period. This is driven by increases on personal Motor, Liability and 2018 subsidence claims on Household. This is partially offset by reductions on the run-off line of business AGR and packages. The net effect after reinsurance is a £14.6m increase (2019: £105.6m reduction).

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

33 Insurance Contract Liabilities And Reinsurance Assets – Terms, Assumptions and Sensitivities continued

Loss development triangle

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

		Accident Year										
Group Gross of reinsurance	**Note**	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**Total £m**
Accident year		2,130.6	2,461.1	2,429.3	2,560.0	2,819.8	2,854.5	2,796.9	2,889.3	2,791.8	2,849.6	
One year later		2,137.8	2,384.9	2,390.8	2,534.6	2,823.4	2,755.5	2,704.8	2,802.3	2,762.6		
Two years later		2,116.2	2,329.8	2,336.8	2,516.1	2,749.0	2,687.6	2,671.6	2,834.2			
Three years later		2,109.3	2,302.8	2,319.2	2,512.5	2,677.8	2,690.2	2,685.7				
Four years later		2,087.3	2,303.7	2,331.5	2,331.5	2,659.9	2,692.8					
Five years later		2,064.4	2,317.1	2,281.8	2,453.6	2,642.3						
Six years later		2,076.6	2,300.4	2,279.5	2,468.1							
Seven years later		2,071.9	2,294.8	2,276.6								
Eight years later		2,068.4	2,290.0									
Nine years later		2,066.6										
Current estimate of cumulative claims		2,066.6	2,290.0	2,276.6	2,468.1	2,642.3	2,692.8	2,685.7	2,834.2	2,762.6	2,849.6	25,568.5
Cumulative payments to date		2,030.6	2,253.1	2,212.1	2,370.9	2,550.0	2,524.2	2,363.7	2,361.6	2,185.2	1,443.4	22,294.8
Reserve in respect of prior years												379.5
Total gross liability as per the Balance Sheet	32	36.0	36.9	64.5	97.2	92.3	168.6	322.0	472.6	577.4	1,406.2	3,653.2

		Accident Year										
Group Net of reinsurance	**Note**	**2011 £m**	**2012 £m**	**2013 £m**	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**Total £m**
Accident year		2,113.2	2,408.0	2,381.6	2,518.1	2,347.1	2,070.3	1,908.5	1,956.7	1,864.2	1,719.0	
One year later		2,096.7	2,342.3	2,339.0	2,323.5	2,400.6	1,877.1	1,871.1	1,929.3	1,836.4		
Two years later		2,086.8	2,299.2	2,203.8	2,303.4	2,316.1	1,860.8	1,864.7	1,949.4			
Three years later		2,081.3	2,227.6	2,197.0	2,307.2	2,266.3	1,867.3	1,871.7				
Four years later		2,032.6	2,223.7	2,208.6	2,270.9	2,254.6	1,875.6					
Five years later		2,017.4	2,232.2	2,162.5	2,261.8	2,245.4						
Six years later		2,023.6	2,218.1	2,160.3	2,266.7							
Seven years later		2,024.1	2,212.3	2,156.5								
Eight years later		2,016.7	2,209.0									
Nine years later		2,013.1										
Current estimate of cumulative claims		2,013.1	2,209.0	2,156.5	2,266.7	2,245.4	1,875.6	1,871.7	1,949.4	1,836.4	1,719.0	20,142.8
Cumulative payments to date		1,997.6	2,192.1	2,125.2	2,215.1	2,181.1	1,773.7	1,669.2	1,638.2	1,495.8	967.9	18,255.9
Reserve in respect of prior years												130.0
Total net liability as per the Balance Sheet	32	15.5	16.9	31.3	51.6	64.3	101.9	202.5	311.2	340.6	751.1	2,016.9

34 Insurance Related Payables

Group	2020 £m	2019 £m
Arising out of direct insurance operations		
Third parties	119.2	94.5
	119.2	94.5
Deposits received from reinsurers		
Amounts due to related parties	944.9	898.3
Third parties	0.1	0.1
	945.0	898.4
Arising out of reinsurance operations		
Amounts due to related parties	27.9	74.3
Third parties	78.5	83.8
	106.4	158.1
Total insurance related payables	1,170.6	1,151.0

Group	2020 £m	2019 £m
Current insurance related payables	1,170.5	1,150.9
Non current insurance related payables	0.1	0.1

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

35 Accruals and other Payables

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Amounts due to related parties	0.2	0.3	0.7	0.3
Accrued expenses	61.6	-	136.6	-
Contract liability	42.9	-	44.5	-
Social security and other taxes	132.3	2.0	131.7	-
Lease liability	56.5	-	50.0	2.2
Other payables	124.6	(0.5)	252.3	19.0
Total accruals and other payables	418.1	1.8	615.8	21.5

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

36 Financial Liabilities

Group	2020 £m	2019 £m
Currency derivatives	0.2	-
Subordinated note	10.7	10.2
Total financial liabilities	10.9	10.2

A €12.0m subordinated note is repayable to Merrill Lynch in 2034. Interest is payable at the 3 month euro deposit rate plus a margin of 3.65%, the amount paid was £0.4m (2019: £0.4m).

37 Risk Management Policies

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

Insurance risk

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

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

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

The Group limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition, the Group uses both proportional and non proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather-related claims. Maximum exposure for each line of business (Motor, Liability, Property and Business Interruption claims) is limited according to risk appetite, capital requirements and the return on capital. The Group uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses. Based upon the modelling work undertaken, the Group buys reinsurance protection for a 1-in-250-year single event. In order to protect its risk capital from extreme events the Group also purchases catastrophe reinsurance for a modelled 1-in-500-year loss event.

The Group has placed multiple quota share treaties with the ultimate Parent Company's reinsurance company, in order to reduce the capital requirements and improve the solvency position under the Solvency II regime.

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

As detailed below under Financial risk policy – b Credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full.

37 Risk Management Policies continued

The Group principally issues the following types of general insurance contract: Motor, Household, Property and Business Interruption, Liability and Speciality Pecuniary. The following table sets out the concentration of insurance risk by contract type:

Claims liabilities 2020	Gross £m	Reinsurers' Share £m	Net £m
Motor	2,144.7	(854.0)	1,290.7
Household	301.7	(168.4)	133.3
Property and Business Interruption	652.1	(379.2)	272.9
Liability	455.8	(207.9)	247.9
Speciality pecuniary	58.9	(23.5)	35.4
Other	40.0	(3.3)	36.7
Total	3,653.2	(1,636.3)	2,016.9

Claims liabilities 2019	Gross £m	Reinsurers' Share £m	Net £m
Motor	2,084.7	(820.3)	1,264.4
Household	264.6	(52.3)	212.3
Property and Business Interruption	271.9	(129.1)	142.8
Liability	533.0	(233.1)	299.9
Speciality pecuniary	112.7	(51.3)	61.4
Other	36.6	(5.3)	31.3
Total	3,303.5	(1,291.4)	2,012.1

Note 33 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Group's estimation techniques for claims payments.

Financial risk

The key financial risk is that proceeds from the realisation of assets are insufficient to meet obligations under insurance contracts. The most important aspects of financial risk comprise market risk, credit risk and liquidity risk.

a Market risk

Market risk is the risk that changes in market prices will affect the value of the Group's assets and income. The Group is exposed to market risk on all of its available for sale financial assets, and loans and receivables. The Company is exposed to market risk through its investments in group undertakings insofar as the carrying amount exceeds the net asset value of the subsidiary and as such the investment is overstated. The carrying value of the investment in group undertakings is subject to an annual review for indicators of impairment.

The Group manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders funds. A substantial part of the Group's financial assets are invested in available for sale fixed interest securities.

Almost all of the financial assets are quoted on a recognised stock exchange and are readily tradable.

i Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contract liabilities. The average duration of the fixed interest and cash and cash equivalents portfolios was 3.8 years (2019: 3.2 years) compared with the average duration of the insurance contract liabilities which is estimated to be 5.2 years (2019: 5.6 years).

37 Risk Management Policies continued

ii Equity risk

As stated in accounting policy k, the portfolio is valued at the bid market price. Equity market risk is the risk that the market price of the available for sale financial assets will fall in value as a result of adverse stock market movements. To manage this risk the Group limits its exposure to stock markets to a modest proportion of its total investment portfolio. Stocks held are limited to United Kingdom equities with the maximum investment in any one stock being controlled by the application of strict investment controls. A 10% increase in equity market values would increase the Group equity by £nil (2019: £10.6m). A 10% decrease in equity market values would reduce Group equity by £nil (2019: £10.6m).

iii Currency risk

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

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

	2020 £m	2019 £m
US Dollars		
Assets	209.6	77.6
Liabilities	15.6	26.4
Euro		
Assets	52.7	16.1
Liabilities	35.1	10.0

The Company holds foreign currency forward contracts covering £187.8m of US Dollars and £31.5m of Euros.

iv Sensitivity to market risk

The table below shows the sensitivity of the Group's profit or loss before tax and equity to market risk factors.

	2020 Profit or Loss £m	2020 Equity £m	2019 Profit or Loss £m	2019 Equity £m
Interest rate risk				
+100 basis points shift in yield curves	-	(109.5)	-	(57.2)
–100 basis points shift in yield curves	-	119.6	-	59.9
Equity risk				
10% increase in equity prices	-	11.5	-	20.8
10% decrease in equity prices	-	(11.5)	(1.9)	18.9
Currency Risk				
10% strengthening of US dollar exchange rate	-	(19.4)	-	(5.1)
10% weakening of US dollar exchange rate	-	19.4	-	5.1
10% strengthening of Euro exchange rate	-	(1.8)	-	(0.6)
10% weakening of Euro exchange rate	-	1.8	-	0.6

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

37 Risk Management Policies continued

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

2020	Profit or Loss Gross £m	Profit or Loss Net £m	Equity Gross £m	Equity Net £m
Expense ratio				
1% increase in current year	(37.2)	(24.3)	(30.2)	(19.6)
1% decrease in current year	37.2	24.3	30.2	19.6
Loss ratio				
1% increase in current year	(26.7)	(15.7)	(10.9)	(6.3)
1% increase in all of the last 3 years	(80.2)	(51.6)	32.6	(18.8)
1% decrease in current year	26.7	15.7	10.9	6.3
1% decrease in all of the last 3 years	80.2	51.6	(32.6)	18.8

2019	Profit or Loss Gross £m	Profit or Loss Net £m	Equity Gross £m	Equity Net £m
Expense ratio				
1% increase in current year	(19.8)	(11.2)	(16.0)	(9.1)
1% decrease in current year	19.8	11.2	16.0	9.1
Loss ratio				
1% increase in current year	(12.8)	(7.4)	(10.4)	(6.0)
1% increase in all of the last 3 years	(38.7)	(22.6)	(31.4)	(18.3)
1% decrease in current year	12.8	7.4	10.4	6.0
1% decrease in all of the last 3 years	38.7	22.6	31.4	18.3

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

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

The Group is exposed to credit risk through its available for sale financial assets, reinsurance assets, insurance receivables, other receivables and cash and cash equivalents.

b Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Group or Company in full when they fall due.

The Company is exposed to credit risk through its amounts due from group undertakings and cash and cash equivalents. The Company deems the risk associated with its cash and cash equivalents to be low as the cash balances are held with a financial institution with an AA credit rating and is immediately available. The amount due from group undertakings is due from Allianz SE and as such is AA rated.

The Group is exposed to credit risk through its available for sale financial assets, reinsurance assets, insurance receivables, other receivables and cash and cash equivalents.

The Group manages credit risk for financial assets (other than amounts invested in government securities) and cash and cash equivalents by limiting the amount of exposure to individual counterparties. This is achieved through a comprehensive series of limits which have been determined after taking into account publicly available credit ratings and such other information considered relevant.

37 Risk Management Policies continued

These limits restrict, dependent upon credit rating, the amount of financial assets exposed to each counterparty or, where the counterparty is a member of a group, the exposure to the group. The broad strategy is to limit the credit risk to tolerable levels whilst at the same time taking limited and controlled advantage of the additional returns which are available for additional risk.

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Group's liability as primary reinsurer. If a reinsurer fails to pay a claim for any reason the Group remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Group's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Group's major clients. Where there is a significant or potentially significant exposure to an individual captive additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2020 was £938.7m (2019: £673.3m).

Insurance receivables are closely monitored via the credit control process. For amounts due from brokers credit terms are applied which are determined by a range of factors including the type of business, size of account and financial standing. For policyholders, credit is managed so that the amount due is matched to the unexpired risk.

Where amounts fall outside credit terms a full range of credit control procedures are applied. Where these are not successful, the debt is impaired.

The Group deems the risk associated with its cash and cash equivalents to be low as the majority of the cash balances are held with financial institutions with an AAA, AA and A credit ratings and are immediately available. There is a small proportion of cash that is held with no-rated institutions but the Group deems the risk associated with this balance to be low as it is immediately available.

The Group deems the risk associated with its other receivables to be low. The amount due from group undertakings is due from Allianz SE and as such is AA rated. Despite the remaining other receivables being unrated, the Company deems the associated risk to be low because these amounts are due from many separate counterparties and all receivables are due within 12 months.

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

2020	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**Other not rated £m**	**Total £m**
Reinsurance assets	-	2,069.6	96.4	-	-	34.4	2,200.4
Available for sale financial assets	1,464.2	1,008.1	688.8	1,193.2	90.5	176.6	4,621.4
Loans and receivables	-	6.1	29.9	-	-	-	36.0
Insurance receivables[1]	-	122.3	115.9	9.4	2.4	949.5	1,199.5
Cash and cash equivalents	-	-	109.8	-	-	-	109.8
Total	1,464.2	3,206.1	1,040.8	1,202.6	92.9	1,160.5	8,167.1
Percent	17.9	39.4	12.7	14.7	1.1	14.2	100.0

2019	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**Other not rated £m**	**Total £m**
Reinsurance assets	-	1,685.3	84.1	-	-	48.4	1,817.8
Available for sale financial assets	794.1	815.3	783.2	966.3	38.5	208.5	3,605.9
Loans and receivables	-	6.7	129.9	-	-	0.4	137.0
Insurance receivables[1]	-	223.9	80.3	2.1	2.5	992.4	1,301.2
Cash and cash equivalents	298.8	151.8	685.7	-	-	39.0	1,175.3
Total	1,092.9	2,883.0	1,763.2	968.4	41.0	1,288.7	8,037.2
Percent	13.6	36.0	21.9	12.0	0.5	16.0	100.0

[1] Included in the not rated balance is £460.7m (2019: £465.8m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who, whilst not independently rated, are regulated by the Financial Conduct Authority.

37 Risk Management Policies continued

The following table provides details of the markets on which the managed funds are listed and the types of debt securities held. This analysis is intended to provide an indication of the quality of these holdings.

Managed funds	Collective investment funds £m	Total £m
2020	231.4	231.4
2019	208.5	208.5

Debt securities	Government £m	Corporate £m	Supranationals £m	Total £m
2020	522.7	3,303.7	563.6	4,390.0
2019	465.0	2,619.3	313.1	3,397.4

The following table provides information on the carrying value of reinsurance assets and insurance receivables:

	2020 £m Reinsurance assets	2020 £m Insurance assets	2019 £m Reinsurance assets	2019 £m Insurance assets
Neither past due or impaired	2,198.5	1,157.6	1,815.0	1,119.4
Past due but not impaired	-	40.9	-	181.8
Individually impaired	1.9	1.0	2.8	-
Total	2,200.4	1,199.5	1,817.8	1,301.2

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

2020	Less than 90 days £m	90-120 days £m	120-180 days £m	More than 180 days £m	Total £m
Policyholders	6.8	0.7	0.4	-	7.9
Brokers	22.6	2.7	3.1	4.4	32.8
Reinsurers	-	-	-	0.2	0.2
Total	29.4	3.4	3.5	4.6	40.9
2019					
Policyholders	2.8	0.5	0.2	-	3.5
Brokers	85.7	32.9	38.7	20.0	177.3
Reinsurers	0.5	0.4	-	0.1	1.0
Total	89.0	33.8	38.9	20.1	181.8

37 Risk Management Policies continued

Fair value hierarchy

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

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

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

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

Group 2020	Fair value as at December 31 £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Managed funds	231.4	-	225.8	5.6
Debt securities	4,390.0	27.5	4,344.2	18.3
Derivative financial assets	4.4	-	-	4.4
Own use properties	13.1	-	-	13.1
Investment properties	194.8	-	-	194.8
Total	4,833.7	27.5	4,570.0	236.2

Group 2019	Fair value as at December 31 £m	Level 1 £m	Level 2 £m	Level 3 £m
Available for sale financial assets				
Managed funds	208.5	105.8	102.0	0.7
Debt securities	3,397.4	230.3	3,151.9	15.2
Derivative financial assets	1.2	-	-	1.2
Own use properties	15.9	-	-	15.9
Investment properties	193.7	-	-	193.7
Total	3,816.7	336.1	3,253.9	226.7

The movement in the level 3 financial assets are analysed in the following table:

2020	Fair value as at January 1 £m	Additions £m	Disposals £m	Unrealised gains/(losses) £m	Fair value as at December 31 £m
Group					
Managed funds	0.7	5.6	-	(0.7)	5.6
Debt securities	15.2	-	-	3.1	18.3
Derivative financial assets	1.2	-	-	3.2	4.4
Own use properties	15.9	-	-	(2.8)	13.1
Investment properties	193.7	17.6	(7.3)	(9.2)	194.8
Total	226.7	23.2	(7.3)	(6.4)	236.2

2019	Fair value as at January 1 £m	Additions £m	Disposals £m	Unrealised gains £m	Fair value as at December 31 £m
Group					
Managed funds	-	0.7	-	-	0.7
Debt securities	13.4	-	-	1.8	15.2
Derivative financial assets	-	1.2	-	-	1.2
Own use properties	15.9	-	-	-	15.9
Investment properties	186.9	16.5	(6.7)	(3.0)	193.7
Total	216.2	18.4	(6.7)	(1.2)	226.7

37 Risk Management Policies continued

Level 3 financial instruments are measured using valuation techniques that incorporate assumptions that are not evidenced by prices from observable market transactions in the same instrument and are not based on observable market data. The Company does not hold any Level 3 financial assets.

Investment properties

Valuation technique:

An all risk yield investment method of valuation has been adopted for estimating the fair value of the investment properties, whereby the rental income stream is capitalised at an appropriate capitalisation rate based on current comparable rental and investment transactions. In considering the evidence, the net initial and, where known, equivalent and reversionary yields have been used to inform the valuation, capitalising the income to achieve an appropriate net initial yield, reversionary yield on the Market Rent ("MR"), and equivalent yield on the full income stream.

Significant unobservable inputs:

Rental growth	Factored into the yield applied (location/sector specific)
Voids	0–12 months
Occupancy rate	Approximately 86.87%
Rent free	0–15 months upon re-letting
Equivalent yields applied	4.50% – 9.69%

Sensitivity analysis changes in key unobservable inputs:

	Net equivalent yield (NEY)	Estimated realisable value (ERV) £m	Portfolio valuation £m
Base portfolio	5.57%	11.8	194.8
+5% ERV	5.62%	12.4	201.2
-5% ERV	5.59%	11.2	186.3
+5% NEY	5.88%	11.8	184.4
-5% NEY	5.32%	11.8	204.0
-5% NEY, -5% ERV	5.31%	11.2	196.2
+5% NEY, +5% ERV	5.90%	12.4	191.4
-5% NEY, +5% ERV	5.34%	12.4	212.0
+5% NEY, -5% ERV	5.87%	11.2	177.4

The Group is unaware of any restrictions on the realisability of any of the investment properties or the remittance of income or proceeds of disposal.

Own use properties

Valuation technique:

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

Significant unobservable inputs:

Rental growth	Factored into the yield applied (location/sector specific)
Voids	24–48 months
Market Rent (MR)	£12 – £32.50 per square foot (refurbished/redeveloped)
Rent free	12–18 months upon re-letting
Letting fees	15% of MR

	Net equivalent yield (NEY)	Estimated realisable value (ERV) £m	Portfolio valuation £m
Base portfolio	6.66%	3.6	13.0
+5% ERV	6.65%	3.7	14.6
-5% ERV	6.65%	3.4	11.6
+5% NEY	6.98%	3.6	10.8
-5% NEY	6.32%	3.6	15.6
-5% NEY, -5% ERV	6.32%	3.4	14.0
+5% NEY, +5% ERV	6.98%	3.7	12.2
-5% NEY, +5% ERV	6.32%	3.7	17.2
+5% NEY, -5% ERV	6.98%	3.4	9.5

Corporate bonds

Valuation technique:

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

37 Risk Management Policies continued

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

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

c **Liquidity risk**

Liquidity risk is the risk that funds might not be available to settle obligations when they fall due.

The Company is exposed to liquidity risk through its provisions for other liabilities and charges and accruals and other payables. The Company considers the liquidity risk to be insignificant as the Company has sufficient liquid assets to meet liabilities as they fall due.

The Group is exposed to liquidity risk through its property and equipment, right of use asset, investment properties, prepayments and accrued income, provisions for other liabilities and charges, insurance contract liabilities, insurance related payables, financial liabilities, deferred tax liabilities and accruals and other payables.

The Group considers the liquidity risk associated with property and equipment, right of use asset and investment properties to be immaterial. The Group would have sufficient liquid assets to meet its obligations as they fall due without depending on the sale of these properties. The liquidity risk associated with prepayments and accrued income is deemed to be immaterial as the Group has sufficient other liquid assets available to meet liabilities as they fall due. The Group considers the liquidity risk associated with the deferred tax liability to be insignificant as this is balance does not require liquid funds to discharge the obligation. The Group is exposed to liquidity risk associated through its accruals and other payables, financial liabilities, insurance related payables and provisions for other liabilities and charges. The Group has sufficient liquid assets to settle these amounts as they fall due.

The Group is exposed to daily calls on its available cash resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet the immediately foreseeable demand.

The market value of the Group's available for sale financial assets and loans and receivables at December 31, 2020 amounted to £4,657.4m (2019: £3,742.9m) plus cash and cash equivalents (including cash pooling to Allianz SE Group of £232.4m (2019: £39.0m) of £342.2m (2019: £1,214.3m). With the exception of the lent securities (see Note 26), nearly all of these are readily realisable.

As a result, the Group's exposure to potential liquidity risk is extremely low and in the various risk capital models used by the Group no capital is allocated to this risk.

The following tables show information about the estimated timing of the undiscounted cashflows from the Group's available for sale financial assets and insurance contract liabilities. The analysis provided is by estimating timings of the amounts recognised in the Balance Sheet.

The Group is also exposed to risk relating to the pension fund; these risks are disclosed in Note 18.

Available for sale financial assets	Carrying amount £m	Less than 1 year[1] £m	1–2 years £m	2–5 years £m	5–10 Years £m	More than 10 years £m
2020	4,621.4	342.2	522.0	1,673.2	1,293.1	790.9
2019	3,605.9	620.2	349.0	1,373.7	648.8	614.2

[1] Includes the Group's investment in equities.

Insurance liabilities	Carrying amount £m	Less than 1 year £m	1–2 years £m	2–5 years £m	5–10 Years £m	More than 10 years £m
2020	3,653.2	1,574.2	633.5	793.5	230.9	421.1
2019	3,303.5	1,288.3	611.6	775.3	243.3	385.0

37 **Risk Management Policies** continued

Operational risk

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

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

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

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

Capital Management

The Group maintains sufficient capital to protect policyholders' and creditors' interests and satisfy regulators whilst creating shareholder value. The level of capital required by the Group is determined by its risk appetite, approved by the Board.

The PRA regulated subsidiary AZI uses the Allianz Group Internal Model adapted to our UK specific requirements to calculate the risk capital required. The model has been approved for use to determine the Solvency Capital Requirement ("SCR") under Solvency II for AZI. The Group's capital modelling processes use a stochastic model, where distributions of possible outcomes are specified, giving the relative probability of occurrence of certain events. This model has been parameterised and validated using a mixture of internal and external data and expert judgement, in line with the requirements laid down by the Solvency II Directive for the adoption of an Internal Model for determining the SCR.

The other PRA regulated subsidiaries LVIC, HiCo and FIL along with the runoff subsidiary Trafalgar Insurance Limited ("TIL") use the Solvency II Standard Formula to determine the SCR under Solvency II. This is a set calculation prescribed by the Solvency II Directive which companies are required to adopt if they do not use an Internal Model.

Capital held to back the SCR is of high quality and clearly meets the tests for the composition of capital laid down by the Solvency II Directive.

Each regulated subsidiary aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of pre-specified financial market and insurance shocks. This risk appetite provides for a buffer above SCR to ensure that the company is adequately capitalised in most expected circumstances. It has been designated a "Strategically important" subsidiary of the ultimate parent, and therefore its rating is usually pegged to that of the ultimate parent. Allianz SE is currently AA rated, the Group is rated one notch lower.

The Allianz Holdings plc Group's capital comprises total shareholders' equity and amounts to £2,690.4m (2019: £2,628.7m) on the basis reported in these accounts. The Group and its individually regulated operations have complied with all externally and internally imposed capital requirements throughout the period.

At December 31, the Own Funds and surplus over capital requirement are disclosed below:

Own funds	Own funds		Surplus[1]	
	2020 £m	2019 £m	2020 %	2019 %
AZI	911	929	52	59
LVIC	670	589	78	57
HiCo	223	228	28	42
FIL	141	165	79	28
TIL	8	39	558	3,798

(1) Above SCR with the exception of TIL which is above Minimum Capital Requirement

38 Ultimate Parent Undertaking

The immediate parent undertaking is Allianz (UK) Limited, a company registered in the England and Wales.

The ultimate parent undertaking, Allianz Societas Europaea, is incorporated in Germany and is the parent of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member.

Copies of the Group accounts are available on request from Allianz Societas Europaea, Königinstrasse 28, 80802, München, Germany.

39 Contingencies and Commitments

Legal proceedings and regulations

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

Contingent liability

The Group is reassessing an additional cohort of PPI complaints to determine if there are further exposures. Until detailed assessments and review work is completed, the Group is unable to reliably estimate the potential exposure. The range of further provision could be between £nil and £35m gross of 40% quota share.

40 Cash Flows From Operating Activities

Group	Note	2020 £m	2019 £m
Non cash items			
Amortisation of intangible assets	17	179.9	12.9
Amortisation of net deferred acquisition costs	21	171.3	176.4
Net acquisition costs deferred during the year	21	(255.4)	(169.2)
Depreciation of property and equipment	19	2.9	3.6
(Gain)/loss on disposal of property and equipment		(2.1)	1.5
Depreciation of right of use asset	22	11.2	7.8
Impairment of property and equipment	19	-	2.3
Amortisation of available for sale financial assets		34.7	12.6
Impairment of available for sale assets		4.4	-
Interest on lease liabilities		1.4	0.4
Gain on lease modification		0.7	-
Movement in lease incentives		(1.5)	-
Gain on consolidation		-	(53.2)
Contractual liability		-	37.2
Dilapidation adjustment		-	(0.5)
Net gain on pension scheme		(102.9)	(1.4)
Net realised (gain)/loss on investment property	7	(0.6)	2.7
Net realised gains from sale of available for sale financial assets	7	(30.1)	(7.1)
Impact of change in exchange rate on available for sale financial assets		8.2	2.7
Net fair value losses on investment property	8	11.4	3.0
Impairment of investment property		2.8	-
Net fair value gains on financial liabilities	8	-	(37.5)
Total non cash items		36.3	(5.8)
Changes in working capital			
Increase in pension benefit surplus	18	(41.5)	(41.1)
Increase in reinsurance assets	24	(382.5)	(4.4)
Decrease in prepayments and accrued income	25	6.2	2.2
Decrease in loans and receivables	26(b)	101.0	1.1
Increase in derivative assets	26(c)	(3.2)	(1.2)
Decrease in insurance receivables	27	101.7	22.2
Increase in other receivables	28	(125.9)	(59.9)
Decrease in provisions for other liabilities and charges	31	(0.2)	(0.6)
Increase/(decrease) in insurance contract liabilities	32	326.9	(3.9)
Increase/(decrease) in insurance related payables	34	19.6	(2.2)
Increase in accruals and other payables	35	0.7	24.0
Decrease in financial liabilities	36	(204.2)	(7.7)
Total changes in working capital		(201.4)	(71.5)

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

40 Cash Flows From Operating Activities continued

Company	2020 £m	2019 £m
Non cash items		
Depreciation of right of use asset	-	0.4
Gain on consolidation	-	(53.2)
Impairment of right of use asset	-	2.4
Release of provision	(90.9)	(25.5)
Profit from associate	-	(24.5)
Impairment of investment in subsidiaries	20.2	42.5
Change in market value of derivative	-	(37.5)
Total non cash items	(70.7)	(95.4)
Changes in working capital		
Decrease/(increase) in other receivables	27.0	(8.0)
Decrease in investment in subsidiaries	-	71.2
Decrease in loans	0.4	0.4
Decrease in provisions for other liabilities and charges	(5.6)	(0.5)
Decrease in accruals and other payables	(19.5)	(43.2)
Decrease in financial liabilities	-	(7.7)
Total changes in working capital	2.3	12.2

41 Related party transactions

a Transactions with and balances from or to related parties

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

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Purchase of shareholding in group undertaking	-	-	-	1,420.2
Share of associated undertaking net income	-	-	24.5	24.5
Dividends received from subsidiaries	-	75.0	-	224.5
Dividends paid to the parent	115.9	115.9	-	-
Interest paid on loans from subsidiaries	-	-	-	(0.4)
Reinsurance contracts purchased from other related parties	(1,380.0)	-	(822.4)	-
Reinsurance claim recoveries from other related parties	653.9	-	727.0	-

Reinsurance contracts are made on a normal arm's length transaction basis. Transactions with pension benefit plans are detailed in Note 18.

41 Related party transactions continued

a Transactions with and balances from or to related parties continued

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

	Group 2020 £m	Company 2020 £m	Group 2019 £m	Company 2019 £m
Due from related parties at December 31				
Parent	-	-	50.9	50.9
Subsidiaries	-	0.2	-	84.4
Other related parties	238.1	56.8	1,157.3	0.4
Total	238.1	57.0	1,208.2	135.7
Due to related parties at December 31				
Subsidiaries	-	0.3	-	0.3
Other related parties	945.2	-	993.2	-
Total	945.2	0.3	993.2	0.3

b Compensation of key management personnel

Key management personnel of the Group includes all executive and non executive Directors, and other members of the Allianz Holdings plc Management Board. The summary of compensation of key management personnel for the year is as follows:

	2020 £m	2019 £m
Salaries and other short term employee benefits	6.4	5.4
Share based payments	1.0	1.3
Termination payments	-	0.9
Total compensation of key management personnel	7.4	7.6

c Investment in subsidiaries

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

Other than letters of support provided to subsidiaries with negative net assets, no guarantees or collateral were provided to subsidiaries. The Company is not liable for any contingent liabilities arising on the side of the subsidiaries and will not settle any liabilities on behalf of them.

42 Reconciliation of Operating Profit

Group	Note	2020 £m	2019 £m
Profit before tax		238.0	146.4
Adjustment to group basis on real estate[(1)]		(3.1)	(3.3)
Add back impact of quota share		(3.6)	30.3
Add back impairments	6	5.1	-
Remove realised gains	7	(36.9)	(57.6)
Remove unrealised losses/(gains)	8	14.3	(33.1)
Add back amortisation	17	41.2	6.5
Remove restructuring and integration charges		35.3	21.4
Operating profit		290.3	110.6

[(1)] Allianz SE accounting policy is to report real estate at the lower of depreciated cost and market value. These financial statements include real estate according to accounting policy b. This leads to differences in holding values, depreciation and realised gains and losses.

43 Subsequent Events

At the time these financial statements are authorised, the Directors have proposed an interim dividend of £120.0m (representing 6.1p per share). The Directors of LVGIG have proposed to pay an interim dividend of £164.0m to the Company at the time these financial statements are authorised.

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