Registered Number: 00084638

Annual Report and Financial Statements 2021

# Allianz Insurance plc

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|---|---|
| **Directors:** | R O Hudson (resigned May 14, 2021) |
| | C W T Dinesen |
| | J M Dye (resigned November 30, 2021) |
| | R M Murison |
| | D A Torrance |
| | D J Larnder |
| | F K Dyson |
| | S Treloar |
| | P J Evans (appointed May 14, 2021) |
| | C G Townsend (appointed April 29, 2021) |
| | C Holmes (appointed February 22, 2022) |
| | S C McGinn (appointed February 22, 2022) |
| **Secretary:** | C M Twemlow |
| **Registered Office:** | 57 Ladymead, Guildford, Surrey, GU1 1DB |
| **Registered No:** | 00084638 |

# Strategic Report

The Directors present their Strategic Report for the year ended December 31, 2021.

**Principal activities**
Allianz Insurance plc ("Allianz", "the Company") is a wholly owned subsidiary of the Allianz Holdings plc group of companies ("the Group") which is one of the largest general insurers in the United Kingdom ("UK") measured by gross written premium. The Company offers a wide range of products focused predominantly in the commercial, pet and legal expenses insurance markets. The Company distributes its products almost entirely in the UK.

In 2021 the Group was restructured to create two trading divisions, Allianz Personal and Allianz Commercial, supported by the integrated shared services of Finance, Risk and HR. Therefore, the pet products sold by the Company now form part of the Allianz Personal business along with products sold by fellow group subsidiaries within the Liverpool Victoria General Insurance Group ("LVGIG"). The commercial and legal expenses products form part of Allianz Commercial. This structure aligns with the distinct needs of our individual customer groups and gives us more scope to benefit from shared knowledge and scale whilst simplifying our business and enabling us to focus on specific markets.

The Company distributes products under a number of brands, supported by other Group subsidiaries and the shared services. An analysis of the 2021 results and the prospects for 2022 are set out below.

The Company has a quota share reinsurance arrangement with an Allianz Societas Europaea ("Allianz SE") Group reinsurance company. Previously the arrangement was that 40% of the underwriting result was ceded. However, the contract was amended with effect from January 1, 2021 so that 40% of premiums and claims were ceded and the Company receives a contribution of 27% of ceded earned premiums against incurred expenses and commission. This has the benefit of improving the solvency position by reducing the capital the Company is required to hold. The quota share arrangement 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 facilitate comparison with prior years, the numbers quoted in this commentary are before quota share, unless stated otherwise.

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

**Business review**
The Company continues to receive recognition for its achievements securing nine nominations at the 2021 British Insurance Awards. Allianz also achieved the Gold Award for 'Excellence in Technology' and a Bronze for 'Customer Champion of the Year' at the Insurance Times Awards, both for online customer support. Allianz was also named 'Commercial Lines Insurer of the Year' at the British Claims Awards while Allianz Legal Protection was named 'Insurance Provider of the Year' at the Personal Injury Awards.

# Strategic Report (continued)

**Business review (continued)**
Globally, Allianz SE Group was recognised as the number one insurance brand in the 2021 Interbrand Best Global Brand Rankings, for the third year in a row.

Market conditions have remained very competitive and have continued to be impacted by the Coronavirus (COVID-19) pandemic. As a result, the new business and rating environment has remained challenging.

Gross written premiums reduced to £1,860.5m from £1,879.5m in 2020, a 1.0% decrease. However excluding accounts in run-off, premiums grew 1.6%. Commercial lines decreased by 2.7% with premiums adversely impacted by COVID-19 as well as underlying corrective action taken in the Property and Liability accounts, more than offsetting the double-digit percentage growth within the Engineering account. Personal lines premiums increased by 2.6% with the Pet account seeing double-digit percentage growth, largely offset by the impact of the exit of a partnership contract during 2020.

The COVID-19 pandemic has continued to affect claims performance in 2021 with results benefitting from continued frequency reductions, particularly in the first half of the year when lockdowns were enforced. However, frequencies continued to increase throughout the second half of the year as restrictions were eased. On an underlying basis, increased medium and large claims experience within Liability lines and increased large claims in Commercial Motor and Motor Trade were partially offset by increase in reinsurance recoveries relating to 2020 business interruption claims.

The Company delivered a COR of 94.8% (2020: 103.3%) supported by the COVID-19 related benefits, strong performance in the Engineering and Pet accounts and robust operating expense management. Intermediary commissions decreased in the year reflecting a focus within broker markets to manage commission levels.

Overall, the Company has reported a profit before tax (post quota-share) of £29.1m in 2021, an improvement from a loss before tax of £18.1m in 2020, despite a £33.8m impact from Payment Protection Insurance (“PPI”) redress payments, further details in note 5.

The Company looks to leverage the skills, expertise and scale of the Allianz SE Group. In particular, we are heavily committed to the Allianz SE Group’s Renewal Agenda, which focuses on five important themes: customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. The business strategy “Simplicity Wins - Renewal Agenda 2.0” focuses on the key strategic objectives of Outperform, Transform and Rebalance in order to achieve the ambition of simplicity for its operating entities.

Outperform focuses on making ourselves even more productive and benchmarking our capabilities against best-in-class to continually improve our customer experience. Transform targets reducing complexity and becoming more digital, and Rebalance encourages focus on new growth opportunities. We will continue to utilise these themes locally to drive our business forward and focus on our customers.

**Key performance indicators**
The key financial performance indicators monitored by the Company are (all pre-quota share except where indicated):

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Gross written premium | 1,860.5 | 1,879.5 |
| Net written premium | 1,740.8 | 1,752.4 |
| Underwriting result(1) | 88.0 | (57.9) |
| Profit/(loss) before tax(5) | 29.1 | (18.1) |
| Claims ratio(2) | 66.8% | 73.8% |
| Expense ratio(3) | 28.0% | 29.5% |
| Combined ratio(4) | 94.8% | 103.3% |
| SCR coverage ratio(5) | 156.1% | 151.8% |

(1)Underwriting result is the sum of premiums earned less incurred claims and expenses.
(2)Claims ratio is defined as incurred claims as a percentage of earned premiums.
(3)Expense ratio is defined as incurred expenses and commission as a percentage of earned premiums.
(4)Combined ratio is defined as incurred claims, expenses and commission as a percentage of earned premiums.
(5) Post quota-share

# Strategic Report (continued)

**Key performance indicators (continued)**
The underwriting result can be reconciled to the profit before tax reported in the statement of comprehensive income on page 30 as follows:

| | 2021 £m | 2020 £m |
|---|---|---|
| Underwriting result | 88.0 | (57.9) |
| Impact of quota share | (38.1) | 19.8 |
| Investment income net of finance costs | 19.2 | 46.1 |
| Net realised gains | 5.2 | 10.1 |
| Unrealised losses | (3.4) | - |
| Other operating and administrative expenses | (41.8) | (36.2) |
| Profit/(loss)before tax | 29.1 | (18.1) |

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

Net Promoter Score (“NPS”) performance - Commercial:
- Achievement: Achieved Above Market in 2021.
- Target: Maintain Above Market in 2022.

NPS performance – Pet
- Achievement: Achieved Loyalty Leader in 2021.
- Target: Maintain Loyalty Leader in 2022.

NPS is an important indicator of our customer service which captures customer and brokers’ willingness to recommend us and is benchmarked against our competitors. We ask our customers, and those of our competitors, for honest and anonymous feedback and then benchmark the results. We achieved Loyalty Leadership positions in Pet and Above Market in Commercial. These results are a credit to our frontline teams.

**Risk appetite**
The Group has a written statement confirming the degree of uncertainty (or risk) that it 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, Allianz 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.

Our existing Risk Management framework is designed deal with the various risks Allianz may encounter, as well as their tracking and monitoring.

# Strategic Report (continued)

**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 30.

The Risk Department, alongside Internal Audit and Compliance, monitor both known and unknown risks that could affect Allianz, while collaborating with the business units to mitigate any identified issues. In 2021, particular focus was on:

- **Conduct risk** – the continued Company focus 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 arising from the pandemic. In 2021, we continued to enhance our activities, management information and oversight of Conduct Risk throughout the business.

- **Climate change** – Ensuring we remain a conscientious Company which considers sustainability in all our business activities is 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 significant work undertaken in our Underwriting and Investment departments.

- **Information Security** – throughout 2021 enhancements were made to the capabilities and effectiveness of Allianz cyber defences and abilities to Prevent, Detect and Respond to the risks posed by cyber threats.

- **Integrated Risk and Control System (“IRCS”)** – The annual IRCS review cycle was completed throughout 2021, 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 Company 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 2021.

- **Business Resilience** - The COVID-19 pandemic continued to impact the 2021 business results and the way the business operated as further lockdowns and restrictions were enforced. Allianz responded to this using well established business resilience and crisis management, it is this foundation that the Company has used to start to embed its approach to Operational Resilience, using its strong response approaches to increase the focus on the customer and preventing intolerable customer harm should the worst happen. The operational risks from COVID-19 were addressed by increasing homeworking capability. In 2021 we launched an ‘adopt and adapt’ phase for our New ‘Ways of Working’ (WOW) approach, which will run into 2022, enabled by the changing pandemic situation. This was co-created with our people and provides a fantastic opportunity to change the way we work to help us achieve our goals, and maintain our focus on doing what’s right for our customers and business, whilst offering our people more flexibility about where they work where possible.

The investment strategy of the Company has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. We invest insurance 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, Allianz has a robust control environment around underwriting and also has reinsurance arrangements in place providing risk mitigation.

Following the Russian military invasion of Ukraine on February 24$^{th}$ 2022, the on-going conflict is a new source of uncertainty for the Company. Management have reviewed the risks to the Company, considering in particular, underwriting and direct investment exposures along with the wider macro-economic impacts of sanctions, information security threats and potential disruption to the supply chain.

Whilst the Company has no direct underwriting exposure to Russia or Ukraine, a minimal level of travel insurance claims are anticipated arising from trip cancellations and repatriations. All of our policies include a War exclusion, and at this stage we are not expecting any material impact on our premium levels in the short term. We are monitoring closely any impacts of the event in Ukraine on claims’ supply chains and inflation for our core Motor and Property & Casualty portfolios. As of today, we believe these are within our normal trading parameters, however, long term effects are uncertain and dependent on the duration of the disruption.

# Strategic Report (continued)

**Principal risks and uncertainties (continued)**
Our investment portfolio is well diversified and high quality. Since the crisis commenced, market values of corporate and emerging market bonds have declined due to rising spreads. Values of developed market bonds initially benefited from a flight to safety but have since declined as yields increased. Securitised assets, real estate and private debt funds have been relatively unaffected by the crisis and continue to provide stable income. We have limited direct investment exposure to Russian, Ukrainian and Belarussian issuers through emerging market debt investments. The emerging market debt is carefully monitored and an impairment charge of £1.5m has been recognised during Q1 2022. Overall liquidity remains strong with a sufficient level of cash being retained in the Allianz SE Group cash pool (an Allianz SE treasury service which optimises surplus cash returns by investing in short term money market instruments).

The wider macro-economic impacts including those arising from sanctions include further upward pressure on inflation, particularly driven by rising energy costs, increasing the pressure on our customers and increasing the cost of our claims liabilities. The Company also recognises that in response to sanctions, there is a risk of state sponsored cyber-attacks targeted at the UK, resulting in disruption to national infrastructure or third party organisations in the supply chain. Through monitoring of emerging threats and identification of incidents, our organisational structure enables a coordinated response to cyber events within our local and global Crisis Management framework.

Management are taking particular care with our people, ensuring that communications are focused on wellbeing and providing additional support to colleagues who are personally impacted by the conflict.

**Future outlook**
We move into 2022 in a strong position despite the ongoing competitive market conditions in the UK and challenges presented by COVID-19 pandemic. The change of structure in 2021 to create separate Commercial and Personal businesses which will be supported by the shared services enables us to focus more on specific market needs and creates a strong platform from which we can grow profitably.

Premium income at a gross level is expected to increase in 2022 with underlying growth in both Personal and Commercial. The quota share reinsurance will remain at 40% for 2022, which will continue to reduce net premium income in return for a reduction in the capital required. There remains a risk that both growth and profitability may be tempered by ongoing pressures within the market and economy.

Profitability is expected to improve through 2022 as the benefits of the continued investment in productivity initiatives and technical excellence are realised, supported by premium growth. The Company remains vigilant with respect to claims fraud and continues to maintain good underwriting and pricing discipline with a focus on pursuing long term profitable growth. By definition, insurance is an uncertain business and profitability in 2022 is susceptible to further impacts from COVID-19, as well as the potential for a higher than expected level of major claims or weather events as well as inflation on all claims.

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 Company 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 2022. Rising inflation in the wider economy could also present business challenges due to impacts on our customers, rising cost of claims and general upward pressure on the Company’s costs.

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

The impact from business interruption claims in 2021 has greatly reduced compared to 2020 with limited additional claims. The Company has continued to adopt a responsible approach to dealing with these claims, settling quickly and fairly from the outset. 95% of claims have been settled with the remaining 5% representing the large and more complex cases which are awaiting judicial determination. During 2021, reserves relating to 2020 business interruption claims have reduced from £175m to £133.2m (net of reinsurance, but before quota share).

# Strategic Report (continued)

**Section 172(1) Companies Act 2006 Statement**
The Directors have acted in the way that they considered, both individually and collectively, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and this section forms our Section 172 disclosure, describing how, in doing so the Directors considered the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 in the decisions taken during the year.

The Company's Board is collectively responsible for the long term success of the Company. The Board is responsible for setting the Company's strategic aims and ensuring that the necessary resources are in place to meet its objectives. The Board sets the Company's purpose, strategy, culture values and standards and ensures that its obligations to stakeholders and others, as well as other matters set out under section 172 of the Companies Act 2006, are considered when taking decisions and in its discussions.

The Board of the Company meets at least quarterly alongside the board of directors of Allianz Holdings plc, its immediate shareholder and the boards of directors of other key regulated entities and holding companies within the Group (collectively, the "Boards"). The Boards have adopted the same terms of reference by which they operate, and the Directors of the Boards are the same. The governance framework applied to the key regulated entities and holding companies within the Group and the combined approach to governance, ensures that the Company's Board also has regard to the overall strategy, interests and direction of the Group as a whole, when taking decisions and in its discussions. This includes considering the impact on the broader stakeholders of the Group, the environment in which the Company and the Group operate and the long term success of the Company and the Group as a whole.

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. Information is also presented, where relevant, regarding any impact on the Company's or Group's reputation, impact on the environment or impact on the communities in which the Company or Group operate and other matters set out in section 172 of the Companies Act 2006.

The Board has undertaken a review of its effectiveness during the year and is in the process of carrying out actions to further improve Board governance arrangements. Further information on the review is set out in the Corporate Governance report on page 16.

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

The Board and individual Directors engage with some stakeholders directly on specific issues. However, due to the size of the Group and how it operates, stakeholder engagement more regularly takes place at an operational level. In addition, stakeholder engagement takes place at both a Group level and a Company level depending on the matter at hand. This allows the Group to be responsive to stakeholder needs. As described above, the Company's Board receives reports 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.

Customers
The Group is committed to ensuring good outcomes for its customers. Customer centricity is fundamental to the Company's growth and development and is one of five important themes underpinning the Allianz SE business strategy which the Group and the Company have adopted and is explained in the Director's Report on page 12.

A key method of engaging with our customers across our business and ensuring that a customer-centric culture is embedded is the NPS. The NPS is explained above under Key Performance Indicators on page 2. Feedback is sought and our performance across different brands is benchmarked against competitors. The NPS results are a KPI 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.

# Strategic Report (continued)

**Section 172(1) Companies Act 2006 Statement (continued)**

Customers (continued)
The Group Board has a Customer & Conduct Committee which is responsible for overseeing customer conduct matters for the Group and its subsidiaries. The Customer & Conduct Committee receives reports on a variety of matters including information from the Allianz Commercial Strategic Customer Forum. The forum focuses on customer value underpinned by metrics around conduct risk, customer experience and customer culture for the Company. Feeding into the Strategic Customer Forum are four individual customer boards, covering the various Allianz Commercial business areas. The Customer & Conduct Committee also receives reports from the Allianz Personal business regarding customers, including information regarding the pet business, for example. During the year, the Committee provided feedback to the business to ensure that future reporting was more consistent across the divisions to allow for better oversight of customer and conduct matters by the committee. Additional work is also being undertaken to ensure that management forums within the business are fully aligned with the Committee's functions. The Customer & Conduct Committee has considered a number of topics and projects during the year, focusing on the customer impacts and journey and ensuring that customers are put first. The Customer & Conduct Committee reports into the Boards on all matters, ensuring that the Directors are aware of customer engagement metrics to factor into decision making.

In addition, during 2021, the Board engaged an independent third party to undertake a review of culture across the Allianz Group, including, amongst other things, how the culture supports the delivery of good customer outcomes. The Board reviewed the findings and actions were put in place to ensure it continues to receive relevant and useful information in relation to culture. A key focus is the development of a meaningful culture dashboard and scorecard to help the Board better monitor culture, including metrics to measure customer outcomes.

Employees
The Company does not employ any staff. During the year, Allianz Management Services Limited ("AMS") and LVGIG, companies within the Group, provided services and staff resources to the Company as well as to other Group Companies. AMS and LVGIG have a high level of resources and expertise which benefit the Company and the Group. Operationally, since the restructure, employee engagement is led by the Chief Human Resources Officer of the Group, with the Human Resources team working directly with the business divisions of Allianz Commercial and Allianz Personal. The approach taken across the Group to employee engagement is explained below. However, there are some variances in methods used across Allianz Commercial and Allianz Personal, where appropriate or required.

The Group seeks feedback and measures the engagement of employees in a variety of ways. Engagement methods include the Allianz Engagement Survey ("AES") and additional 'pulse' surveys sent to employees on various topics, town hall presentations (which have been virtual following the impact of COVID-19), newsletters via the employee intranets.

At the end of 2021, the first townhall with Colm Holmes, the new CEO of the Group, was held for employees. This was a chance for employees to meet Colm Holmes virtually and learn more about his vision for the Group as a whole. These townhalls have continued into 2022, with other senior executives invited to join Colm to discuss important topics and answer questions raised by employees.

As some of our people return to the office under the new 'ways of working', including hybrid working, this will provide opportunities for more engagement between the Directors, including the non-executive Directors, and employees. It is envisioned that in 2022 the Board will hold its Board meetings at different office locations in the UK to facilitate more engagement.

The annual AES continues to be used and 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 which covers aspects of leadership, performance, collaboration, trust and respect and the Work Well Index plus 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 at Allianz; and 3) people attributes set the aspiration for how each employee should act. The Inclusive Meritocracy Index is derived from the responses to a specific series of questions asked in the annual AES.

# Strategic Report (continued)

**Section 172 Companies Act 2006 Statement (continued)**

Employees (continued)
The AES results are collated to give a Group-wide result and are also broken down by division and by teams. The survey results are shared with the Boards and action plans are developed based on the feedback received within teams. The Allianz Commercial Executive Committee also review the results for the Company. The results of the survey are directly linked to the performance objectives of the Allianz Holdings plc Executive Committee and key leaders within the Group. 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 2022, the Company received a silver award from Stonewall's Workplace Equality Index, for its commitment and efforts to become an LGBT+ employer. Stonewall is the world's second-largest LGBT+ charity.

Suppliers
Proposed significant supplier contracts, either strategic or by reason of size and significance, which are relevant to the Company, are considered by the Group Board following initial meetings and negotiations by procurement and commercial teams, and direct engagement with senior management. In 2021, supplier contracts supported by summary documents were provided to the Board to enable an informed decision to be made covering areas such as cost, risk and key clauses. 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. As a consequence, in 2021, the Group Board gave due consideration to significant intended supplier arrangements, their suitability and ability to meet the Group’s requirements including but not limited to areas such as information security, data privacy, risk, protection and resilience. This ensures a productive and mutually beneficial working relationship can be established and maintained with each supplier.

The Group Executive Committee assumes responsibility for approving and overseeing procedures to effect significant contracts and for their ongoing monitoring and performance assessment. Regular reports on supplier performance, inclusive of risks and issues, were made available to the Board in the course of 2021 to ensure oversight of the critical suppliers.

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 and driving value throughout the life of supplier contracts. 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. In addition, relationships are fostered with suppliers at an operational level with senior management establishing partnerships with insurance aggregators, brokers, reinsurers and other suppliers. These relationships are managed on a day-to-day basis by various relationship teams who maintain regular contact. They also seek regular feedback from suppliers and renewal rates are also monitored. This information is reported back to the AZH Board for review and discussion. Regular reports on supplier performance, inclusive of risks and issues, were made available to the AZH Board in the course of 2021 to ensure oversight of the critical suppliers.

Where a contract is to be approved by the Company, the Directors will have regard to both the interests of the Company and its shareholder as well as its other stakeholders.

Regulators
Regulations, guidance, policy statements, Dear CEO letters, Dear CRO letters, reports and other forms of publication issued by the Company’s regulators from time to time are examined and discussed by the Board and taken into account when considering matters for approval. In addition the Board carefully considers and takes into account any letters received by the Company from the regulators. In 2021, the Board has considered the Periodic Summary Meeting (PSM) letter from the Prudential Regulation Authority and received regular updates on progress in relation to findings from the regulator. This has informed the planned focus areas of the supervisory engagement throughout the year. The Board also had oversight of the plan of action arising from the Financial Conduct Authority's Firm Evaluation Letter received by the Company during the year.

The Board’s 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 Board discussions. Other engagement methods with regulators include regular meetings and responding to regulatory market reviews.

The Group prides itself on maintaining a candid and transparent relationship with all of its regulators. Any reviews or changes required as a result of regulatory updates or recommendations are considered and the

# Strategic Report (continued)

**Section 172 Companies Act 2006 Statement (continued)**

Regulators (continued)
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.

In relation to its regulatory requirements, the Board also reviewed and approved its relevant Solvency II Reports, including the Solvency and Financial Condition Report, and the Company’s Recovery and Resolution Plan.

Shareholder
The Company has regard to the interests of its immediate shareholder, Allianz Holdings plc, and the wider Allianz SE Group when making decisions. The Company’s strategy is closely aligned with the Group’s strategy and the Allianz SE strategy. Allianz SE nominate a non-executive Director to the Board of the Company. In 2021, the Board received regular updates from the Allianz SE Group on key matters being considered within the wider group. Shareholder views have been factored into various decisions made by the Board during the year including those on strategy, budget, investments, distributions and Board appointments.

Following the resignation of the previous Allianz SE nominated non-executive Director at the end of 2020, a new Allianz SE non-executive Director, C G Townsend, was nominated and was formally appointed on April 29 2021, following regulatory approval. The approach 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
An Environmental, Social, Governance strategy (“ESG”) ensures the Group is a leader in sustainability, and a committed corporate citizen with responsible and trusted businesses. The Group focuses on promoting the transition to a low-carbon economy, social inclusion and ensuring the integration of ESG into all aspects of our businesses. The Group, including the Company, have undertaken their own initiatives during the year in relation to ESG and reviewing how that strategy is implemented in the UK. Allianz is fully committed to environmental, social and governance principles and consideration of our impact in these areas is an important part of Company and Group discussions. Examples of initiatives undertaken by Allianz include partnerships with the mental health charities, Mind and Scottish Action on Mental Health, which benefit people across the UK as well as the Group’s employees as the partnership has been utilised to expand the employee mental health support resources that are in place. For example, mental health first aiders have been trained, employee engagement campaigns talking about mental health issues have been carried out and a programme of webinars and other resources have been put in place to support the mental health and well-being of employees working within the Company’s business. There is also an employee network for mental wellbeing within Allianz Commercial, Embrace, which has created a range of initiatives aiming to raise awareness and create the right culture around employee mental health. Similar initiatives are carried out within the Allianz Personal business. To focus on the local community, there is a local community fund which donates to organisations local to the Allianz Head Office in Guildford. In addition during 2021 we launched the Allianz Sports Fund which donated £100,000 to grassroots sports clubs. During the year, the Board considered the ESG 2025 plan and 2021 objectives for each area working on ESG including the opportunities and risks climate change poses.

# Strategic Report (continued)

**Section 172 Companies Act 2006 Statement (continued)**

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 the significant decisions that it is required to approve will impact the Company's key stakeholder groups. During 2020 and continuing into 2021, new Board reporting templates have been developed and rolled out to further improve the quality of Board reporting, ensure consistency and ensure that stakeholder and risk considerations are properly incorporated into all Board reports. This included providing training sessions on writing Board papers to key contributors to the Board packs. The Board also undertook a full review of the effectiveness of the Group's governance arrangements during 2021, which included consideration of its decision-making processes, Board papers and overall governance. Further information regarding the review is included in the Corporate Governance Report on page 13.

During the year the Directors took the following principal decisions:

***Review of Business Interruption claims management***
**Section 172 considerations**: maintaining a reputation for high standards, fostering relationships with suppliers and customers, long term consequences of decisions

**Stakeholders:** customers, brokers, regulators

During the year the Board kept under review and considered the management of Business Interruption claims by the Company, in light of the Board's duty to ensure the Company maintains a reputation for high standards of business conduct. In overseeing this important matter, the Board had regard to the interests of the Company's customers as well as the potential long term consequences of any decisions made. The Board, Risk Committee and Customer & Conduct Committee received reports on various matters including:

- the impact of the Supreme Court judgement on the FCA test case in January 2021 on the Company and further considerations arising out of the judgement;
- the approach to receiving judicial determination on some key points not addressed by the FCA test case; and
- metrics regarding the management of Business Interruption claims including numbers of claims received, paid and outstanding and numbers of complaints received, complaints referred to the Financial Ombudsman and complaints upheld.

The Customer & Conduct Committee reviewed quarterly reports on the impact on customers arising from this matter and was satisfied that customers had been treated fairly. The positive performance of the business in paying Business Interruption claims in a timely manner where eligible was noted. The Customer & Conduct Committee also agreed that in 2022 it shall review lessons learned from the approach to managing Business Interruption claims, including how the business interacted with and explained policy terms to customers.

***Operational Resilience project***
**Section 172 considerations**: maintaining a reputation for high standards, consequences of decisions in the long term

**Stakeholders:** customers, regulator

During the year, the Board reviewed and provided input into the operational resilience project to ensure compliance with two new regulatory policies on Operational Resilience, issued by the PRA and FCA. Implementing the policies on Operational Resilience in the right way for customers, the business and its stakeholders is critical to the success of the Company and important in maintaining the Company's reputation for high standards and putting customers first.

The Board and the Customer and Conduct Committee (CCC) reviewed the Important Business Services identified by the business, which were the services which could cause intolerable levels of harm to customers, market participants or the stability of the sector or viability of the firm where such services were disrupted. The Board and CCC then reviewed the customer impact tolerances established by the business which sets levels beyond which point the Company determines that its customers could suffer 'intolerable harm'. The Board and its Committees considered definitions used by the business to determine what is intolerable, in relation to customers, and agreed how much was acceptable in the event of disruption to an Important Business Service until it would cause intolerable harm.

# Strategic Report (continued)

**Section 172 Companies Act 2006 Statement (continued)**

Board decision-making (continued)

***Operational Resilience project (continued)***
The business to determine what is intolerable, in relation to customers, and agreed how much was acceptable in the event of disruption to an Important Business Service until it would cause intolerable harm.

The Risk Committee discussed the overall project, including the broader risks. The Customer & Conduct Committee undertook a review with a specific lens on the impact on customers, including vulnerable customers. These reviews were then discussed further by the Board. In making the decision whether to approve the Impact Tolerances agreed within the business, matters considered by the Board and its Committees included the definitions used by the business to determine what is intolerable, in relation to customers. In addition, the Board considered the impact on vulnerable customers and how such customers had been considered when determining the Impact Tolerances. The project is ongoing and will be further reviewed by the Board throughout 2022.

***Loss Adjusting Panel review***
**Section 172 considerations**: Fostering relationships with suppliers

**Stakeholders:** suppliers, customers

During the year, the Board considered the approval of new and updated contracts for the loss adjusters on the Company's Loss Adjusting Panel for claims within the Commercial business. A comprehensive review was undertaken by the procurement team and a Request for Pricing was issued to current panel members to negotiate and align pricing and performance measurement indicators.

In light of their duties and in considering impacts on the Company's customer stakeholders, the Directors requested confirmation that there would no negative impacts on customers from either a potential move to fewer loss adjusters on the panel or from the revised contracts, prior to approving the contracts.

The Company's report on its application of The Wates Corporate Governance Principles for Large Private Companies is outlined in the Directors' report on page 13. This contains further information regarding the governance of the Company and how the Board makes decisions for the long term success of the Company and its stakeholders.

By order of the Board

F K Dyson
Director

April 11, 2022

# Directors' Report

The Directors present their report and the audited financial statements for the year ended December 31, 2021.

**Stakeholder Engagement statement**
Details of how the Board has had regard to the need to foster the Company's business relationships with customers, regulators, suppliers 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(1) statement on page 6 of the Strategic Report.

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

A qualifying third party indemnity was in force during the financial year and also at the date of approval of the financial statements.

On December 1, 2021, C Holmes joined the business as CEO. On February 22 2022, he was formally appointed as a Director of the Company whilst awaiting regulatory approval.

On February 22, 2022, S C McGinn was appointed as a Director of the Company whilst awaiting regulatory approval.

**Results and Dividends**
The results for the year are set out in the Strategic Report on page 2.

No interim dividend was paid during the year ended December 31, 2021 (2020: £nil). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2021 (2020: £nil).

**Future outlook**
The future outlook for the Company is outlined in the Strategic Report on page 5.

**Financial Instruments**
The Company's policies in respect of financial instruments are given in note 30 to the Financial Statements.

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

**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 Company has established parallel work streams in the UK supporting the overall Allianz SE Group project and to ensure local readiness. Conclusion of the project has been deferred to ensure alignment with the implementation date of IFRS 9 and IFRS 17, namely January 1, 2023. However readiness is expected within 2022, with parallel runs already completed for 2020 and 2021 in preparation.

**Streamlined Energy and Carbon Reporting ("SECR")**

The Company fulfils the statutory requirements for SECR which includes disclosure of the Company's carbon emissions. Under the Companies Act 2006 and SECR Regulations, 'Large' companies' are required to report their annual emissions in their Directors' report. It should be noted that the information disclosed relates to several entities within the Group as this is the lowest level of granularity for which the data is collected. Information relating to the Company alone is not available and identical disclosure has been made by all Companies meeting the reporting requirement.

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.

# Directors' Report (continued)

**Streamlined Energy and Carbon Reporting ("SECR") (continued)**

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 2021 was 16,645,135.03 kWh (2020: 17,689,860.13 kWh) equating to 3,532.599 tCO2e (2020: 4,003.048 tCO2e).
Carbon intensity: Emissions of tCO2e/full-time equivalent during 2021 was 0.831 tCO2e (2020: 0.87 tCO2e)

However, the Company strategy has been to purchase renewable energy backed by Renewable Electricity Guarantees of Origin ("REGO") certificates. Through this strategy, within the above 2021 total energy consumption, the company has sourced a total of 4,768,921.54 kWh (2020: 3,493,309.20) of REGO backed (zero emission) electricity equating to 92.44% (2020: 100%) of total electricity use.

'Market Based' Method
The total energy consumption for 2021 was 16,645,135.03 kWh (2020: 17,689,860.13 kWh) equating to 2,503.965 tCO2e 92020: 2,703.548 tCO2e).
Carbon intensity: Emissions of tCO2e/full-time equivalent during 2021 was 0.589 tCO2e.

Energy Efficiency actions taken during 2021:

- 2021 - AZ Manchester – new building with LED lighting + dimming controllers and PiR switching. Building is BREEAM Excellent and EPC-A with electricity from renewable sources + PV panels providing on site electricity, energy efficient AC and lifts, High performance glazing coatings.
- 2021 - AZ Lancaster – replaced old lighting with LED panels and PiR switching.

| Type | Current reporting year 2021 | Comparison reporting year 2020 |
|---|---|---|
| Total energy consumption (kWh) | 16,645,135.03 kWh | 17,689,860.13 kWh |
| Associated Carbon Emissions ($tCO_2e$) | 3,532.599 $tCO_2e$ | 4,003.048 $tCO_2e$ |
| Metric - Emissions of $tCO_2e$ per Full-Time Equivalent | 0.831 $tCO_2e$ | 0.870 $tCO_2e$ |

**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 auditors; a resolution proposing the re-appointment of PricewaterhouseCoopers LLP will be submitted at the Annual General Meeting.

**Corporate Governance Report**
For the year ended December 31, 2021 the Company applied the Wates Corporate Governance Principles for large private companies ("Wates Principles") to its business and this report sets out how the Wates Principles were applied.

The Company is a wholly owned subsidiary of Allianz Holdings plc and leverages the governance structure of the Group, with Allianz Holdings plc, the Company's immediate shareholder, also adopting and applying the Wates Principles. The Company's Board and the Board of Allianz Holdings plc are comprised of the same Directors and the Boards apply the same group governance structure.

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle One – Purpose and Leadership**

Purpose and Strategy
The Company's purpose of "We Secure your Future" is aligned with that of the Group and the wider Allianz SE Group. The Group's and the Company's ambition is to be the best loved and most recommended by customers and partners, to attract and retain the best people and consistently exceed target returns and be recognised as leading the industry in its approach to ESG. The purpose and ambition is implemented through commitment to the Allianz SE Group's business strategy of "Simplicity at Scale."

The current strategy was agreed in 2019 and spans to 2025, with changes made during the annual planning and strategic dialogue processes. The Chair is responsible for leading Board discussions on strategy matters. Strategy is developed by the Board as part of the Group-wide strategy. The aligned strategy of the Group is then segmented and the Company's Board and senior leadership team focus on the Company's part in the wider strategy and plans and how these will be delivered and aligned with the Company's Purpose. Segmenting the plans allows Allianz Commercial and Allianz Personal and their respective lines of business to be differentiated as required to meet the overall strategy and objectives of the Group and the Allianz SE Group. The strategy is also discussed and agreed with the ultimate shareholder, Allianz SE, through the annual planning and strategic dialogue processes.

The CEO of Allianz Holdings plc is responsible for delivery the overall strategy of the Group, along with the Allianz Holdings plc Executive Committee which includes senior leadership from both Allianz Commercial, Allianz Personal and central functions which support the Group. The CEO of Allianz Commercial is responsible for implementation of the Company's commercial strategy and there is an Allianz Commercial executive committee to support the CEO. Personal lines business is the responsibility of the CEO of Allianz Personal, supported by the Allianz Personal Executive Committee.

The strategy concentrates on three strategic objectives - Outperform, Transform and Rebalance – and is underpinned by the Renewal Agenda which comprises five important themes of customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. We benchmark ourselves against best in class to continually improve the customer experience. The objectives focus on being simple, digital and scalable. The business is also transforming its IT and digital capabilities as part of an Allianz SE Group wide initiative in order to improve productivity, reduce complexity and increase customer satisfaction.

In addition, there is a focus on our people and ensuring that people of all backgrounds feel included and able to succeed and in ensuring the Company continues to operate in an ethical way. During the year, the Company was ranked 26th by the Inclusive Top 50 UK Employers list, showing the continued focus on this area.

Values and Culture
In line with our purpose, we put our people first and our customers at the heart of everything we do. Our brand promise and leading service differentiates us.

Allianz's values are embedded within its culture and the policies it upholds. The Board has a strong emphasis on integrity and honesty. During 2021, the Board engaged an independent third party to provide an assessment and more detailed understanding of the Company's current culture and its impact which it aims to align with the regulatory requirements.

The review included, amongst other things, exploring how the culture supports the delivery of good customer outcomes, differences and similarities in culture between Allianz Commercial and Allianz Personal divisions of the business and whether the purpose is understood by employees.

The review involved interviews, focus groups and a survey and the Board received a report on the findings. The survey found that the culture was centred on caring for our people and our customers. Detailed action plans were developed based on the findings, which will enable the Board to lead on shaping the desired culture as the business grows and develops.

The Group's policies and practices help reinforce the Group's values and 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.

When the Company 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 Company's own products and services, they must always be clearly explained and honestly marketed. In

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle One – Purpose and Leadership (continued)**

Values and Culture (continued)
2021, the Company introduced its sustainable procurement charter to encourage its suppliers to adopt and develop sound Environmental, Social and Governance (ESG) practices. For future tender assessments, the Company will apply a minimum weighting of 10% to ESG factors, as a way of prioritising suppliers that have embedded sustainable and ethical practices within their organisation. The Company will also provide support and education to suppliers who are invested in ESG. Allianz wants to partner with suppliers who understand the nature of the materials, products and services they're providing and the importance of protecting the environment and fostering good relations with their employees and their local communities.

The Group's environmental, social and governance strategy is embedded within the business and has been reviewed by the Board. Under this strategy Allianz strives to be a responsible insurer, responsible investor, committed corporate citizen and a trusted company. Allianz knows that by acting responsibly it can provide products and services that meet its customers' needs, reduce the impact of our operations by being environmentally efficient and help the transition to a low carbon economy.

**Principle Two – Board Composition**

Composition, Size and Structure
For the year ended December 31, 2021, the Board of the Company comprised five independent non-executive directors, including an independent non-executive Chair, one shareholder nominated non-executive director and three executive directors. In 2022, following the appointment of S C McGinn to the Board, the executive directorships have increased to four.

The role of the Chair (being the Chair of the Board of Allianz Holdings plc as well as the Company) and the role of Group CEO and (since July 2021) the Allianz Commercial and Personal CEOs, are separate and clearly defined. The Chair is responsible for the effectiveness of the Board, including facilitating objective debate to ensure effective decision-making. During 2020, R O Hudson indicated his intention to step down as Chair in 2021. P J Evans was selected to become the new independent non-executive Chair and a Director of the Company and was appointed with effect from May 14 2021, on receipt of regulatory approval. R O Hudson resigned from the same date.

P J Evans' appointment was made through a robust selection process focussed around finding a candidate with sufficient board and chairing experience as well as relevant skills and competencies to make a meaningful contribution as the Chair of the Board. An independent executive search firm was engaged to support the selection process which was led by the outgoing Chair and overseen by the Compensation and Nominations Committee with the appointment being finally approved by the Board. The UK Group CEO and Shareholder nominated director also contributed to the selection process.

The Group CEO as well as the CEOs of Allianz Commercial and Allianz Personal are responsible for executing the strategy of the Company. The CEO of the Group also fulfils the role of CEO of the Company which includes both commercial and personal products. On November 30, 2021, J Dye, stepped down as CEO of the Company and the Group and resigned as a Director of both the Company and Allianz Holdings plc. J Dye was replaced by C Holmes as CEO of the Company and the Group and appointed to the Company's Board subject to regulatory approval. While awaiting regulatory approval, the Directors decided to formally approve his appointment as a Director with effect from February 22, 2022.

In July 2021, the Group undertook a Restructure, creating two trading divisions, Allianz Personal and Allianz Commercial, supported by the integrated central functions of Finance, Risk and Human Resources. Each trading division has a CEO to lead that part of the business: Allianz Personal is led by S Treloar and Allianz Commercial is led by S C McGinn. While awaiting regulatory approval, the Directors decided to formally approve S C McGinn's appointment as a Director with effect from February 22, 2022. The revised structure of the Board better reflects the nature of the business of the Company and the Group.

Following the Board effectiveness review which was undertaken during 2021, one of the non-executives was appointed as Senior Independent Director. The shareholder nominated Director resigned at the end of 2020 and the replacement Director C G Townsend was appointed April 29, 2021 on receipt of regulatory approval. Therefore for the first part of the year there were four non-executive Directors. This composition was considered appropriate for the size and nature of the business, and provides the appropriate combination of skills, experience and knowledge required for the Board to carry out its responsibilities.

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle Two – Board Composition (continued)**

Balance and Diversity
The Board remains 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 and the Group Executive Committee.

The Company was again included in the Inclusive Top 50 UK employers in 2021, ranked 26th, recognising the continued dedication to workplace diversity. There is a Diversity and Inclusion Steering Committee, sponsored by the CEO which develops the diversity and inclusion action plan. During the year, a member of the Group Executive Committee was also on the Allianz SE Group Global Inclusion Council that develops and drives the global strategy. The Group had developed a range of employee-led networks across the business which 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.

As an example of the Group and Company's commitment to equality of opportunity for all our people, in 2021, the Group introduced a Transitioning at Work functional rule. This was spearheaded by the Group's employee Pride networks, in collaboration with Stonewall and Allianz is the first major insurer to create support of this kind. The new document stresses the importance for Allianz to create a supportive environment and provides a level playing field for all employees. It also highlights the legal context and protections afforded to trans colleagues, and the key considerations and responsibilities to create a safe and inclusive environment for anyone who may be transitioning at work or considering transition.

In relation to the Board, as at December 31, 2021, two of the eight members (25%) of the Board were female. On the appointment of S C McGinn and C Holmes the composition was 20% female. New appointments to the Board are recommended by the Group Board's Compensation & 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 should be and this will be taken into account as and when new directors are appointed to the Board, including when existing non-executive 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 insurance sector and therefore they provide objective and constructive challenge to the executive Directors.

Effectiveness
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 effectiveness reviews cover the Company, Allianz Holdings plc and the other key entities in the Group.

During 2021 the Board undertook a complete review of Board governance effectiveness (the "Review"), led by the new Chair, P J Evans, in conjunction with the Chief Legal Officer and Company Secretary. An independent third party was also engaged to assist with carrying out the effectiveness survey and collating the findings. The Review was forward looking and focused on opportunities to enhance governance effectiveness.

The Review covered Board and Committee effectiveness in all respects and also considered some specific areas such as ensuring that customer outcomes and conduct risks were fully considered in all major decision. . The methodology used included a director skills assessment, director behavioural feedback, the effectiveness survey and reviews of terms of reference and agendas. The Review concluded that there was a strong foundation for effective governance.

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle Two – Board Composition (continued)**

Effectiveness (continued)
Opportunities for improvement were identified and actions plans were drawn up with progress against the actions reviewed by the Board and relevant Board Committees quarterly. The Review also recommended the appointment of a Senior Independent Director and following the review, R Murison was appointed to this role, subject to regulatory approval. Since the Board effectiveness review many improvements have been made and the actions will continue to be tracked during 2022. A Board effectiveness survey is planned later in 2022 to monitor progress. At the beginning of 2023 an independent externally led Board effectiveness review is planned, which will review the effectiveness of the Board and review progress against the actions from the 2021 review and embedding of changes.

The Directors are provided with a comprehensive and tailored induction on joining the Board and regularly meet with senior managers across the business. During the year, P J Evans was appointed as Chair, he received a full induction, spending time getting to know the business from late 2020 onwards and ensuring a comprehensive hand over from R O Hudson.

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 4 quarterly deep dive sessions with management. The sessions covered updates on certain topics as well as discussion. The topics varied between those which focus on one area of the business and those which focus on the Group. There were four quarterly sessions during the year and the following topics were discussed at these sessions: Information Security deep dive on CBEST (California Basic Educational Skills Test), a framework to test and improve financial sector cyber resilience.; LV Internal Model proposal and its comparison to AZI's model; operational resilience including methodology for determining Important Business Services; Review of the PRA's 2021 Climate Biennial Exploratory Scenario; credit risk and credit spread risk scenario; and capital allocation.

In November 2021, following an action arising from the Board effectiveness review, the Board approved a new consolidated Board training plan. The new training plan reviews topics across the business, which are relevant to the Board and its individual Committees. The outcome will be a greater focus on different training topics and needs of the Directors, in addition to the deep dives which have in the past been predominantly risk based.

**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 2021 as well as strategy days with members of the Executive Team.

There were also a number of ad hoc meetings during the year. The agenda for each meeting is carefully considered by the Chair, 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. 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 Solvency II policies, in particular the Governance and Control Policy, are reviewed and approved annually to ensure continued relevance and effectiveness.

Individually each Board Director is required to perform their role in accordance with prescribed role profiles and competency requirements. Annual Board Fit and Proper assessments as part of the Senior Manager and Certification Regime 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 interests they have including any potential conflicts of interest. The Directors declare any interests at each Board meeting and the Register of Directors' Interests is reviewed. Where required, appropriate mitigations will be put in place, including where necessary a member recusing

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle Three – Director Responsibilities (continued)**

Accountability (continued)
themselves from a particular agenda item or decision to ensure the interests of the Company are not compromised.

Board Committees
The Board composition is aligned with the Allianz Holdings plc Board and other key entity Boards within the Group, with the same Directors on these Boards. Board meetings for all of the entities with aligned Boards are held together with the Group Board, with each Company discussing matters relevant to it and the Directors considering matters from the perspective of each relevant Company for each item on the agenda. The Group Board and Company's Board delegate certain activities to committees including the Allianz Holdings plc Executive Committee, the Audit Committee, the Risk Committee, the Customer & Conduct Committee, the Compensation and Nomination Committee and the Finance & Investment Committee. All of these committees (save for the Executive Committee and the Finance & Investment Committee) are chaired by a non-executive Director who provides constructive challenge and oversight across the work carried out by those committees. The Finance & Investment Committee has one non-executive Director member and is chaired by Colm Holmes, the CEO of Allianz Holdings plc.

The Executive Committee consists of the accountable executives for the Group. All of the Committees consider matters for the Group as a whole and matters which pertain to a particular division or Company, as required. However, there are also separate Allianz Commercial and Allianz Personal executive committees, chaired by the respective CEOs, which are forums to help C Holmes lead those divisions. In addition, during the year the terms of reference of each of the Committees was reviewed and updated to ensure the duties and authorities delegated to the Committees are clearly set out and defined and that the allocation of responsibilities between the Committees is clear. However, the Board retains ultimate responsibility for final decisions and where relevant each Committee recommends matters put to it to the Board for final approval.

Following the Board effectiveness review which took place in 2021, culture matters became the responsibility of the Board, rather than being delegated to the Customer & Conduct Committee. The Customer & Conduct Committee continues to focus on customer outcomes and impacts and conduct issues.

Integrity of Information
The provision of clear, precise and relevant management information and reports to the Board is fundamental to achieving good corporate 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. During 2020 and 2021 new Board reporting templates were rolled out, together with training, to ensure that papers are clear, determine what action is required of the Board, contain an executive summary and conclusions. Further steps were also taken to ensure that Board packs are delivered to agreed timescales to allow sufficient time for Directors to review ahead of the meeting and facilitate useful debate and challenge at the meeting.

Information provided to the Board includes financial information, review of actual performance against plan, strategy updates, project updates, certain metrics and data and market developments.

The internal audit function prepares an annual risk-based plan of audits, derived from an audit universe, defined and revised annually, covering the complete system of governance. This includes the controls surrounding the processes for collecting and reporting data. The annual plan is approved by the Audit Committee with quarterly reporting on progress to the Audit Committee and the Group Board. The Company's Board is therefore aware of and has oversight of these matters as appropriate and relevant to the Company and its activities.

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle Four – Opportunity and Risk**

Opportunity
At Allianz, our Change Management framework provides the overarching framework for management and delivery of strategic change opportunities. This incorporates the appropriate regulatory, customer and commercial considerations to review opportunities and to ensure successful delivery. The executive team meets quarterly to review the opportunities pipeline, set priorities and to provide oversight. Strong alignment exists with Allianz SE Group's purpose and strategy, with ongoing strategic dialogue and increased leveraging of group architecture, technologies and solutions.

The Board reviews and approves the strategy including threats and opportunities (considering the agreed risk appetites) following the planning dialogue which takes place in October and November each year with the ultimate shareholder ahead of the following financial year. Further information on the strategy setting process is provided under Principle One.

Risk
All businesses face uncertainty, and the challenge for management is to determine how much uncertainty Allianz 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 Allianz may encounter, as well as their tracking and monitoring. This also ensures that Allianz has processes in place by which we assess the risks that we are exposed to, both on a current and forward-looking basis.

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

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

Allianz has an internal control framework, which is articulated in the Board 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 Own Risk and Solvency Assessment (ORSA) updates which it receives and reviews. Any significant deviations from the Risk Policy or other issues identified are communicated to the Board by the Risk Committee.

A Governance team, overseen by the Chief Legal Officer and Company Secretary, supports the Board and Group Executive Committee 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 (with a Statement of Accountability being signed by the Group CEO and Group Chief Financial Officer and provided to the Allianz SE Group as part of its own governance review).

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle Four – Opportunity and Risk (continued)**

Responsibilities
The Board's responsibilities include strategy, strategic asset allocation, establishment and maintenance of the system of internal control, approval of new appointments to FCA/PRA Controlled functions, and the overall operation of the Company.

The Board is responsible for setting and reviewing the Company'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 Company has a conservative and controlled risk appetite that is aligned to achieving corporate objectives and meeting regulatory requirements as well as the requirements of its parent company, Allianz Holdings plc.

In relation to the objectives in the annual corporate plan, the Company 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. 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 Department via the risk management systems in place.

The Company and Group have 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 annual report and solvency and financial condition report.

**Principle Five – Remuneration**

The Compensation & Nomination Committee of the Group Board is responsible for oversight of the Group's compensation strategy and making recommendations to the Group Board on matters concerning the remuneration of the Directors and senior executives.

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.

During the year, the Compensation & Nomination Committee met the requirements of its clearly defined terms of reference, which included reviewing and publishing the Gender Pay Gap Report for 2020 (published in 2021). The Gender Pay Gap Report 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 remuneration of employees below Allianz Senior Executive level is overseen by the Group Executive Committee.

Remuneration Decisions
The Compensation & Nomination Committee is chaired by a non-executive Director, and during 2021 had a majority of members who are non-executive Directors. From the end of 2021 the Committee now consists of independent non-executive Directors only. The Compensation and Nomination Committee is responsible for reviewing compensation strategy and applying it to senior executive positions in order to attract and retain quality people to enable the delivery of the Company's strategy. There is in place a robust process to assess how material risk takers have managed material risk events and risks therein, including conduct related risks, and influenced the risk profile of the business requiring adjustments to their remuneration. The Committee also oversees the design and operation of the performance management framework in meeting the Company's objectives and local regulatory requirements and suggests changes to it.

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

# Directors' Report (continued)

**Corporate Governance Report (continued)**

**Principle Five – Remuneration (continued)**

Setting Remuneration (continued)
determining appropriate levels of bonus payments. The Compensation and Nomination 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' remuneration is disclosed in note 12.

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. The approach is aligned for employees of all levels and remuneration, particularly bonuses, are closely aligned with the Group's purpose and values and achievement of strategy.

**Principle Six – Stakeholder Relationships and Engagement**

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

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

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

Details of how the Company and its Directors engage with stakeholders can be found in the Section 172(1) statement on page 6.

By order of the Board

C M Twemlow
Company Secretary
April 11, 2022

# Statement of Directors' responsibilities in respect of the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

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

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

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

The directors are responsible for the maintenance and integrity of the 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

April 11, 2022

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

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; 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 2021 (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

### Basis for opinion

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

#### Independence

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

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

Other than those disclosed in Note 10 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

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

## Our audit approach

### Overview

Audit scope

- We performed a full scope audit of the financial statements of the company in accordance with our risk assessment and materiality. In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.

Key audit matters

- Valuation of Insurance Contract Liabilities

Materiality

- Overall materiality: £17.1m (2020: £17.0m) based on the amount that would change the Combined Operating Ratio ("COR") by more than 1%, excluding the effect of the internal quota share contract.
- Performance materiality: £12.8m (2020: £12.7m).

### The scope of our audit

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

### Key audit matters

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

This is not a complete list of all risks identified by our audit.

The 'Impact of Covid-19', which was a key audit matter last year, is no longer included because of a reduction in the level of significant social and economic disruption which may impact the financial statements. Otherwise, the key audit matters below are consistent with last year.

| **Key audit matter** | **How our audit addressed the key audit matter** |
|---|---|
| *Valuation of Insurance Contract Liabilities* | |
| As set out in Note 25, Insurance Contract Liabilities consists of a provision for claims reported, a provision for claims incurred but not reported ("IBNR"), and a provision for unearned premiums. This key audit matter is focussed on the methodologies and the subjectivity of assumptions in the calculation of the provision for claims incurred but not reported (£166.8m) and the total settled PPO reserves (£147.1m) which is included within the provision for claims reported.<br><br>This is a significant accounting estimate in the financial statements and involves a significant degree of judgement.<br>Key areas of focus this year were: | In performing our audit over Insurance Contract Liabilities, we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:<br>• Developing independent point estimates for classes of business considered to be higher risk, particularly focussing on the largest and most uncertain estimates, with data as at 31 August 2021 and performing roll-forward procedures to December 31, 2021. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated provision for claims represents a reasonable estimate. |

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

| | |
|---|---|
| • The underlying volatility attached to estimates for the larger classes of business, such as commercial and personal motor and commercial liability business. For these lines of business, small changes in assumptions can lead to large changes in the level of the estimate held and the combined operating ratio.<br>• The reserving of claims related to the impact of Covid-19, especially those in relation to business interruption claims and other impacts such as changing patterns of claims.<br>• The risk that estimates in respect of large losses or events, and PPOs are inappropriate. There is significant judgement involved in the estimation of such losses, particularly as they are based on cashflow techniques rather than standard triangulation projections.<br><br>While this risk is predominantly focused on under-reserving, we also considered whether excessive levels of prudence exist within management's booked provision for claims.<br><br>Refer to Note 1 for the accounting policies of the Insurance Contract Liabilities and Notes 2, 25 and 26 for disclosure of the related judgements and estimates. | • For selected high and medium risk classes of business, we examined the methodologies and assumptions used by the directors to derive their estimates, and whether these produced reasonable estimates against select metrics based on the company's facts and circumstances. For lower risk classes of business, analytical procedures were performed.<br><br>• For the business interruption losses, we evaluated the directors' estimate. We evaluated the estimate in the context of the information available as at the date of our opinion and performed audit procedures over the assumptions and judgements applied by the directors. We had regard to the exposures of the company under various policy wordings and any relevant legal judgements.<br>• Evaluated management's reserve uncertainty assessment.<br>• Obtained and reviewed relevant reinsurance contracts (including Excess of Loss agreements and the internal quota share agreement with Allianz Re Dublin dac).<br>• Obtained and reviewed reporting presented by management's actuarial team to wider management, which includes detailed reviews of key areas of uncertainty.<br><br>In performing the above, we have also:<br>• Tested the underlying relevant data (including but not limited to claims case estimates and paid claims) to relevant audit evidence.<br>• Tested the directors' assessment of estimation uncertainty (disclosed in Note 26).<br>• Considered whether any of our audit procedures gave rise to an indication of management bias.<br>• Assessed the disclosures in the financial statements.<br><br>Based on the work performed and evidence obtained, we consider the valuation of Insurance Contract Liabilities to be appropriate. |

## How we tailored the audit scope

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

The company is a UK domiciled insurer. In determining the scope of the audit, we performed risk assessment procedures which included understanding the business operations, the internal control environment and management's process for the preparation of the financial statements. We applied our materiality benchmark across each financial statement line item to identify which items were significant to the audit of the company.

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

Where the work was performed by the Allianz SE group auditor, we determined the level of involvement we needed as the company audit team of those auditors to be able to conclude whether sufficient and appropriate audit evidence had been obtained as a basis for our opinion on the financial statements as a whole. We maintained regular and timely communication with the group auditor including video and phone calls and discussions, where appropriate.

### Materiality

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

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

| | |
|---|---|
| *Overall company materiality* | £17.1m (2020: £16.9m). |
| *How we determined it* | Based on the amount that would change the Combined Operating Ratio ("COR") by more than 1%, excluding the effect of the internal quota share contract. |
| *Rationale for benchmark applied* | We consider the COR as a key performance related benchmark used by the directors and is central to the directors' communication to the public on the performance of the business. In determining our materiality, we excluded the effect of the company's internal quota share reinsurance arrangement with another Allianz SE group company to ensure materiality is calculated on a basis consistent with how management view the performance of the business. |

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £12.8m (2020: £12.7m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.86m (2020: £0.85m) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the 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;

Evaluating management's solvency scenario analysis and challenging management's key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we considered the governance over the production of this information and its consistency with other available information and our understanding of the business;

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

Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of Covid-19); and

Assessing the disclosures made by management in the financial statements and checking the consistency of the disclosures with our knowledge of the company based on our audit and the other procedures listed here.

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 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 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 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

## 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 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 company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### 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 company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), 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 the valuation of Insurance Contract Liabilities and the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Discussing with the Board of Directors, management, internal audit, senior management involved in the risk and compliance functions and the company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluating and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Assessing matters included on the company's fraud report and the results of management's investigation of such matters;
- Engaging our PwC actuaries to examine the methodologies and assumptions used by management's experts in valuing the insurance contract liabilities;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Attending relevant meetings of the Audit Committee and reviewing meeting minutes, including those of the Board of Directors;
- 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.

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

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

### Use of this report

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

# Other required reporting

## Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

## Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 9 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2018 to 31 December 2021.

Matthew Nichols (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
12 April 2022

# Statement of Comprehensive Income

**For the year ended December 31, 2021**

| | Note | 2021 £m | 2020 £m |
|---|---|---|---|
| Gross earned premiums | 3 | 1,840.0 | 1,906.2 |
| Reinsurers' share of gross earned premiums | 3 | (813.9) | (845.1) |
| Net insurance revenue | 3 | 1,026.1 | 1,061.1 |
| | | | |
| Reinsurance commission | | 230.9 | 107.3 |
| Investment income | 4 | 50.1 | 63.2 |
| Net realised gains | 6 | 5.2 | 10.1 |
| Other income | | 0.2 | - |
| Other revenue | | 286.4 | 180.6 |
| **Total revenue** | | 1,312.5 | 1,241.7 |
| | | | |
| Gross insurance claims paid | 25 | (1,195.6) | (1,231.6) |
| Reinsurers' share of gross insurance claims paid | 25 | 501.9 | 525.8 |
| Gross change in insurance liabilities | 25 | 37.7 | (266.8) |
| Reinsurers' share of gross change in insurance liabilities | 25 | (29.6) | 189.9 |
| Net insurance claims | | (685.6) | (782.7) |
| | | | |
| Commission | | (219.6) | (252.1) |
| Finance costs | 5 | (37.3) | (17.1) |
| Unrealised losses | 7 | (3.4) | - |
| Other operating and administrative expenses | 8 | (337.5) | (207.9) |
| Other expenses | | (597.8) | (477.1) |
| | | | |
| **Total claims and expenses** | | (1,283.4) | (1,259.8) |
| | | | |
| **Profit/(loss) before tax** | | 29.1 | (18.1) |
| Income tax (expense)/credit | 11(a) | (6.9) | 7.8 |
| **Profit/(loss) for the year wholly attributable to the equity holders** | | 22.2 | (10.3) |
| | | | |
| **Other comprehensive (expense)/income** | | | |
| **Items that may be reclassified to profit and loss** | | | |
| Net change in fair value of available for sale financial assets | | (62.8) | 50.1 |
| Net change in fair value of available for sale financial assets transferred to profit or loss | | (10.0) | (13.6) |
| **Items that will not be reclassified to profit and loss** | | | |
| Tax on fair value movements | 11(b) | 12.4 | (8.2) |
| | | | |
| **Other comprehensive (expense)/income for the year, net of tax** | | (60.4) | 28.3 |
| **Total comprehensive (expense)/income attributable to the equity holders** | | (38.2) | 18.0 |

The accounting policies and notes on pages 34 to 75 are an integral part of these financial statements.

# Statement of Changes in Equity

**For the year ended December 31, 2021**

| | *Share capital £m* | *Share premium £m* | *Fair value reserve £m* | *Retained earnings £m* | *Total equity £m* |
|---|---|---|---|---|---|
| **Balance as at January 1, 2020** | 172.8 | 5.2 | 52.0 | 705.9 | 935.9 |
| Net change in fair value of available for sale financial assets | - | - | 50.1 | - | 50.1 |
| Net change in fair value of available for sale financial assets transferred to profit or loss | - | - | (13.6) | - | (13.6) |
| Tax on fair value movements | - | - | (8.2) | - | (8.2) |
| Net loss for the year | - | - | - | (10.3) | (10.3) |
| **Total recognised income and expense for the year** | - | - | 28.3 | (10.3) | 18.0 |
| **Balance as at December 31, 2020** | **172.8** | **5.2** | **80.3** | **695.6** | **953.9** |
| Net change in fair value of available for sale financial assets | - | - | (62.8) | - | (62.8) |
| Net change in fair value of available for sale financial assets transferred to profit or loss | - | - | (10.0) | - | (10.0) |
| Tax on fair value movements | - | - | 12.4 | - | 12.4 |
| Net profit for the year | - | - | - | 22.2 | 22.2 |
| **Total recognised income and expense for the year** | - | - | (60.4) | 22.2 | (38.2) |
| **Balance as at December 31, 2021** | **172.8** | **5.2** | **19.9** | **717.8** | **915.7** |

The accounting policies and notes on pages 34 to 75 are an integral part of these financial statements.

# Balance Sheet

**As at December 31, 2021**

| **Assets** | *Note* | *2021* *£m* | *2020* *£m* |
|---|---|---|---|
| Intangible assets | 15 | 31.9 | 35.4 |
| Investment in group undertakings | 14 | 231.6 | 231.6 |
| Property and equipment | 16 | 8.5 | 13.0 |
| Deferred acquisition costs | 17 | 177.8 | 174.9 |
| Deferred tax assets | 11(e) | 8.8 | 11.2 |
| Reinsurance assets | 18 & 25 | 1,410.7 | 1,435.2 |
| Financial assets: | | | |
| Available for sale financial assets (1) | 20 | 2,371.2 | 2,332.0 |
| Derivative financial instruments | 20 | 4.2 | 4.2 |
| Loans to related parties | 20 | 133.2 | 145.8 |
| Other loans and receivables | 20 | 36.0 | 36.0 |
| Insurance receivables | 21 | 767.3 | 752.7 |
| Other receivables | 22 | 152.5 | 142.0 |
| Current tax receivables | 11(d) | 2.2 | 2.6 |
| Accrued income | 19 | 22.7 | 22.9 |
| Cash and cash equivalents | 23 | 6.5 | 23.2 |
| **Total assets** | | 5,365.1 | 5,362.7 |
| | | | |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 24 | 172.8 | 172.8 |
| Share premium | 24 | 5.2 | 5.2 |
| Fair value reserve | | 19.9 | 80.3 |
| Retained earnings | | 717.8 | 695.6 |
| **Total equity** | | 915.7 | 953.9 |
| | | | |
| **Liabilities** | | | |
| Insurance contract liabilities | 25 | 2,944.5 | 2,957.6 |
| Reinsurers' share of deferred acquisition costs | 17 | 108.1 | 69.7 |
| Insurance related payables | 27 | 1,046.3 | 1,070.3 |
| Deferred tax liabilities | 11(e) | 6.4 | 18.8 |
| Accruals and other payables | 28 | 305.3 | 281.0 |
| Provisions for other liabilities and charges | 29 | 38.8 | 11.4 |
| **Total liabilities** | | 4,449.4 | 4,408.8 |
| | | | |
| **Total equity and liabilities** | | 5,365.1 | 5,362.7 |

(1) Within available for sale financial assets there are £220.5m (2020: £216.2m) of lent securities. See note 20.

The accounting policies and notes on pages 34 to 75 are an integral part of these financial statements.

These financial statements on pages 30 to 75 were approved by the Board of Directors on April 6, 2022 and signed on its behalf by:

F K Dyson
Director

**Allianz Insurance plc**
**Registered Number: 00084638**

# Statement of Cash Flows

**For the year ended December 31, 2021**

| | *Note* | *2021* *£m* | *2020* *£m* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 33 | 69.6 | 63.2 |
| Dividend received | 4 | - | 12.2 |
| Net investment income received | | 26.1 | 49.5 |
| Income tax paid | 11(c) | (4.1) | (3.2) |
| **Net cash inflow from operating activities** | | 91.6 | 121.7 |
| | | | |
| **Cash flows from investing activities** | | | |
| Decrease in deposits with credit institutions | 20(b) | 0.1 | 0.2 |
| Purchase of derivatives | 20(c) | - | (3.1) |
| Purchase of available for sale financial assets | | (900.0) | (950.6) |
| Proceeds from sale of available for sale financial assets | | 780.7 | 793.3 |
| Disposal of property | 16 | 1.4 | - |
| Proceeds from return of share capital | | - | 32.0 |
| Purchase of Intangible Assets | 15 | (3.0) | - |
| Disposal of subsidiary | | - | 6.8 |
| **Net cash outflow/inflow from investing activities** | | (120.8) | (121.4) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from loan from group undertakings | 20(b) | 12.6 | 16.2 |
| Proceed/(disposal) from other loans | 20(b) | (0.1) | - |
| **Net cash inflow from financing activities** | | 12.5 | 16.2 |
| | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | (16.7) | 16.5 |
| | | | |
| **Cash and cash equivalents at the beginning of the year** | 23 | 23.2 | 6.7 |
| | | | |
| **Cash and cash equivalents at the end of the year** | 23 | 6.5 | 23.2 |

The accounting policies and notes on pages 34 to 75 are an integral part of these financial statements.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 1. ACCOUNTING POLICIES

### 1.1 Company and its operations

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

### 1.2 Statement of Compliance

The financial statements of the Company have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

### 1.3 Basis of preparation

The Company is exempt from the obligation to prepare and deliver group financial statements by virtue of the Companies Act 2006 (Section 401 1a) as it is a subsidiary undertaking of an EU parent (see note 31). The financial statements present information about the Company as an individual undertaking and not about the Allianz Insurance plc Group.

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

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

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 Directors' Report on page 12.

**UK-adopted international accounting standards**
On December 31, 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Allianz Insurance plc transitioned to UK-adopted International Accounting Standards in its company financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The financial statements of Allianz Insurance plc have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

**New standards and interpretations adopted by the Company**
There are no new standards and interpretations affecting the Company that are mandatorily effective from January 1, 2021. The accounting policies have been consistently applied unless a new policy has been implemented.

**Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**
In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one. These amendments were effective from 1 January 2021.

The Company formed a LIBOR transition working group with members from relevant teams (Investment, Risk, Asset management, Procurement, etc.) which identified exposures referencing London Interbank Offered Rate ("LIBOR"). The working group met regularly throughout 2021 and had the objective of ensuring LIBOR transition and monitoring regulatory and market developments. Regular updates were provided to the Finance and Investment Committee as well as the PRA.

Contracts with material exposures referencing LIBOR were identified and instructions were issued to replace LIBOR with an alternative (usually SONIA). For some contracts, the plan is to transition at the renewal. The Company ensured material exposures did not reference LIBOR at the end of 2021.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

All remaining LIBOR linked investments are asset backed securities ("ABS") without adequate fall-back language, where transition has proved very challenging. The Company has attempted to change the base rate for the LIBOR linked ABS to SONIA or insert adequate fall-back wording but some have proved too difficult to transition before December 31, 2021. The Company continues to use synthetic LIBOR in light of the FCA announcement that this will be published beyond the end of 2021. The Company continues to focus on active transition rather than relying on synthetic LIBOR beyond 2022, in line with FCA guidance.

All other LIBOR linked investment assets have successfully transitioned to SONIA.

As of January 2022, the market value of the remaining LIBOR linked investments was £158m (including £34.2m agreed to transition to SONIA in March). The PRA is comfortable with the LIBOR transition approach outlined above.

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

- 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 Company 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 Company 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 the end of 2022 to ensure compliance with the standard.
- IFRS 9 Financial Instruments – IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and changes the classification and measurement of financial assets, based on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses ("ECL"). The Company, based on the impact assessment performed under One.Finance, will take advantage of the exemption available as its activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after January 1, 2018) until January 1, 2023, which will coincide with the expected implementation of IFRS 17. 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 financial statements is anticipated in either net income or equity.

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 Company's activities during the annual period that ended on that date.

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 1. ACCOUNTING POLICIES (continued)

### 1.3 Basis of preparation (continued)

**New standards and interpretations adopted by the Company (continued)**

The following table discloses whether the financial assets meet the solely payments 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 do not meet the SPPI criterion | |
|---|---|---|---|---|
| As of December 31, 2021 | Fair Value | Fair Value change during the year | Fair Value | Fair Value change during the year |
| | *£m* | *£m* | *£m* | *£m* |
| Cash and cash-equivalents | 6.5 | - | - | - |
| Debt securities | | | | |
| Government and government agency bonds | 440.5 | (15.5) | - | - |
| Corporate bonds | 1,655.7 | (47.4) | 140.3 | 2.3 |
| Managed Funds | - | - | 134.7 | 1.5 |
| **Total** | **2,102.7** | **(62.9)** | **275.0** | **3.8** |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 1. ACCOUNTING POLICIES (continued)

### 1.3 Basis of preparation (continued)

**New standards and interpretations adopted by the Company (continued)**

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

| As of December 31, 2021 | Cash and cash equivalents | Government and government | Corporate bonds |
|---|---|---|---|
| Investment grade | £m | *£m* | *£m* |
| AAA | - | 76.9 | 479.2 |
| AA | - | 217.6 | 108.4 |
| A | 6.5 | 9.8 | 364.7 |
| BBB | - | 46.1 | 643.4 |
| Non-investment grade | - | 90.1 | 60.0 |
| **Total** | **6.5** | **440.5** | **1,655.7** |

### 1.4 Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance contract liabilities, the ascertainment of fair values of financial assets and liabilities and probability of deferred tax assets being realised. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgements based on information and financial data that may change in the 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 significantly different results. Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of significant 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) Investments in group undertakings***

Investments in group 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.

The Company is exempt from preparing group financial statements by virtue of the Companies Act 2006, as it is a subsidiary undertaking of an EU parent (see note 31). The financial statements present information about the Company as an individual undertaking and not about the Allianz Insurance plc Group.

***(b) Property and equipment***

Own use property is initially recognised at cost and is 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.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 1. ACCOUNTING POLICIES (continued)

### 1.4 Summary of significant accounting policies

***(b) Property and equipment (continued)***
Gains arising from changes in fair values are recognised in the fair value reserve in equity, unless this reverses a revaluation decrease previously recognised in the Statement of Comprehensive Income. Losses arising from changes in fair value are recognised in the Statement of Comprehensive Income, unless this reverses a revaluation increase previously recognised in the fair value reserve.

***(c) Intangible assets***
The Company applies the cost model to account for intangible assets. The cost of acquiring renewal rights to portfolios of insurance business is amortised on a straight line basis over the expected life of the intangible asset. This useful life has been assessed as either five or eight years.

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

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

The DAC asset represents the proportion of acquisition costs which corresponds to the proportion of 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.

***(e) Income taxes***
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income. Current tax 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.

***(f) Reinsurance assets***
The Company assumes and cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due 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.

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.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 1. ACCOUNTING POLICIES (continued)

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

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

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

***(g) 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.

***(h) Financial assets***

The Company classifies its investments as either available for sale financial assets, loans to related parties or other loans and receivables.

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

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

**Available for sale financial assets**

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

**Loans and receivables**

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

**Securities lending**

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

**Impairments**

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

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

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 1. ACCOUNTING POLICIES (continued)

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

***(h) Financial assets (continued)***

**Impairments (continued)**
Impairment losses are recognised in the statement of comprehensive income immediately.

***(i) Fair value reserve***
The fair value reserve relates to the changes in the fair value gains or losses on investments classified as available for sale and fair value gains on own use property. Fair value losses on own use property are recognised in the statement of comprehensive income immediately.

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

***(k) 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.

***(l) 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.

***(m) Provisions for other liabilities and charges***
A provision is recognised when the Company has a present legal or constructive obligation, as a result of a past event, which it is probable, will result in an outflow of resources and when a reliable estimate of the amount of the obligation can be made. If the effect is 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 risk is specific to the liability.

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

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

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

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 1. ACCOUNTING POLICIES (continued)

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

***(p) 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.

***(q) Revenue recognition***

**Premium income**

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

**Reinsurance commission**

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

The fixed rate contribution received towards expenses and commission under the quota share contract mentioned on page 1 is all recognised as reinsurance commission.

**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.

**Net realised gains**

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

***(r) Claims 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.

***(s) Interest payable***

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

***(t) Foreign currency translation***

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

***(u) Dividends***

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 2. USE OF CRITICAL ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

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

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

Standard actuarial claims projection techniques, such as the Chain Ladder method are used to estimate the majority of outstanding claims. 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 periodic 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.

COVID-19 business interruption reserves have been estimated separately using claims based analysis, taking into account the unique considerations for different policy wordings. 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. 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. The impact of COVID-19 on business interruption claims continues to be a significant uncertainty, in particular where there are legal uncertainties that need to be progressed before claims can be paid. PPO claims also 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**
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, claims based analysis has been used taking into account the unique considerations for different policy wordings. Reinsurance recoveries on COVID-19 business interruption claims have been estimated reflecting the agreed operation of the Catastrophe excess of loss reinsurance treaty and the underlying uncertainty associated with the gross claims. Further details of the claims estimation process are described in note 25.

The carrying value at Balance Sheet date for these general insurance contracts is £2,944.5m (2020: £2,957.6m).

# Notes to the Financial Statements

**For the year ended December 31, 2021**

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

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

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

- Corporate bonds
- Managed Funds
- Own use property

**Corporate bonds**
As no market prices are available a discounted cash flow model is used to determine the fair value of the fixed income financial instrument. Judgement is applied in determining the inputs to the model such as the reference spread for the discount rate and the deal specific spread. Further details concerning the valuation techniques can be found in note 30.

**Managed Funds**
As no market prices are available, independent third party valuation services are used to derive the Net Asset Value of the funds. Further details concerning the valuation techniques can be found in note 30.

**Own use property**
The vacant possession value has been considered in order to estimate the fair value of the own use property. 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 30.

## 3. NET INSURANCE REVENUE

| | | *2021* | *2020* |
|---|---|---|---|
| | *Note* | *£m* | *£m* |
| **(a) Gross written premiums** | | | |
| Direct insurance | | 1,859.8 | 1,872.2 |
| Assumed reinsurance | | 0.7 | 7.3 |
| **Total gross written premiums** | 25 | 1,860.5 | 1,879.5 |
| Gross change in unearned premium provision | 25 | (20.5) | 26.7 |
| **Total gross earned premiums** | | 1,840.0 | 1,906.2 |
| | | | |
| **(b) Reinsurers' share of gross written premiums** | | | |
| Direct insurance | | (815.6) | (827.8) |
| Assumed reinsurance | | (0.3) | (0.2) |
| **Total reinsurers' share of gross written premiums** | 25 | (815.9) | (828.0) |
| Reinsurers' share of change in unearned premium provision | 25 | 2.0 | (17.1) |
| **Total reinsurers' share of gross earned premiums** | | (813.9) | (845.1) |
| **Total net insurance revenue** | | 1,026.1 | 1,061.1 |

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 4. INVESTMENT INCOME

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Interest income | 50.1 | 50.3 |
| Dividend received | - | 12.2 |
| PPI provision release | - | 0.7 |
| **Total investment income** | 50.1 | 63.2 |

## 5. FINANCE COSTS

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Impairment of debt instruments | (1.2) | (4.4) |
| Impairment of investment in subsidiaries | - | (0.3) |
| Ceded investment income[1] | (6.4) | (11.3) |
| Loan guarantee fee | (1.0) | (1.1) |
| PPI redress[2] | (28.7) | - |
| **Total finance costs** | (37.3) | (17.1) |

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

[2] The cost of providing PPI redress reflects actual redress paid and the best estimate of the quantum of further claims notified by the deadline based on uphold rates and average values for mis-selling. In addition to this, total gross written premiums include £5.1m (2020 £0.3m credit) of premium refunded to policyholders. Legal proceedings have been issued to seek recovery of costs from the agent.

## 6. NET REALISED GAINS

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Realised gains - debt securities | 8.3 | 12.3 |
| Realised losses - debt securities | (3.1) | (2.8) |
| Gain on disposal of subsidiary | - | 0.6 |
| **Total net realised gains** | 5.2 | 10.1 |

## 7. UNREALISED LOSSES

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Unrealised loss – Own use property | (3.2) | - |
| Net fair value gains/(losses) on derivative held for trading | (0.2) | - |
| **Total unrealised losses** | (3.4) | - |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

### 8. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Acquisition costs [(1)] | 150.0 | 89.0 |
| Movement in deferred acquisition costs – Gross | (2.9) | 2.4 |
| Movement in deferred acquisition costs – Reinsurance | 38.4 | (0.4) |
| Unwind of discount on PPO claims reserve | 1.1 | 0.9 |
| Restructuring and integration charges | 14.4 | 4.2 |
| Administrative expenses | 129.9 | 105.3 |
| Amortisation of renewal rights | 6.6 | 6.5 |
| **Total other operating and administrative expenses** | 337.5 | 207.9 |

[(1)]The increase in acquisition costs is a consequence changes to the quota share contract. Further details are included within Principal activities on page 1.

### 9. EMPLOYEE RELATED COSTS

The Company has no employees and as such incurs no employee related costs. AMS and LVGIG, companies within the Group, provide services and staff resources to the Company as well as to other Group Companies.

### 10. AUDITORS' REMUNERATION

The total remuneration payable by the company excluding VAT, to its auditors in respect of the audit of these financial statements, is shown below. The Company's audit fees are borne by AMS. Other services supplied pursuant to legislation were £nil (2020: £nil).

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Fees payable to the Company's auditors and its associates | 0.9 | 0.4 |
| Audit-related assurance services | 0.2 | 0.1 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 11. INCOME TAX

**(a) Income tax recognised in profit or loss**

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Current tax: | | |
| In respect of the current year | 5.3 | (2.3) |
| In respect of prior years | (0.8) | (3.3) |
| **Total current tax** | 4.5 | (5.6) |
| | | |
| Deferred tax: | | |
| In respect of the current year | 1.6 | (1.4) |
| In respect of prior years | 0.8 | 0.3 |
| Adjustments to deferred tax attributable to changes in tax rates and laws | - | (1.1) |
| **Total deferred tax** | 2.4 | (2.2) |
| | | |
| **Total income tax expense/(credit) recognised in the current year** | 6.9 | (7.8) |

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

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Profit/(loss) before tax | 29.1 | (18.1) |
| | | |
| Income tax expense/(credit) calculated at 19% (2020: 19%) | 5.5 | (3.4) |
| | | |
| Effect of expenses not deductible for tax purposes | 1.2 | 1.3 |
| Effect of prior year adjustment | - | (3.0) |
| Effect of income that is exempt from taxation | - | (1.2) |
| Effect of dividend received from subsidiary | (0.5) | (2.3) |
| Effect of unrealised movement on property | 0.6 | 1.9 |
| Effect of changes in statutory tax rate | - | (1.1) |
| Effect of imputed transfer pricing adjustments | 0.1 | - |
| Income tax expense/(credit) recognised in profit or loss | 6.9 | (7.8) |

The tax rate used for the 2021 and 2020 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 2022.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 11. INCOME TAX (continued)

### (b) Income tax recognised in other comprehensive income

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Deferred tax | 12.4 | (8.2) |
| Total income tax recognised in other comprehensive income | 12.4 | (8.2) |

### (c) Tax paid for cash flow purposes

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Current tax liabilities at January 1 | (2.6) | 6.1 |
| Amounts charged/(credited) to the income statement | 6.9 | (7.8) |
| Movements in deferred tax asset in the statement of comprehensive income | (2.4) | 2.2 |
| Tax paid during the year | (4.1) | (3.2) |
| Other movements | - | 0.1 |
| Current tax receivables at December 31 | (2.2) | (2.6) |

### (d) Current tax receivables

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Current tax receivables | (2.2) | (2.6) |

### (e) Deferred tax balances

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| *Deferred tax assets* | | |
| Tax losses | 8.7 | 14.2 |
| Unrealised losses on bonds | 4.2 | 1.4 |
| | 12.9 | 15.6 |
| *Other* | | |
| Property | - | - |
| Provisions | - | 0.6 |
| Capital allowances | 0.1 | 0.1 |
| Bonds transitional relief | - | - |
| | 0.1 | 0.7 |
| Total deferred tax assets | 13.0 | 16.3 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (4.2) | (5.1) |
| Net deferred tax assets | 8.8 | 11.2 |
| *Deferred tax liabilities* | | |
| Claims equalisation reserve | - | 3.7 |
| Unrealised gains on bonds | 10.7 | 20.2 |
| Total deferred tax liabilities | 10.7 | 23.9 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (4.3) | (5.1) |
| Net deferred tax liabilities | 6.4 | 18.8 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 11. INCOME TAX (continued)

### (e) Deferred tax balances (continued)

| **Deferred tax assets in relation to** | *Tax losses* | *Unrealised losses on bonds* | *Other* | *Total* |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **At January 1, 2020** | 12.4 | 0.7 | 3.4 | 16.5 |
| (Charged)/credited | | | | |
| - to profit or loss | 1.8 | - | (2.7) | (0.9) |
| - to other comprehensive income | - | 0.7 | - | 0.7 |
| **At December 31, 2020** | 14.2 | 1.4 | 0.7 | 16.3 |
| | | | | |
| **At January 1, 2021** | 14.2 | 1.4 | 0.7 | 16.3 |
| (Charged)/credited | | | | |
| - to profit or loss | (5.5) | - | (0.6) | (6.1) |
| - to other comprehensive income | - | 2.8 | - | 2.8 |
| **At December 31, 2021** | 8.7 | 4.2 | 0.1 | 13.0 |

| **Deferred tax liabilities in relation to** | *Claims equalisation reserve* | *Unrealised gains on bonds* | *Total* |
|---|---|---|---|
| | £m | £m | £m |
| **At January 1, 2020** | 6.8 | 11.3 | 18.1 |
| (Credited)/charged | | | |
| - to profit or loss | (3.1) | - | (3.1) |
| - to other comprehensive income | - | 8.9 | 8.9 |
| **At December 31, 2020** | 3.7 | 20.2 | 23.9 |
| | | | |
| **At January 1, 2021** | 3.7 | 20.2 | 23.9 |
| Credited | | | |
| - to profit or loss | (3.7) | - | (3.7) |
| - to other comprehensive income | - | (9.5) | (9.5) |
| **At December 31, 2021** | - | 10.7 | 10.7 |

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Deferred tax asset | 8.8 | 11.2 |
| Deferred tax liability | (6.4) | (18.8) |
| | | |
| Current deferred tax asset | 8.7 | 7.6 |
| Non-current deferred tax asset | 0.1 | 3.6 |
| Non-current deferred tax liability | (6.4) | (18.8) |

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.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 12. DIRECTORS' EMOLUMENTS

| | *2021* | *2020* |
|---|---:|---:|
| | *£* | *£* |
| Emoluments[1] | 3,834,472 | 3,898,847 |
| The amounts in respect of the highest paid Director are as follows: | | |
| Emoluments | 1,283,589 | 1,372,430 |

[1] Emoluments include £373,959 (2020: £209,099) of payments received following the exercise of Restricted Stock Units under the Equity Incentive Scheme of the Company's ultimate parent company, Allianz SE.

The emoluments also include £361,167 (2020: £231,167) of payments received during 2021 by the highest paid Director relating to the vesting of Liverpool Victoria General Insurance Group Limited ("LVGIG") Long Term Incentive Plans ("LTIPs"). That Director also has deferred payments of £ 364,550 (2020: £335,667) receivable in future years from the vesting of the LTIPs which are not included in the aggregate emoluments figures.

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 Holdings plc Group directorships. Save for one Director, the Directors' emoluments were paid by AMS, a fellow Allianz Holdings plc subsidiary, on behalf of the Group. One Director's emoluments were paid by LVGIG, a fellow Allianz Holdings plc subsidiary, on behalf of the Group.

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 £ 3,484 (2020: £13,938) were made into that scheme in relation to that Director. There are no Directors accruing retirement benefits under a defined benefit scheme nor who are members of the Allianz Retirement Savings Plan (a Group Personal Pension Plan defined contribution scheme).

## 13. DIVIDENDS

No interim dividend was paid during the year ended December 31, 2021 (2020: £nil). The Directors do not recommend the payment of a final dividend for the year ended December 31, 2021 (2020: £nil).

## 14. INVESTMENT IN GROUP UNDERTAKINGS

The subsidiary undertakings of the Company at December 31, 2021 are shown below. The registered office for all undertakings is 57 Ladymead, Guildford, Surrey, GU1 1DB.

| Group undertakings | Country of Incorporation | Primary business operations | % Held |
|---|:---:|---|---:|
| Pet Plan Limited | England | Insurance Intermediary | 100 |
| Trafalgar Insurance Limited | England | General Insurance | 100 |
| Allianz Properties Limited | England | Investing in Real Estate | 100 |
| Allianz Equity Investments Limited | England | Investing In Equity Shares | 100 |
| Allianz Pension Fund Trustees Limited | England | Pension Fund Trustee | 100 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 15. INTANGIBLE ASSETS

| | *Goodwill* | *Renewal Rights* | *Total* |
|---|---|---|---|
| | *£m* | *£m* | *£m* |
| **Cost** | | | |
| **At January 1, 2020** | 2.9 | 75.2 | 78.1 |
| **At December 31, 2020** | 2.9 | 75.2 | 78.1 |
| Additions | - | 3.0 | 3.0 |
| **At December 31, 2021** | 2.9 | 78.2 | 81.1 |
| | | | |
| **Accumulated amortisation and impairment** | | | |
| **At January 1, 2020** | - | 36.1 | 36.1 |
| Amortisation charge for the year | - | 6.5 | 6.5 |
| **At December 31, 2020** | - | 42.6 | 42.6 |
| Amortisation charge for the year | - | 6.6 | 6.6 |
| **At December 31, 2021** | - | 49.2 | 49.2 |
| | | | |
| **Carrying amount** | | | |
| **At December 31, 2020** | 2.9 | 32.6 | 35.5 |
| **At December 31, 2021** | 2.9 | 29.0 | 31.9 |

The amortisation charge has been included within other operating and administrative expenses.

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

£26.0m of the carrying amount relates to LV renewal rights, the remaining amortisation period related to these rights is 4 years.

## 16. PROPERTY AND EQUIPMENT

| | *Property* |
|---|---|
| | *£m* |
| **At January 1, 2020** | 15.9 |
| Unrealised loss | (2.9) |
| **At December 31, 2020** | 13.0 |
| **At January 1, 2021** | 13.0 |
| Unrealised loss | (3.2) |
| Realised gain | 0.1 |
| Disposal | (1.4) |
| **At December 31, 2021** | 8.5 |

Own use property is stated at fair value. On December 31, the property was 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 significant assumptions used in the valuation of own use property are disclosed in note 30. Had the own use property been carried under the cost model the carrying amount would have been £22.1m (2020: £23.7m).

During the year, the Company completed the sale of an owner occupied property which was previously valued at £1.4m; sales proceeds received were £1.4m. The gain has been recognised in other income.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 17. DEFERRED ACQUISITION COSTS

| | 2021 | 2020 |
|---|---|---|
| **Gross** | £m | £m |
| **At January 1** | 174.9 | 177.3 |
| Costs deferred during the year | 344.8 | 367.1 |
| Amortisation charge for the year | (341.9) | (369.5) |
| **At December 31** | 177.8 | 174.9 |

| | 2021 | 2020 |
|---|---|---|
| **Reinsurance** | £m | £m |
| **At January 1** | 69.7 | 70.1 |
| Costs deferred during the year | 336.9 | 221.6 |
| Amortisation charge for the year | (298.5) | (222.0) |
| **At December 31** | 108.1 | 69.7 |

| | 2021 | 2020 |
|---|---|---|
| **Net** | £m | £m |
| **At January 1** | 105.2 | 107.2 |
| Costs deferred during the year | 7.9 | 145.5 |
| Amortisation charge for the year | (43.4) | (147.5) |
| **At December 31** | 69.7 | 105.2 |

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.

The movement in the reinsurers' share of deferred acquisition costs, which is associated with reinsurance commission income, is included within Operating Expenses. Refer to Note 8.

## 18. REINSURANCE ASSETS

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Reinsurers’ share of insurance contract liabilities | 1,410.7 | 1,435.2 |
| Total reinsurance assets | 1,410.7 | 1,435.2 |

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

## 19. ACCRUED INCOME

| | 2021 | 2020 |
|---|---|---|
| | £m | £m |
| Interest | 22.7 | 22.9 |
| Total accrued income | 22.7 | 22.9 |

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 20. FINANCIAL ASSETS

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

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Available for sale financial assets | 2,371.2 | 2,332.0 |
| Loans to related parties | 133.2 | 145.8 |
| Loans and receivables | 36.0 | 36.0 |
| Derivative assets | 4.2 | 4.2 |
| **Total financial assets** | 2,544.6 | 2,518.0 |

### *(a) Available for sale financial assets*

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| **At fair value** | | |
| Managed funds | 134.7 | 120.1 |
| Debt securities | 2,236.5 | 2,211.9 |
| **Total available for sale financial assets at fair value** | 2,371.2 | 2,332.0 |
| **At cost** | | |
| Managed funds | 118.3 | 115.7 |
| Debt securities | 2,211.7 | 2,117.2 |
| **Total available for sale financial assets at cost** | 2,330.0 | 2,232.9 |

The Company has entered into securities lending whereby blocks of securities are loaned to third parties. The amount of collateral required to be held above the fair value of the loaned securities is dictated by the agreements and depends on the quality of the collateral provided and calculated on a daily basis. The loaned securities are not removed from the Company's Balance Sheet; they continue to be recognised within the appropriate investment classification. At December 31, 2021, the Company had lent £220.5m (2020: £216.2m) and held collateral under such agreements of £224.9 (2020: £220.1m). Due to the collateral held being higher than the value of securities lent there is very little credit risk.

The collateral held in favour of the Company is marked-to-market daily. The Company holds term lending and agency lending collateral. In relation to term lending, the collateral includes high quality sovereign debt, supranational debt, Residential Mortgage-Backed Securities and covered bonds. An appropriate haircut is applied. In relation to agency lending, the collateral is mostly comprised of highly rated sovereign debt. The agent ensures that the borrowers provide adequate collateral and haircuts are met.

No collateral has been sold or repledged during the year (2020: nil).

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 20. FINANCIAL ASSETS (continued)

### *(b) Loans*

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Loans to related parties[(1)] | 133.2 | 145.8 |
| Other loans | 30.0 | 29.9 |
| Deposits with credit institutions[(2)] | 6.0 | 6.1 |
| **Total loans** | 169.2 | 181.8 |

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Current loans | 16.2 | 16.2 |
| Non-current loans | 153.0 | 165.6 |

[(1)] Amounts repayable by related party, AMS, are to be repaid over 10 years, up to and including September 30, 2029 and carry interest at the Bank of England base rate +0.25%. The interest is receivable quarterly and charged on the outstanding loan balance. A guarantee from Allianz SE was put into place to support the Company's regulatory solvency position. The principle terms of the guarantee are as follows:

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

[(2)] Included within the deposits with credit institutions is £6.0m (2020: £6.1m) which the Company has pledged as collateral relating to the future settlement of insurance contract liabilities.

The fair value of the loans made by the Company is £163.2m (2020: £173.0m). Other carrying amounts disclosed above reasonably approximate fair values at year end.

### *(c) Derivatives*

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| **Total derivatives** | 4.2 | 4.2 |

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 21. INSURANCE RECEIVABLES

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Due from policyholders | 481.5 | 460.7 |
| Due from reinsurers[1] | 11.6 | 3.3 |
| Due from agents, brokers and intermediaries | 274.2 | 288.7 |
| **Total insurance receivables** | 767.3 | 752.7 |

[1] Included in amounts due from reinsurers are balances due from related parties of £10.4m (2020: £2.6m).

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Current insurance receivables | 751.9 | 699.3 |
| Non-current insurance receivables | 15.4 | 53.4 |

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

## 22. OTHER RECEIVABLES

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Amounts due from related parties | 101.4 | 76.1 |
| Other receivables | 51.1 | 65.9 |
| **Total other receivables** | 152.5 | 142.0 |

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 23. CASH AND CASH EQUIVALENTS

| | 2021 £m | 2020 £m |
|---|---|---|
| Cash at bank | 6.5 | 23.1 |
| Short-term deposits (including demand and time deposits) | - | 0.1 |
| **Total** | 6.5 | 23.2 |

Deposits are subject to an average interest rate of 23.0% (2020: 0.9%) and have an average maturity of 1 day (2020: 1 day). The carrying amounts disclosed above are reasonably approximate to fair value at year-end.

## 24. EQUITY

**Share capital**

| | 2021 £ | 2020 £ |
|---|---|---|
| Ordinary shares of £1 each authorised, issued and fully paid | 172,758,609 | 172,758,609 |

**Share premium**

| | 2021 £ | 2020 £ |
|---|---|---|
| Share premium classified as fully paid | 5,244,412 | 5,244,412 |

## 25. INSURANCE CONTRACT LIABILITIES

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | *Insurance contract liabilities* | *Reinsurers' share of liabilities* | *Net* | *Insurance contract liabilities* | *Reinsurers' share of liabilities* | *Net* |
| | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| Provisions for claims reported by policyholders | 1,759.7 | (848.6) | 911.1 | 1,774.6 | (833.0) | 941.6 |
| Provisions for claims incurred but not reported | 166.8 | (128.6) | 38.2 | 185.5 | (170.7) | 14.8 |
| **Total claims reported and IBNR** | 1,926.5 | (977.2) | 949.3 | 1,960.1 | (1,003.7) | 956.4 |
| Provision for unearned premiums | 1,018.0 | (433.5) | 584.5 | 997.5 | (431.5) | 566.0 |
| **Total general insurance contract liabilities** | 2,944.5 | (1,410.7) | 1,533.8 | 2,957.6 | (1,435.2) | 1,522.4 |
| Current general insurance contract liabilities | 1,523.5 | (701.1) | 822.4 | 1,627.8 | (771.7) | 856.1 |
| Non-current general insurance contract liabilities | 1,421.0 | (709.6) | 711.4 | 1,329.8 | (663.5) | 666.3 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 25. INSURANCE CONTRACT LIABILITIES (continued)

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

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | *Insurance contract liabilities* | *Reinsurers' share of liabilities* | *Net* | *Insurance contract liabilities* | *Reinsurers' share of liabilities* | *Net* |
| | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| **At January 1** | 1,960.1 | (1,003.7) | 956.4 | 1,689.4 | (810.8) | 878.6 |
| Unwind of discount of PPO claim reserves | 4.1 | (3.1) | 1.0 | 3.9 | (3.0) | 0.9 |
| | 1,964.2 | (1,006.8) | 957.4 | 1,693.3 | (813.8) | 879.5 |
| Claims incurred in the current accident year | 1,167.4 | (487.9) | 679.5 | 1,511.9 | (737.8) | 774.1 |
| Movement on claims incurred in prior accident years | (9.5) | 15.6 | 6.1 | (13.5) | 22.1 | 8.6 |
| Claims paid during the year | (1,195.6) | 501.9 | (693.7) | (1,231.6) | 525.8 | (705.8) |
| **At December 31** | 1,926.5 | (977.2) | 949.3 | 1,960.1 | (1,003.7) | 956.4 |

The provision for unearned premiums can be analysed as follows:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | *Insurance contract liabilities* | *Reinsurers' share of liabilities* | *Net* | *Insurance contract liabilities* | *Reinsurers' share of liabilities* | *Net* |
| | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| **At January 1** | 997.5 | (431.5) | 566.0 | 1,024.2 | (448.6) | 575.6 |
| Premiums written in the year | 1,860.5 | (815.9) | 1,044.6 | 1,879.5 | (828.0) | 1,051.5 |
| Premiums earned during the year | (1,840.0) | 813.9 | (1,026.1) | (1,906.2) | 845.1 | (1,061.1) |
| **At December 31** | 1,018.0 | (433.5) | 584.5 | 997.5 | (431.5) | 566.0 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

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

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

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

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

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 2021, no new settlements were agreed on this basis, making the total number of outstanding PPOs unchanged at 44. Total settled PPO reserves are £147.1m (2020: £144.5m) gross and £38.0m (2020: £36.8m) net of reinsurance. The corresponding undiscounted amounts are £313.3m (2020: £312.8m) gross and £73.2m (2020: £72.1m) 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 on settled PPO reserves:

- An increase of interest rate by 1% would decrease the discounted PPO reserves by £25.5m gross and £5.5m net
- A decrease of interest rate by 1% would increase the discounted PPO reserves by £35.9m gross and £7.6m net
- An increase of inflation rate by 1% would increase the discounted PPO reserves by £35.5m gross and £9.7m net
- A decrease of inflation rate by 1% would decrease the discounted PPO reserves by £25.7m gross and £7.1m net

Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques. The Ogden discount rate is used to calculate the lump sum costs awarded to claimants by the courts. The current rate is set at -0.25% in England and Wales, as set by the Lord Chancellor in July 2019. The rate will be reviewed by the summer of 2024. Allianz Insurance has very limited exposure to Northern Ireland which is expected to move to a statutory process for setting the Ogden discount rate similar to England/Wales. In March 2022, the personal injury discount rate in Northern Ireland was set to -1.5% (replacing the -1.75% interim rate set in March 2021). This is subject to further review in July 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 a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

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

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

COVID-19 business interruption claims have been analysed separately using a claim-based approach, and involving an assessment of emerging claims experience, policy wordings, legal advice and expert judgement. Reinsurance recoveries on COVID-19 business interruption claims have been estimated reflecting the agreed operation of the Catastrophe excess of loss reinsurance treaty and the underlying uncertainty associated with the gross claims that could impact the level of reinsurance recoveries. Particular uncertainties include how the gross claims will settle in relation to the different lockdowns and also the date of emergence of gross claims which have not yet been reported, and whether or not they fall within the Catastrophe excess of loss hours clause for reinsurance recovery. Expert judgment has been applied in estimating an allowance to reflect these uncertainties. Separately reinsurance recoveries from the Property excess of loss reinsurance treaty have been allowed for. The total ultimate cost of business Interruption claims in 2021 is estimated to be £133m, before the quota share. There is significant uncertainty surrounding the ultimate cost of these claims, for example the outcome of legal proceedings and agreements.

In addition to the direct impact of COVID-19 on claims from business interruption covers, there are indirect impacts such as reduced claim frequency due to lower activity levels as a result of government restrictions. These indirect impacts have continued into 2021 and have been considered, with allowances made in the actuarial claims projections. This is another area of uncertainty, requiring expert judgement.

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

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;
- claims inflation being different from that expected;
- claim handling costs being different from those 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 and claims experience have caused a £5.4m gross decrease in insurance provisions in respect of the prior period, driven by reductions in Packages, Property and Personal Motor partially offset by increases in Commercial Motor, Motor Trade and Liability. The net effect after reinsurance is a £7.1m (2020: £9.6m) increase driven by Commercial Motor, Motor Trade and Liability, partially offset by reductions on Packages and Property.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

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

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

**Loss development triangles**

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

| **Gross of insurance** | *2012* | *2013* | *2014* | *2015* | *2016* | *2017* | *2018* | *2019* | *2020* | *2021* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| Accident year | 1,159.3 | 1,139.5 | 1,285.5 | 1,540.5 | 1,495.8 | 1,428.8 | 1,418.0 | 1,341.7 | 1,511.9 | 1,167.4 | 13,488.4 |
| One year later | 1,144.0 | 1,168.1 | 1,316.6 | 1,507.2 | 1,463.0 | 1,383.2 | 1,373.4 | 1,324.7 | 1,454.4 | - | 12,134.6 |
| Two years later | 1,115.1 | 1,130.6 | 1,318.0 | 1,461.9 | 1,425.9 | 1,353.7 | 1,369.7 | 1,334.6 | - | - | 10,509.5 |
| Three years later | 1,113.0 | 1,124.1 | 1,326.8 | 1,442.1 | 1,437.6 | 1,360.8 | 1,384.3 | - | - | - | 9,188.7 |
| Four years later | 1,124.9 | 1,124.6 | 1,310.0 | 1,435.9 | 1,438.3 | 1,379.0 | - | - | - | - | 7,812.7 |
| Five years later | 1,120.0 | 1,118.4 | 1,304.0 | 1,435.8 | 1,440.2 | - | - | - | - | - | 6,418.4 |
| Six years later | 1,115.1 | 1,119.9 | 1,311.0 | 1,439.6 | - | - | - | - | - | - | 4,985.6 |
| Seven years later | 1,113.8 | 1,123.1 | 1,301.7 | - | - | - | - | - | - | - | 3,538.6 |
| Eight years later | 1,111.1 | 1,118.8 | - | - | - | - | - | - | - | - | 2,229.9 |
| Nine years later | 1,111.8 | - | - | - | - | - | - | - | - | - | 1,111.8 |
| Current estimate of cumulative claims | 1,111.8 | 1,118.8 | 1,301.7 | 1,439.6 | 1,440.2 | 1,379.0 | 1,384.3 | 1,334.6 | 1,454.4 | 1,167.4 | 13,131.8 |
| Cumulative payments to date | 1,094.8 | 1,095.4 | 1,260.3 | 1,402.8 | 1,374.4 | 1,279.9 | 1,226.6 | 1,129.1 | 980.9 | 636.2 | 11,480.4 |
| Reserve in respect of prior years | - | - | - | - | - | - | - | - | - | - | 275.1 |
| **Total gross liability as per the Balance sheet** | 17.0 | 23.4 | 41.4 | 36.8 | 65.8 | 99.1 | 157.7 | 205.5 | 473.5 | 531.2 | 1,926.5 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

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

| **Net of insurance** | *2012* | *2013* | *2014* | *2015* | *2016* | *2017* | *2018* | *2019* | *2020* | *2021* | *Total* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| Accident year | 1,132.0 | 1,111.8 | 1,256.6 | 1,201.5 | 858.0 | 826.8 | 821.0 | 780.2 | 774.1 | 679.5 | 9,441.5 |
| One year later | 1,119.3 | 1,138.1 | 1,171.9 | 1,177.0 | 838.8 | 801.4 | 803.2 | 770.7 | 743.8 | - | 8,564.2 |
| Two years later | 1,099.5 | 1,055.4 | 1,164.3 | 1,160.6 | 824.0 | 784.9 | 802.7 | 779.4 | - | - | 7,670.8 |
| Three years later | 1,065.9 | 1,053.2 | 1,171.6 | 1,149.6 | 823.4 | 787.9 | 811.4 | - | - | - | 6,863.0 |
| Four years later | 1,070.9 | 1,055.7 | 1,166.1 | 1,144.3 | 830.0 | 799.2 | - | - | - | - | 6,066.2 |
| Five years later | 1,070.7 | 1,051.1 | 1,161.9 | 1,145.5 | 831.3 | - | - | - | - | - | 5,260.5 |
| Six years later | 1,067.2 | 1,050.9 | 1,161.7 | 1,147.8 | - | - | - | - | - | - | 4,427.6 |
| Seven years later | 1,066.2 | 1,051.1 | 1,161.0 | - | - | - | - | - | - | - | 3,278.3 |
| Eight years later | 1,065.8 | 1,050.1 | - | - | - | - | - | - | - | - | 2,115.9 |
| Nine years later | 1,065.9 | - | - | - | - | - | - | - | - | - | 1,065.9 |
| Current estimate of cumulative claims | 1,065.9 | 1,050.1 | 1,161.0 | 1,147.8 | 831.3 | 799.2 | 811.4 | 779.4 | 743.8 | 679.5 | 9,069.4 |
| Cumulative payments to date | 1,056.7 | 1,041.2 | 1,141.5 | 1,125.3 | 797.9 | 740.5 | 718.4 | 659.2 | 565.8 | 375.6 | 8,222.1 |
| Reserve in respect of prior years | - | - | - | - | - | - | - | - | - | - | 102.0 |
| **Total net liability as per the balance sheet** | 9.2 | 8.9 | 19.5 | 22.5 | 33.4 | 58.7 | 93.0 | 120.2 | 178.0 | 303.9 | 949.3 |

## 27. INSURANCE RELATED PAYABLES

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| **Arising out of direct insurance operations** | | |
| Third parties | 70.0 | 61.4 |
| | 70.0 | 61.4 |
| **Deposits received from reinsurers** | | |
| Amounts due to related parties | 917.3 | 944.9 |
| Third parties | 0.1 | 0.1 |
| | 917.4 | 945.0 |
| **Arising out of reinsurance operations** | | |
| Amounts due to related parties | 33.1 | 32.6 |
| Third parties | 25.8 | 31.3 |
| | 58.9 | 63.9 |
| **Total insurance related payables** | 1,046.3 | 1,070.3 |
| | | |
| Current insurance related payables | 1,046.2 | 1,070.2 |
| Non-current insurance related payables | 0.1 | 0.1 |

The carrying amounts disclosed above reasonably approximate fair values at year end. The current liabilities are payable within 12 months of the Balance Sheet date. The non-current liabilities are payable within 24 months of the Balance Sheet date

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 28. ACCRUALS AND OTHER PAYABLES

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| Amounts due to related parties | 212.3 | 185.9 |
| Accrued expenses | 0.1 | 0.4 |
| Tax payables | 70.8 | 65.3 |
| Other | 22.1 | 29.4 |
| **Total accruals and other payables** | 305.3 | 281.0 |

The carrying amounts disclosed above reasonably approximate fair values at year end. All of the liabilities are payable within 12 months of the Balance Sheet date.

## 29. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

| | *Restructuring*[1] | *Provision for PPI claims*[2] | *Other provision* | *Total* |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **At January 1, 2020** | 4.6 | 7.7 | 0.2 | 12.5 |
| Amount credited to the statement of comprehensive income | (1.2) | (1.0) | - | (2.2) |
| Reclassified in balance sheet | - | 3.5 | - | 3.5 |
| Utilised in the year | (2.3) | - | (0.1) | (2.4) |
| **At December 31, 2020** | 1.1 | 10.2 | 0.1 | 11.4 |
| Amount charged to the statement of comprehensive income | 4.6 | 33.9 | - | 38.5 |
| Utilised in the year | (1.1) | (10.0) | - | (11.1) |
| **At December 31, 2021** | 4.6 | 34.1 | 0.1 | 38.8 |

(1) 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.

(2) In the period since 2019, the Company incurred some costs for PPI redress. The provision relates to unpaid PPI claims. The cost of providing PPI redress reflects actual redress paid and the best estimate of the quantum of further claims notified by the deadline based on uphold rates and average values for mis-selling. In addition to this, total gross written premiums include £5.1m (2020 £0.3m credit) of premium refunded to policyholders. In 2021, the Company recognised an additional £33.9m charge to cover the expected total redress in respect of PPI claims. This followed a review to identify additional potential claims, redress of which started in December 2021 and has continued into 2022. Legal proceedings are underway have been issued to seek recovery of costs from the agent.

All of the liabilities are payable within 12 months of the Balance Sheet date.

## 30. RISK MANAGEMENT POLICIES

The Company only transacts general insurance business which is wholly written in UK and the majority of risk exposure is confined within the UK.

**Insurance risk**

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

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

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

The Company limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition the Company uses both proportional and non-proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather related claims. Maximum exposure for each line of business (motor, liability, property and business interruption) is limited according to risk appetite, capital requirements and the return on capital.

The Company uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses.

Based upon the modelling work undertaken, the Company buys reinsurance protection for a 1-in-250-year single event. In order to protect its risk capital from extreme events the Company also purchases catastrophe reinsurance for a modelled 1-in-500-year loss event.

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

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

As detailed below under financial risk policies (b) Credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full.

The Company has issued 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:

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | *Gross* | *Reinsurers' Share* | *Net* | *Gross* | *Reinsurers' Share* | *Net* |
| **Claims liabilities** | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| Motor | 781.9 | (392.5) | 389.4 | 759.3 | (384.2) | 375.1 |
| Household | 30.8 | (19.9) | 10.9 | 16.4 | (6.6) | 9.8 |
| Property and business interruption | 522.8 | (305.0) | 217.8 | 652.1 | (379.2) | 272.9 |
| Liability | 494.6 | (223.4) | 271.2 | 455.8 | (207.9) | 247.9 |
| Speciality pecuniary | 71.8 | (28.7) | 43.1 | 58.9 | (23.5) | 35.4 |
| Other | 24.6 | (7.7) | 16.9 | 17.6 | (2.3) | 15.3 |
| **Total** | 1,926.5 | (977.2) | 949.3 | 1,960.1 | (1,003.7) | 956.4 |

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

**Financial risk**

The Company is exposed to financial risk through its financial assets, including investments, reinsurance assets, insurance receivables and cash and cash equivalents held primarily to meet obligations under insurance contract liabilities. The key financial risk is that proceeds from the realisation of assets are insufficient to meet obligations under insurance contracts. The most important aspects of financial risk comprise market risk, credit risk and liquidity risk. The Company recognises a dilapidation provision where terms within the lease require that the property be restored to the original condition at the end of the lease period. The amount is determined using external experts based on floor area and estimated cost to repair any dilapidations.

**(a) Market risk**

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

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

i) Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contract liabilities. At December 31, 2021 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.8 years (2020: 3.9 years) compared with the average duration of the insurance contract liabilities which is estimated to be 4.5 years (2020: 4.5 years).

ii) Inflation risk

Inflation risk is the risk that changes in inflation expectation will adversely affect the company's net asset value. The Company's insurance contract liabilities are subject to changes in inflation, in particular PPO liabilities. The risk is managed by broadly matching the asset inflation sensitivity to the inflation sensitivity of the liabilities.

Impacts from COVID-19 and Brexit such as supply chain disruption are driving a heightened level of inflation risk. This has led to inflationary pressure on property and motor damage claims through materials, parts and labour, and also injury and liability claims through delays in treatment for example. Inflationary trends are being monitored closely and are considered as part of the estimation of the ultimate cost of claims. As an indication, a 1% increase in claims inflation across all claims corresponds to a £9m increase in the ultimate cost of claims (after quota share).

iii) Equity risk

Equity risk is the risk that the market price of managed funds will fall in value as a result of adverse stock market movements.

iv) Credit spread risk

Credit spread risk is the risk of changes in the company's net asset value from movements in credit spreads, there is no offsetting between assets and liabilities as liabilities are not subject to credit spread risk. Hence this risk is managed in a similar way to credit risk, through applying a comprehensive series of limits determined after taking into account publicly available credit ratings.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (a) Market risk (continued)

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

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

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| **US Dollar** | | |
| Assets | 230.4 | 209.6 |
| Liabilities | 14.2 | 15.6 |
| **Euro** | | |
| Assets | 52.6 | 42.1 |
| Liabilities | 13.4 | 6.3 |

The Company holds foreign currency forward contracts covering £220.2m of US Dollars (2020: £187.8m) and £31.1m of Euros (2020: £31.5m).

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

| | **2021** | | **2020** | |
|---|---|---|---|---|
| | *Profit/(loss)* | *Equity* | *Profit/(loss)* | *Equity* |
| | *£m* | *£m* | *£m* | *£m* |
| Interest rate risk | | | | |
| +100 basis points shift in yield curves | - | (57.9) | - | (45.6) |
| -100 basis points shift in yield curves | - | 63.2 | - | 48.7 |
| Equity risk | | | | |
| 10% increase in equity prices | - | 13.1 | - | 11.5 |
| 10% decrease in equity prices | - | (13.1) | - | (11.5) |
| Currency rate risk | | | | |
| 10% weakening of Euro exchange rate | - | 3.9 | - | 0.4 |
| 10% strengthening of Euro exchange rate | - | (3.9) | - | (0.4) |
| 10% weakening of US dollar exchange rate | - | 21.6 | - | 0.6 |
| 10% strengthening of US dollar exchange rate | - | (21.6) | - | (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.

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.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

**(a) Market risk (continued)**
vi) Sensitivity to market risk (continued)

| | Profit/(loss) | | Equity | |
|---|---|---|---|---|
| 2021 | *Gross* | *Net* | *Gross* | *Net* |
| | *£m* | *£m* | *£m* | *£m* |
| Expense ratio | | | | |
| 1% increase in current year | (4.9) | (2.8) | (3.9) | (2.3) |
| 1% decrease in current year | 4.9 | 2.8 | 3.9 | 2.3 |
| Loss ratio | | | | |
| 1% increase in current year | (11.1) | (6.4) | (9.0) | (5.2) |
| 1% increase in all of the last 3 years | (37.8) | (21.0) | (30.6) | (17.0) |
| 1% decrease in current year | 11.1 | 6.4 | 9.0 | 5.2 |
| 1% decrease in all of the last 3 years | 37.8 | 21.0 | 30.6 | 17.0 |

vi) Sensitivity to market risk (continued)

| | Profit/(loss) | | Equity | |
|---|---|---|---|---|
| 2020 | *Gross* | *Net* | *Gross* | *Net* |
| | *£m* | *£m* | *£m* | *£m* |
| Expense ratio | | | | |
| 1% increase in current year | (5.3) | (3.2) | (4.3) | (2.6) |
| 1% decrease in current year | 5.3 | 3.2 | 4.3 | 2.6 |
| Loss ratio | | | | |
| 1% increase in current year | (14.5) | (7.4) | (11.8) | (6.0) |
| 1% increase in all of the last 3 years | (40.2) | (22.3) | (32.6) | (18.1) |
| 1% decrease in current year | 14.5 | 7.4 | 11.8 | 6.0 |
| 1% decrease in all of the last 3 years | 40.2 | 22.3 | 32.6 | 18.1 |

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

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

**(b) Credit risk**
Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. The Company is exposed to credit risk through its available for sale financial assets, cash and cash equivalents, reinsurance assets, loans and receivables, insurance receivables and other receivables.

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (b) Credit risk (continued)

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

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Company's major clients. Where there is a significant or potentially significant exposure to an individual captive, additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2021 was £720.3m (2020: £730.1m).

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

| | AAA | AA | A | BBB | BB | B | CCC | C | Other not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| Reinsurance assets | - | 1,379.8 | 4.7 | - | - | - | - | - | 26.2 | 1,410.7 |
| Available for sale financial assets | 609.1 | 345.1 | 410.7 | 708.7 | 101.5 | 43.2 | 1.1 | 0.3 | 151.5 | 2,371.2 |
| Loans | - | 6.1 | 30.0 | - | - | - | - | - | 133.1 | 169.2 |
| Insurance receivables (1) | - | 160.5 | 17.1 | 0.4 | 4.8 | - | - | - | 584.5 | 767.3 |
| Cash and cash equivalents | - | - | 6.5 | - | - | - | - | - | - | 6.5 |
| **Total £m** | 609.1 | 1,891.5 | 469.0 | 709.1 | 106.3 | 43.2 | 1.1 | 0.3 | 895.3 | 4,724.9 |
| Percent | *12.9* | *40.0* | *9.9* | *15.0* | *2.2* | *0.9* | *0.0* | *0.0* | *19.0* | *100.0* |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (b) Credit risk (continued)

| 2020 | AAA £m | AA £m | A £m | BBB £m | BB £m | B £m | CCC £m | C £m | Other not rated £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Reinsurance assets | - | 1,396.4 | 5.5 | - | - | - | - | - | 33.3 | 1,435.2 |
| Available for sale financial assets | 613.6 | 379.4 | 403.8 | 669.1 | 89.5 | 40.7 | - | - | 135.9 | 2,332.0 |
| Loans | - | 6.1 | 175.7 | - | - | - | - | - | - | 181.8 |
| Insurance receivables (1) | - | 55.9 | 114.6 | 9.4 | - | - | - | - | 572.8 | 752.7 |
| Cash and cash equivalents | - | - | 23.2 | - | - | - | - | - | - | 23.2 |
| **Total £m** | 613.6 | 1,837.8 | 722.8 | 678.5 | 89.5 | 40.7 | - | - | 742.0 | 4,724.9 |
| Percent | *13.0* | *38.8* | *15.3* | *14.4* | *1.9* | *0.9* | - | - | *15.7* | *100.0* |

(1) Included in the not rated balance is £481.5m (2020: £460.7m) 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 FCA.

The following table provides information on the carrying value of reinsurance assets and insurance receivables:

| | **2021** | | **2020** | |
|---|---|---|---|---|
| | *Reinsurance assets* | *Insurance receivables* | *Reinsurance assets* | *Insurance receivables* |
| | *£m* | *£m* | *£m* | *£m* |
| Neither past due or impaired | 1,410.7 | 747.4 | 1,432.9 | 715.8 |
| Past due but not impaired | - | 19.3 | - | 36.5 |
| Individually impaired | - | 0.6 | 2.3 | 0.4 |
| Total | 1,410.7 | 767.3 | 1,435.2 | 752.7 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (b) Credit risk (continued)

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

| | *Less than 90 days* | *90 -120 days* | *120-180 days* | *More than 180 days* | *Total* |
|---|---|---|---|---|---|
| **2021** | *£m* | *£m* | *£m* | *£m* | *£m* |
| Policyholders | 0.7 | - | - | - | 0.7 |
| Brokers | 8.6 | 1.4 | 2.1 | 6.4 | 18.5 |
| Reinsurers | - | - | - | 0.1 | 0.1 |
| Total | 9.3 | 1.4 | 2.1 | 6.5 | 19.3 |
| | | | | | |
| **2020** | | | | | |
| Policyholders | 0.6 | 0.1 | - | - | 0.7 |
| Brokers | 20.1 | 2.5 | 3.2 | 9.9 | 35.7 |
| Reinsurers | - | - | - | 0.1 | 0.1 |
| Total | 20.7 | 2.6 | 3.2 | 10.0 | 36.5 |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (b) Credit risk (continued)

**Fair value hierarchy**

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

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

Level 2: valuation technique which uses the current prices in an active market of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences.

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

| | *Total* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| Fair value as of December 31, 2021 | *£m* | *£m* | *£m* | *£m* |
| Own use property | 8.5 | - | - | 8.5 |
| Government and government agency bonds[1] | 440.6 | 32.7 | 407.9 | - |
| Corporate bonds[1] | 1,795.9 | 12.0 | 1,767.5 | 16.4 |
| Managed funds | 134.7 | - | 80.0 | 54.7 |
| **Total** | 2,379.7 | 44.7 | 2,255.4 | 79.6 |

| *Restated* | *Total* | *Level 1* | *Level 2* | *Level 3* |
|---|---|---|---|---|
| Fair value as of December 31, 2020 | *£m* | *£m* | *£m* | *£m* |
| Own use property | 13.0 | - | - | 13.0 |
| Government and government agency bonds[1] | 385.1 | 14.2 | 370.9 | - |
| Corporate bonds[1] | 1,826.8 | 13.3 | 1,795.2 | 18.3 |
| Managed funds[2] | 120.1 | - | 83.5 | 36.6 |
| **Total** | 2,345.0 | 27.5 | 2,249.6 | 67.9 |

[1] Included within debt securities as available for sale financial assets are government and government agency bonds and corporate bonds. These have been shown separately within the fair value hierarchy table in order to appropriately disclose the level and valuation assumptions.

[2] In the prior year, a managed fund investment was classified as Level 2 but following further analysis, it was determined that Level 3 was the correct classification. As a result, the previously disclosed level 2 and level 3 balances of £114.5m and £5.6m have been adjusted by £31.0m to £83.5m and £36.6m respectively.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (b) Credit risk (continued)

| | Fair value as of January 01, | (Disposals)/Additions | Unrealised (losses)/gains | Fair value as of December 31, |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| **2021** | | | | |
| Own use property | 13.0 | (1.4) | (3.1) | 8.5 |
| Corporate bonds | 18.3 | - | (1.9) | 16.4 |
| Managed Funds | 36.6 | 17.3 | 0.8 | 54.7 |
| **2020** | | | | |
| Own use property | 15.9 | - | (2.9) | 13.0 |
| Corporate bonds | 15.2 | - | 3.1 | 18.3 |
| Managed Funds | 18.9 | 17.3 | 0.4 | 36.6 |

**Own use property**

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 costs and timeframe, future rent and yield allowances, to assess the value of the properties on a per acre / capital value per square foot basis using the comparable method.

Significant unobservable inputs:

| | |
|---|---|
| Rental growth | Factored into the yield applied (location/sector specific) |
| Voids | 48 months |
| Market Rent (MR) | £33.00 per square foot (refurbished / redeveloped) |
| Rent free | 18 months upon re-letting |
| Letting fees | 15% of MR |

The estimated Fair Value would increase / (decrease) if:

- expected market rental growth were higher / (lower)
- void periods were shorter / (longer)
- rent free periods were shorter / (longer); or
- redevelopment / refurbishment costs were lower / (higher).

**Corporate bonds**

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

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

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (b) Credit risk (continued)

**Managed Funds**

Valuation technique:

1) The valuation conducted by the General Partner (Allianz Debt Fund S.à r.l.) is used to derive the Net Asset Value "NAV" of the fund.
   To ensure the appropriateness of the valuation, several steps are conducted during 1) the initial Due Diligence phase of onboarding as well as 2) an ongoing validation of target fund valuation statements. Both may require involvement of additional functions (e.g. Risk and Compliance), if deemed necessary. In some cases, the Group Valuation Committee may also be involved as a discussion or governance body.

   The due diligence included but was not limited to the following activities during the initial onboarding phase as well as ongoing monitoring:
   Initial assessment of the applicable valuation procedures during fund due diligence
   a. Assess whether the investment fund qualifies as an Alternative Investment Fund.
   b. Assess whether a NAV of the fund exists and is updated on an appropriate frequency.
   c. Assess the equivalence of the valuation policies and procedures applied by the General Partner.
   d. Assess whether a proper benchmark for ongoing target fund valuation validation exists.

   Ongoing review of the General Partner's valuation policies and procedures
   a. Monitor the valuation policies and procedures applied by the General Partner.
   b. Monitor the audit reports and valuation practice of the General Partner and the fund.

2) The fund manager has engaged Lincoln International ("Lincoln") to perform an independent quarterly valuation of the fund. Lincoln applies two methods (synthetic rating analysis and re-underwriting analysis) to establish the rate of return a market participant would require (the "discount rate") as of the valuation date, given market conditions, prevailing lending standards and the perceived credit quality of the issuer. Future expected cash flows for each investment are discounted back to present value using these discount rates in the discounted cash flow analysis. The valuations are typically provided as a range, with the fund managers Pricing and AIFMD Committee overseeing the selection of which point is used within the range.

3) The valuation is provided quarterly (in arrears) by the Allianz Global Investors Model valuation team using an internal C++ based pricing engine, based on a discounted cash flow model.

The Company has no intention of disposing any of these assets.

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

### (c) Liquidity risk

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

The Company is exposed to calls on its available resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's available for sale financial assets and loans at December 31, 2021 amounted to £2,540.4m (2020: £2,513.8m). In 2021, the cash pool was £93.1m (2020: £61.8m) plus cash and cash equivalents of £6.5m (2020: £23.2m) totalled £99.6m (2020: £85.0m). With the exception of lent securities (see note 20), nearly all of these are readily realisable. As a result the Company's exposure to potential liquidity risk is extremely low and in the risk capital model used by the Company no capital is allocated to this risk.

The following tables show information about the estimated timing of the net cash flows from the Company's financial assets and liabilities. The analysis provided is by estimating timings of the amounts recognised in the Balance Sheet.

| **Available for sale financial assets** | *Carrying amount* | *Less than 1 year* | *1 - 2 years* | *2 - 5 years* | *5 - 10 years* | *More than 10 years* |
|---|---|---|---|---|---|---|
| | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| **2021** | 2,371.2 | 341.0 | 174.0 | 745.3 | 561.1 | 549.8 |
| **2020** | 2,332.0 | 270.8 | 183.9 | 623.8 | 639.3 | 614.2 |

| **Insurance contract liabilities** | *Carrying amount* | *Less than 1 year* | *1 - 2 years* | *2 - 5 years* | *5 - 10 years* | *More than 10 years* |
|---|---|---|---|---|---|---|
| | *£m* | *£m* | *£m* | *£m* | *£m* | *£m* |
| **2021** | 1,926.5 | 890.7 | 413.2 | 429.9 | 73.7 | 119.0 |
| **2020** | 1,960.1 | 1,004.3 | 394.8 | 378.0 | 66.1 | 116.9 |

Reinsurers' share of deferred acquisition costs and Insurance related payables are all payable within 12 months of the Balance Sheet date

### (d) Operational risk

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

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

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

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 30. RISK MANAGEMENT POLICIES (continued)

**Capital Management**

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

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

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

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

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

The Company's capital comprises total shareholders' equity and amounts to £915.7m (2020: £953.9m).

The Company has complied with all externally and internally imposed capital requirements throughout the year. At December 31, 2021 the own funds amount to £877.0m with a surplus of 56% on SCR (2020: own funds equal to £910.7m with a surplus of 52% on SCR).

## 31. ULTIMATE PARENT UNDERTAKING

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

The ultimate parent undertaking, Allianz SE, is incorporated in Germany and is the parent of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member.

Copies of the Group financial statements are available on request from Allianz SE, Königinstrasse 28, 80802 München, Germany.

## 32. CONTINGENCIES AND COMMITMENTS

**Legal proceedings and regulations**

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

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 33. CASH FLOWS FROM OPERATING ACTIVITIES

| | Notes | *2021* *£m* | *2020* *£m* |
|---|---|---|---|
| **Profit/(loss) before tax** | | 29.1 | (18.1) |
| Investment income | 4 & 5 | (26.1) | (61.7) |
| *Non-cash items* | | | |
| Amortisation of AFS financial assets | | 12.1 | 10.9 |
| Amortisation of intangible assets | 15 | 6.6 | 6.5 |
| Amortisation of net deferred acquisition costs | 17 | 43.4 | 147.5 |
| Net acquisition costs deferred during the year | 17 | (7.9) | (145.5) |
| Net realised gains | 6 | (5.2) | (10.1) |
| Unrealised loss on revaluation of own use property | | 3.2 | 2.9 |
| Impairment of debt instrument | 5 | 1.2 | 4.4 |
| Impairment of investment in subsidiaries | 5 | - | 0.3 |
| Currency (gains)/losses | | (1.0) | 8.0 |
| *Changes in working capital* | | | |
| Decrease/(increase) in reinsurance assets | 18 | 24.5 | (175.8) |
| Decrease/(increase) in accrued income | 19 | 0.2 | (0.7) |
| (Increase)/decrease in insurance receivables | 21 | (14.6) | 54.3 |
| Increase in other receivables | 22 | (10.5) | (62.8) |
| (Increase)/decrease in insurance contract liabilities | 25 | (13.1) | 244.0 |
| (Increase)/decrease in insurance related payables | 27 | (24.0) | 41.5 |
| Decrease in accruals and other payables | 28 | 24.3 | 18.7 |
| Decrease/(increase) in provisions of other liabilities | 29 | 27.4 | (1.1) |
| **Cash generated from operations** | | 69.6 | 63.2 |

## 34. RELATED PARTY TRANSACTIONS

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

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

| | *2021* *£m* | *2020* *£m* |
|---|---|---|
| Administrative and claims handling service fees | 310.2 | 321.1 |
| Interest received from group loans | 0.5 | 0.8 |
| Reinsurance premiums paid to related parties | 789.6 | 793.7 |
| Reinsurance recoveries | 500.9 | 696.8 |
| Dividend received from subsidiary | - | 12.2 |
| Loan instalment from fellow group undertaking | 16.2 | 16.2 |
| Return of share capital from subsidiary | - | 32.0 |
| Loan issued to subsidiary | 3.6 | - |

# Notes to the Financial Statements

**For the year ended December 31, 2021**

## 34. 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:

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| **Due from related parties at December, 31** | | |
| Parent | 0.2 | - |
| Subsidiaries | 7.8 | 14.0 |
| Other related parties | 102.2 | 65.3 |
| **Total** | 110.2 | 79.3 |

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| **Due to related parties at December, 31** | | |
| Parent | - | 0.2 |
| Subsidiaries | 132.2 | 132.2 |
| Other related parties | 1,028.6 | 1,029.7 |
| **Total** | 1,160.8 | 1,162.1 |

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

Management services were bought from a Group company on a cost-plus basis, allowing a margin of 5% (2020: 5%). The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given by the Company. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

The Company considers its key management personnel to be the Directors only. The Company incurred £2.5m (2020: £2.5m) in respect of the services of key management personnel provided by a separate management entity within the Group. Further information is disclosed in note 12.

| | *2021* | *2020* |
|---|---|---|
| | *£m* | *£m* |
| **Loan to related parties at December, 31** | | |
| Other related parties | 133.2 | 145.8 |
| **Total** | 133.2 | 145.8 |

Amounts repayable by related party, AMS, are detailed in note 20.

### (b) Investment in subsidiaries

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

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

## 35. SUBSEQUENT EVENTS

At the date these financial statements are issued, the Company estimates that the impact of the storms Dudley, Eunice and Franklin that hit the United Kingdom in February 2022 was around £16m in property claims.

Following the escalation of events in Ukraine, the widespread uncertainty has led to an increase in credit spreads on fixed income securities. As a consequence, the Company has recorded unrealised losses on its investment portfolio in 2022 of around £58m. The Company does not anticipate that there is any significant risk that coupon and capital repayments will not be received as they fall due.

Both events are non-adjusting.