SOLVENCY AND FINANCIAL CONDITION REPORT 2018

Allianz

CONTENTS

This is the solvency and financial condition report ("SFCR") for Allianz Insurance plc ("Allianz", "The Company"). Publication of an SFCR is a mandatory requirement of the Solvency II Directive[1] for all insurance companies domiciled in the EU. Solvency II, effective from January 1, 2016, is a comprehensive updating of the way in which insurance companies in the EU are supervised by their local regulators.

The main Solvency II Directive is supplemented by further texts[2] which set out in detail the required contents and structure[3] of the report. This introduction is intended to fulfil the requirement[4] that the SFCR should contain a clear and concise summary, which highlights material changes over the year.

[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51–56

[2] Commission delegated regulation (EU) 2015/35, articles 290 303, Implementing Regulation (EU) 2015/2452.

[3] See in particular Annex XX, Commission delegated regulation (EU) 2015/35.

[4] Article 292, Commission delegated regulation (EU) 2015/35.

SUMMARY

Allianz is the main insurance operating entity and is the largest subsidiary of the Allianz Holdings plc group ("The Group"). It is managed together with the other companies in the group. The strategy detailed below is that of the overall Allianz Holdings plc group.

Through its insurance subsidiaries the Group is one of the top five general insurers in the United Kingdom measured by gross written premium. The Group offers a wide range of products and has a presence in most general insurance markets. Its business objectives are driven by the overarching strategic levers of the "Simplicity wins – Renewal Agenda 2.0" which continues to focus on five important themes: true customer-centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. The Renewal Agenda aims to provide an even better service to customers, reduce complexity and make the Company even more productive.

In December 2017 the Group acquired a 49% share in a joint venture with Liverpool Victoria General Insurance Group (LVGIG). In 2018, as part of the strategic partnership, renewal rights to Allianz Private Motor and Household business started to transition into the joint venture while the opposite was true for renewal rights to LVGIG's existing Commercial portfolio which started to transition to the Company.

The Group in recent years has pursued a strategy of proactively managing the insurance cycle to maximise the return for shareholders whilst carefully managing its capital base. This strategy has been highly successful and the underlying profitability of the companies that comprise the Group has been very satisfactory in recent years. 2018 maintained strong profitability levels despite continuing tough market conditions.

The Group's overall performance and investment in a number of market leading initiatives has been widely recognised both within and beyond the insurance industry and a number of awards have been won over the last few years. In 2018 Allianz won Commercial Lines Insurer of the Year at the British Insurance Awards and was named Insurer of the Year and Risk Team of the Year at the Insurance ERM (enterprise risk management) Awards. Other awards were achieved in many areas including digital technology, innovation, diversity, underwriting and claims.

In Personal Lines the Motor account produced a profit as a result of previous remedial underwriting actions and prior year releases while the Home business saw poor claims experience, returning a loss. From mid-year we ceased writing Personal Lines motor and home business, with renewals transferring to LVGIG. Animal Health business has performed strongly, delivering growth and attractive returns.

Commercial Lines saw modest rate increases, however still below claims inflation, hence further rate strength is needed across all Commercial lines of business. Benign weather conditions and improved performance in relation to prior years helped to mitigate large losses and claims inflation running ahead of price increases.

Gross written premiums for the Group were £2,038.1m, a 3.4% decrease compared to 2017. Commercial Lines grew by 7.9% driven by rate strength and growth in underlying volumes supported by the LVGIG business transfers. Personal Lines reduced by 15.4%, largely driven by the transfer of motor and household insurance to LVGIG as well as the withdrawal from some unprofitable schemes which more than offset the 8.6% increase seen in Animal Health.

Further information about Allianz's operations in the UK can be found on the Allianz UK website[5]. That website also contains the 2018 Allianz Holdings plc Annual Report and Financial Statements, which includes a more detailed strategic view of the business and also some technical information required for this SFCR.

The ultimate parent undertaking is Allianz Societas Europaea ("Allianz SE"). Globally, Allianz SE is a financial services provider with 92 million clients in more than 70 countries. It had revenue in 2018 of €130.6bn and made an operating profit of €11.5bn. At the same time as this SFCR for Allianz Insurance plc is published, Allianz SE will be publishing its own SFCR for the whole Allianz SE group. More information about the Allianz SE group and its operations around the world can be found on the Allianz SE group website[6].

Section A looks at the business and performance of the Company during 2018. It starts with a section describing the legal structure of the Company and its place in the Allianz SE group before covering the two main sources of Allianz's profit – underwriting of insurance and investment of the assets it holds in order to pay future claims.

In 2018 the company achieved a combined operating ratio of 96%. In reviewing the 2018 underwriting performance, section A.2 identifies the prior year changes that continue to influence Allianz's business, these have been highlighted above.

Investment performance during the year was solid, returning income of £54m. This compared to investment income of £63m in 2017 with the decline being predominantly attributable to lower interest income. Section A.3 provides further detail of these activities.

The Company only writes business in one material geographical area which is the United Kingdom. Its material lines of business are motor vehicle liability, other motor, fire and other damage to property, general liability, legal expenses and miscellaneous financial loss.

[5] https://www.allianz.co.uk/about-allianz-insurance.html
[6] www.allianz.com

SUMMARY CONTINUED

Section B looks at the System of Governance. This is the set of rules and processes by which the Company is managed. This section describes the ways in which the Company ensures that its business runs prudently and in compliance with the Solvency II regulations.

The Company is run by the Board of Directors, who rely on other managers to operate the Company on their behalf. The actions of those other managers take place within the confines of the System of Governance.

This section confirms that all the required components of the System of Governance are in place. These are:

- Assessment and remuneration policies, to ensure that managers have the skills and capability required to run the company and that they are paid appropriately;
- Independent safeguarding functions, whose responsibility it is to ensure that the managers of the company understand and manage risks appropriately;
- Processes which ensure that the internal model, used to assess capital requirements, is assessed independently and reviewed by the Board;
- A process, the Own Risk and Solvency Assessment, by which all risks facing the company are assessed, managed and reported to the Board.

Finally the section reviews how the Company relies on other companies to undertake certain activities on its behalf. Although some activities are outsourced – section B.7 outlines the most material of these – Allianz itself is responsible for the delivery of those activities.

Section C reviews the risks which Allianz faces. The key risks are:

- Underwriting Risk
- Market Risk
- Credit Risk
- Liquidity Risk
- Operational Risk
- Other Material Risks.

Each kind of risk is covered in turn. The risks themselves and the methods for understanding, managing and mitigating those risks are described; any major concentration of a risk type is identified. The sensitivity of these risks are summarised in the context of a risk sensitivity analysis.

This section confirms that each risk type to which Allianz is exposed is appropriately understood, managed and mitigated.

Section D reviews the balance sheet of the Company. The balance sheet is the main mechanism by which the solvency of the company – the amount of funds it has available to protect it and its policyholders against a shock – is assessed. This section describes the methods used to value the items on that balance sheet in accordance with the Solvency II directive, and explains any significant valuation difference to the valuation applied for the preparation of the 2018 Annual Report and Financial Statements.

In section D.2 Technical Provisions are considered. Technical Provisions represent the current amount required to transfer insurance obligations immediately to another insurance entity.

They include the funds the Company has put aside specifically to pay future claims, and so represent an important part of the balance sheet. These funds are not known with certainty and are calculated using actuarial methods and assumptions.

Section E confirms that Allianz is able to withstand unexpected shocks according to the standards required by the Solvency II regulations. Own Funds refers to the funds available within the Company for the purpose of absorbing shocks, and section E.1 describes how those funds are managed. It also confirms that the Own Funds are of appropriate quality and will be available if required.

The amount of Own Funds required by Solvency II is defined by the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). The MCR is the level of Own Funds below which the Company may no longer legally continue to trade, while the SCR is the minimum level treated as acceptable in normal circumstances by the Solvency II regime.

As at December 31, 2018 Allianz's MCR amounts to £203.0m and is covered by £1,021.7m of eligible Own Funds (Tier 1 only). As at December 31, 2018 Allianz's SCR amounts to £672.2m and is covered by £1,049.3m of eligible Own Funds (£1,021.7m Tier 1 and £27.6m Tier 3). Allianz's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is therefore 156%.

Allianz has received approval to use an internal model to calculate its SCR, rather than falling back on the default Standard Formula. In early 2017 Allianz was granted regulatory approval for a number of changes to its Internal Model, section E.4 describes how that internal model differs from the Standard Formula. Allianz has not made use of any transitional arrangements and has fully complied with the SCR throughout the period.

Finally, the SFCR contains a Statement of Directors' responsibilities and an audit opinion in respect of those parts of the SFCR which have to be audited.

A. BUSINESS AND PERFORMANCE

This section is unaudited.

A.1 BUSINESS

Allianz Insurance plc ("Allianz", "the Company") is a public limited company incorporated in the UK under company no 84638.

It is supervised by the Prudential Regulation Authority (PRA), Bank of England, 20 Moorgate, London EC2R 6DA, in respect of financial and prudential matters, and by the Financial Conduct Authority (FCA), 12 Endeavour Square, London, E20 1JN, in respect of conduct matters.

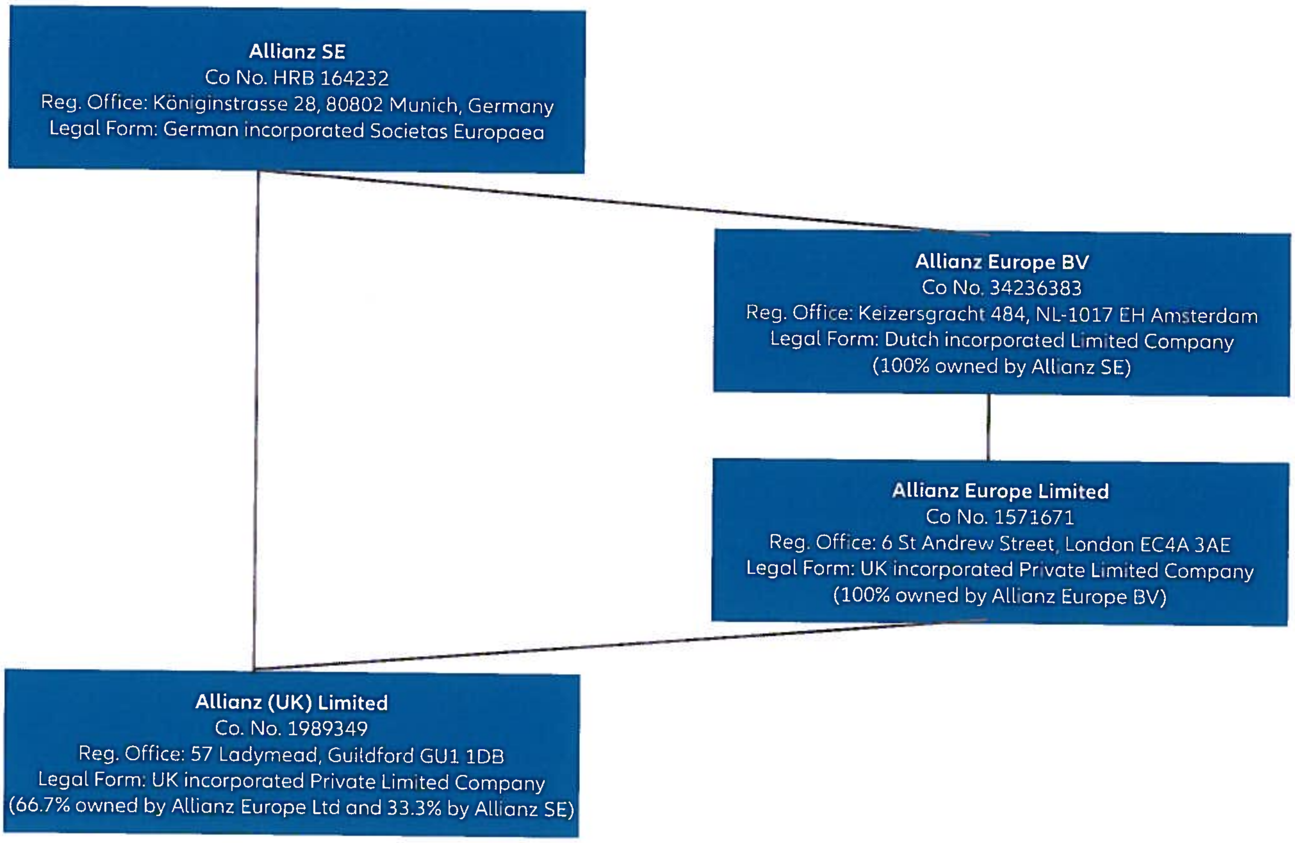
The Company is a wholly owned subsidiary (via intermediate holding companies) of Allianz SE, of Königinstraße 28, 80802 München, Germany.

The German Federal Financial Supervisory Authority ("Bundesanstalt für Finanzdienstleistungsaufsicht" – BaFin), Dreizehnmorgenweg 13–15, 53175 Bonn is responsible for the financial supervision of the group headed by Allianz SE.

Allianz's external auditor is PriceWaterhouseCoopers LLP, 7 More London Riverside, London, SE1 2RT.

The structure charts below describe the position of Allianz (UK) Limited (the Company's ultimate UK parent) within the Allianz SE group, including details of the holders of qualifying holdings in the Company, and also its material related undertakings.

ALLIANZ (UK) LIMITED AND ITS PARENT COMPANIES

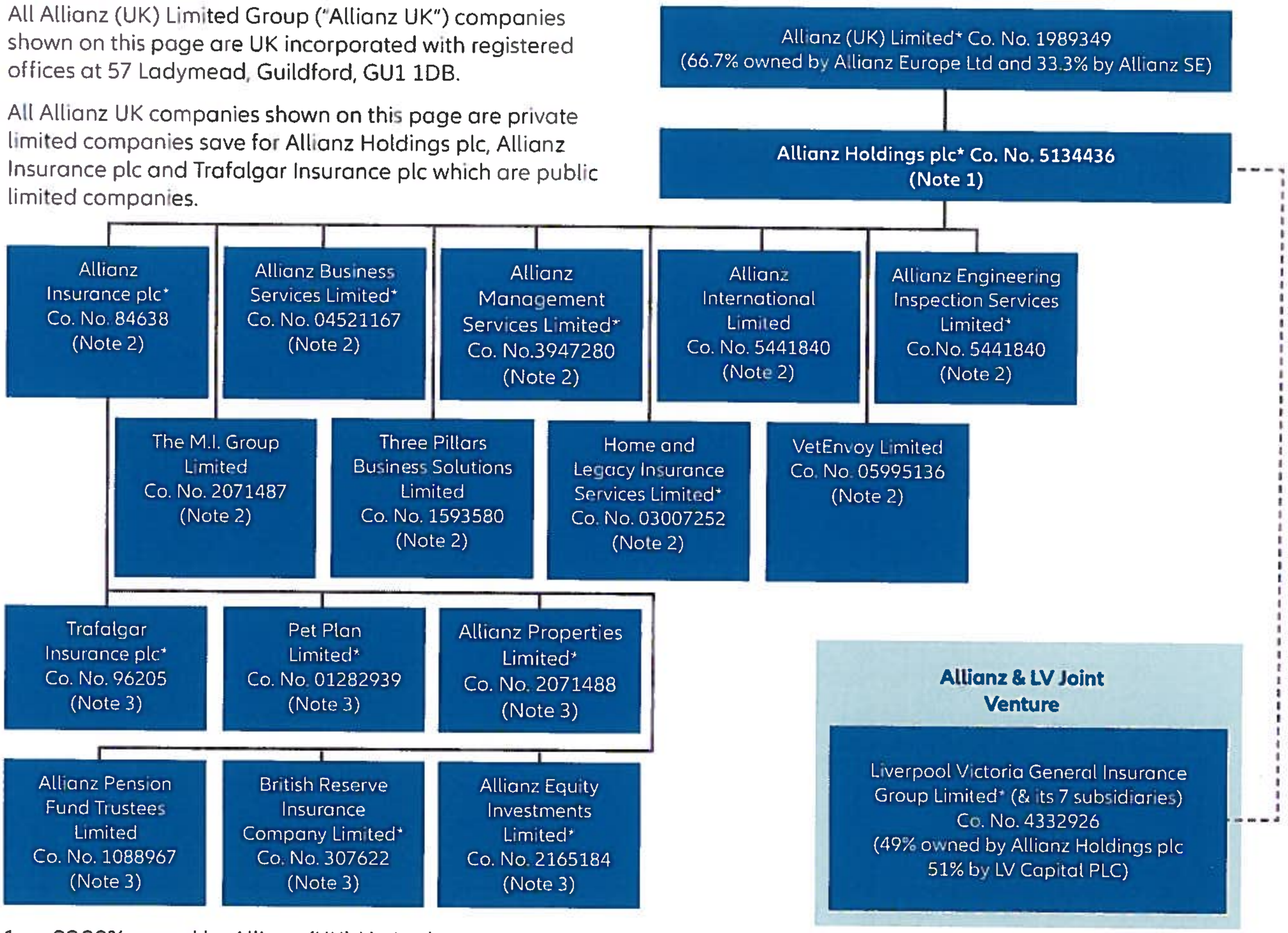


A. BUSINESS AND PERFORMANCE CONTINUED

ALLIANZ (UK) LIMITED AND ITS MATERIAL SUBSIDIARIES/INTERESTS

All Allianz (UK) Limited Group ("Allianz UK") companies shown on this page are UK incorporated with registered offices at 57 Ladymead, Guildford, GU1 1DB.

All Allianz UK companies shown on this page are private limited companies save for Allianz Holdings plc, Allianz Insurance plc and Trafalgar Insurance plc which are public limited companies.



1. >99.99% owned by Allianz (UK) Limited
2. 100% owned by Allianz Holdings plc
3. 100% owned by Allianz Insurance plc

* Material related undertaking

The material lines of business written by the Company are motor vehicle liability, other motor, fire and other damage to property, general liability, legal expenses and miscellaneous financial loss. As a result of historical activity it also has provisions in respect of non-proportional marine, aviation and transport reinsurance. As a result of underwriting motor vehicle liability and general liability it has provisions in respect of annuities stemming from non-life insurance contracts. The only material geographical area in which the Company carries out business is the United Kingdom.

On February 27, 2017, the UK Government's Lord Chancellor announced a new discount rate to be used to calculate pecuniary losses in respect of personal injury (the 'Ogden rate'). Consequently the real discount rate used in the UK changed from 2.5% to minus 0.75% resulting in an impact to technical provisions. At the same time the Lord Chancellor announced a consultation.

On December 20, 2018 the Civil Liabilities Act received Royal Assent and introduced a new mechanism to back the Ogden discount rate from being based on a 'very low' risk investment strategy to that from a 'low' risk investment strategy. Whilst there is still uncertainty as to what the new rate will be, the granting of royal assent removes a key uncertainty on the new rate and is expected to move up from its current position. The new rate will be determined on or before August 6, 2019. Accordingly, in the 2018 results of the Company the actuarial best estimate for the discount rate has been revised from -0.75% to 0%.

In December 2017 Allianz Holdings plc group ("The Group") acquired a 49% share in a joint venture with Liverpool Victoria General Insurance Group (LVGIG). In 2018, as part of the strategic partnership, renewal rights to the Company's Private Motor and Household business started to transition into the joint venture while the opposite was true for renewal rights to LVGIG's existing Commercial portfolio which started to transition to the Company.

A. BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE

The table below summarises Allianz's premium volume and underwriting performance in 2018 and compares it to that of 2017.

	2018			2017		
	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio
Motor vehicle liability	519	304	84%	513	294	93%
Other motor	137	89	135%	181	103	118%
Fire and other damage to property	486	278	109%	556	299	100%
General liability	239	130	78%	225	125	97%
Miscellaneous financial loss	616	359	93%	599	347	93%
Other	41	12	124%	34	17	119%
Accepted reinsurance	–	–	N/A	–	–	N/A
Total	**2,038**	**1,173**	**96%**	**2,108**	**1,185**	**98%**

The Company writes insurance business entirely within the United Kingdom. In 2018 gross written premiums were £2,038.1m, a 3.4% decrease in comparison to the prior year predominantly driven by the transfer of Allianz's personal home and motor business to LVGIG which was only partially offset by commercial business transferring to Allianz. Commercial Lines growth was supported by modest rate increases and the business transfers from LVGIG while Personal lines shrank following the termination of poor performing accounts in 2017 and the transfer of the Motor and Household to LVGIG.

The Company continues to purchase an outwards quota share reinsurance covering all lines of business from an Allianz SE group reinsurance company. The quota share remains at 40% and this has the benefit of lowering the capital requirement.

The revision in the actuarial best estimate for the Ogden discount rate resulted in a favourable reserve release of £26m. The underlying profit is driven by the strength of our Commercial business, continuing profitable growth in Animal Health and the absence of a major weather event.

Commercial Lines profits increased in 2018 compared to 2017 with improved prior year performance mitigating a number of large losses and claims inflation which has been running ahead of rate increases. Intermediary commissions also increased marginally reflecting ongoing consolidation in the Broker Market and a slight shift in overall business mix. Further rate strength is needed across all insurance lines of business to sustain market profitability.

Personal Lines also returned a profit predominantly driven by continued strong performance in Animal Health and underwriting actions which saw the Motor account return to profit, offsetting losses seen in the Household account.

A. BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE

The tables below summarise the investment performance during 2018 of the funds directly invested by the Company and provides a comparison with the prior year.

								2018			2017		
(£m)	Market Value 31/12/2016	Net additions /(disposals)	Net Unrealised Gains /(losses)	Market Value 31/12/2017	Net additions /(disposals)	Net Unrealised Gains /(losses)	Market Value 31/12/2018	Net Realised Gains /write downs	Income	Expense	Net Realised Gains /write downs	Income	Expense
Fixed Income	**2,207**	**275**	**(17)**	**2,465**	**(197)**	**(85)**	**2,183**	**13**	**49**	**(3)**	**15**	**54**	**(4)**
Government	557	6	12	575	(147)	(24)	404	5	5	(3)	2	6	(4)
Securitised	403	58	(3)	458	179	8	645	4	10	–	2	10	–
Corporates	1,247	211	(26)	1,432	(229)	(69)	1,134	4	34	–	11	38	–
Deposits	**7**	**(1)**	**–**	**6**	**1**	**–**	**7**	**–**	**1**	**–**	**–**	**1**	**–**
Managed Funds	**–**	**150**	**2**	**152**	**(65)**	**(2)**	**85**	**(8)**	**2**	**–**	**–**	**3**	**–**
Loans	**396**	**(212)**	**(54)**	**130**	**(80)**	**(1)**	**49**	**–**	**2**	**–**	**27**	**5**	**–**
Total	**2,610**	**213**	**(70)**	**2,753**	**(341)**	**(88)**	**2,324**	**5**	**54**	**(3)**	**42**	**63**	**(4)**

The table above shows the investments held directly by the Company. Investments in Equity and Real Estate, small as a proportion of total assets, are held by the subsidiary companies Allianz Equity Investments Limited and Allianz Properties Limited respectively, which are treated as participations in this report. The risks of those investments are considered in section C and included in the Internal Model.

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. In 2018, cash and short-term investments were maintained at low levels with returns in these classes continuing to be low. Securitised bonds in the portfolio consist of covered bonds and asset backed securities. The allocation to asset backed securities was overweight to enhance yield. Other securitised investments include commercial real estate loans and a small exposure to infrastructure debt. During the year, the exposure to two managed funds was affected by rising US interest rates and experienced some loss in value.

Investment income in 2018 was £54m compared with £63m in 2017. The decrease in investment income is driven by lower interest income. The gains in fixed income securities were offset by the realised loss from the disposal of one of the managed funds. Realised gains, investment income and investment expenses for 2018 and the 2017 are provided in the table above.

A.4 PERFORMANCE OF OTHER ACTIVITIES

In 2018, the company incurred £16m (2017 £16m) other expenses in management charges from a fellow group undertaking for administration and claims management services.

The company has no leasing arrangements which are material to the performance of the company.

A.5 OTHER INFORMATION

A restructuring charge of £7.1m was incurred in 2018 in light of the LVGIG business transfers. This involved the reorganisation of many teams including Sales and Distribution, Operations, Technical, Claims and Finance to reflect the changes in the business model. Restructuring charges in 2017 amounted to £4.5m.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON SYSTEM OF GOVERNANCE

This section is unaudited.

THE BOARD AND ITS COMMITTEES

The Company is managed together with the other subsidiaries of Allianz Holdings plc, the Boards of these two companies are identical. On December 31, 2018 the Board comprised a non-executive Chairman, four non-executive directors and two executive directors[7]. The Board is responsible for deciding the business strategy and for ultimate oversight of the conduct and performance of the Group. It is also responsible for external reporting.

The Board has established a number of committees and a system of internal control to ensure the efficient and effective operation of the business.

The members of the Board are detailed below, as well as their Board committee memberships. All committees are responsible for oversight of their subject matter for all companies in the Group.

Potential conflicts of interest between the Company, its policyholders and other companies in the Group are regularly identified and managed. The processes in place to manage those conflicts include documented requirements for governance and appropriate independence. All Boards maintain and regularly review a conflicts of interest register.

		Management Board	Board Risk Committee	Audit Committee	Finance & Investment Committee[8]	Compensation Committee	Nomination Committee
Rick Hudson*	Chairman[9]		Chair	x			x
Christian Dinesen*			x	Chair		x	x
Denise Larnder*[10]			x	x			
Rosanne Murison*			x	x		Chair	Chair
Andrew Torrance*			x	x			
Jon Dye	Chief Executive Officer	Chair			Chair		
Mark Churchlow[7]	Chief Financial Officer	x	x		x		

* Non-executive Director

The following ceased to be sub-committees of the Board Risk Committee and became sub-committees of the Management Board, namely: Operational Risk Committee; the Underwriting Committee and the Model Committee.

[7] Mark Churchlow, one of the executive directors, resigned as a Director of Allianz Insurance plc with effect from December 31, 2018.

[8] The Finance Committee and Investment Committee merged in 2018 and the first meeting of the combined Finance & Investment Committee was held on May 11, 2018.

[9] Rick Hudson was appointed Chairman with effect from January 1, 2018 subject to regulatory approval (regulatory approval effective from March 19, 2018).

[10] Denise Larnder was appointed as a Director of Allianz Insurance plc with effect from November 15, 2018.

B. SYSTEM OF GOVERNANCE CONTINUED

The Board Risk Committee is responsible for oversight of risks, the links between different risks, the Enterprise Risk Management Framework within which the company manages those risks, and the activities of the Risk Department. Membership of the Committee comprises a non-executive director who acts as Chairman, all the other non-executive directors, the Chief Financial Officer and the Chief Risk Officer.

The Audit Committee monitors the integrity of the financial statements, financial reporting developments, financial controls and the system of internal control. Membership of the Committee comprises a non-executive director who acts as Chairman and all the other non-executive directors.

The Finance & Investment Committee has responsibility for overseeing/managing the investment portfolios of the Group and for overseeing their investment-related risks. The Committee also has responsibilities concerning, and reports by exception on, investment risk matters to the Board Risk Committee. In addition to its investment portfolio responsibilities, the Committee's objectives include overseeing the planning and development of the Group asset allocation and investment income; overseeing the Group capital structure and liquidity position; and approving individual investment transactions with significant impact for companies within the Group. Membership of the Committee comprises the Chief Executive Officer as Chairman, the Chief Financial Officer (who acts as Deputy Chairman), the Chief Investment Officer and the Regional Chief Investment Officer of Allianz Investment Management SE.

The Compensation Committee is responsible for compensation strategy, structure and the amount of compensation for the directors and senior executives of the company. Membership of the Committee comprises two non-executive directors of the Company, one of whom acts as Chairman, and the Chief HR Officer.

The Nomination Committee is responsible for identifying non-executive director candidates for Board approval, and for ensuring that robust succession plans are in place for directors, non-executive directors and Management Board members. Membership of the Committee comprises at least three directors, a majority of whom must be independent non-executive directors.

The Management Board is the principal executive committee of the Board. The Management Board meets monthly to monitor business performance against strategy, compliance and risk management, discuss developing issues and to make material operational decisions.

The members of the Management Board as at December 31, 2018 are:

- Jon Dye – Chief Executive Officer
- Mark Churchlow – Chief Financial Officer (until December 31, 2018)
- Jacob Abboud – Chief Information Officer
- Neil Clutterbuck – Chief Underwriting Officer
- Philip Gennoy – Chief HR Officer
- Graham Gibson – Chief Claims Officer
- Simon McGinn – General Manager, Commercial and Personal
- Stephanie Smith – Chief Operating Officer
- Dr. Karina Schreiber – Chief Risk Officer.

The four key functions required by Solvency II are each headed by direct reports of the Chief Executive Officer or the Chief Financial Officer. They are:

- Risk Function: Dr. Karina Schreiber – Chief Risk Officer
- Compliance Function: Ann Alexander – Group Compliance Officer
- Actuarial Function: Phil Singh – Chief Actuary (appointed with effect from January 1, 2018, subject to regulatory approval – regulatory approval effective from April 13, 2018)
- Internal Audit Function: Andrew Gascoyne – Head of Internal Audit.

Key Function authority, operational independence and resource are described in sections B.3 – B.6 of this report.

All members of the Board and Management Board, the heads of the four key functions and certain other senior managers have been approved by the PRA and/or the FCA.

The Senior Managers and Certification Regime sets out the prescribed responsibilities which must be allocated to specific individuals in insurance companies. The following table sets out which role within Allianz is responsible for the execution of each specific responsibility.

B. SYSTEM OF GOVERNANCE CONTINUED

Prescribed Responsibility	Allocation
Senior Managers Regime	SMF9 Chairman
Certification Regime	SMF9 Chairman
Conduct rules training and reporting	SMF1 Chief Executive
Responsibilities map	SMF4 Chief Risk Officer
Anti-financial crime policies and controls	SMF2 Chief Finance Officer
Obligations in Insurance for Fitness and Propriety	SMF9 Chairman
Leading development of the firm's culture by the governing body as a whole	SMF9 Chairman
Overseeing adoption of the firm's culture in the day-to-day management of the firm	SMF1 Chief Executive
Responsibility for production and integrity of firm's financial information and its regulatory reporting	SMF2 Chief Finance Officer
Management of the allocation and maintenance of the firm's a) capital and b) liquidity	SMF2 Chief Finance Officer
Responsibility for the performance of the firm's ORSA	SMF4 Chief Risk Officer
Induction, training and professional development of all members of the firm's governing body	SMF9 Chairman
Induction, training and professional development of all the firm's SMF managers and Key Function Holders	SMF1 Chief Executive
Oversight of the independence, autonomy and effectiveness of Whistleblowing policies and procedures	SMF10 Chair of Risk Committee
Development and implementation of remuneration policies and practices	SMF12 Chair of Remuneration
Obligations in respect of outsourced operational functions and activities	SMF1 Chief Executive

B. SYSTEM OF GOVERNANCE CONTINUED

An assessment of the adequacy of the system of governance is conducted annually. There were no material findings in 2018.

The implementation of the SM&CR regime was a material change to the system of governance during 2018, and has been successfully applied via the registration of Key Function Holders and Certified Individuals, as described in the Management Responsibilities Map. The following ceased to be sub-committees of the Board Risk Committee and became sub-committees of the Management Board, namely: Operational Risk Committee; the Underwriting Committee and the Model Committee. The Board Risk Committee still receive summaries and updates from these sub-committees.

REMUNERATION PRINCIPLES

Allianz's remuneration framework has been constructed to ensure that it is competitive and provides a balance of both fixed and variable pay but does not encourage excessive risk taking. The framework and the processes within it are reviewed by the Compensation Committee. The review also monitors the remuneration frameworks consistency with the company's identified risk appetite.

The Compensation Committee is responsible for the sign off of all remuneration decisions affecting the senior executive managers of the Company. This ensures impartiality of decision-making and ensures there are no conflicts of interest in respect of remuneration decisions and is guided by Group principles and requirements.

The remuneration of all employees comprises a combination of basic salary, appropriate benefits and a performance related bonus. In the case of senior employees the bonus is paid as a combination of cash and long-term equity incentives whose value is related to the share price of Allianz SE. The performance related bonus is based upon a combination of company performance against targets and personal performance against specific personal objectives. There is equal emphasis in the structure of the personal objectives for both the what and the how with senior managers completing a 360-degree feedback process to contribute to the assessment. There is also a standard compliance objective. It is the responsibility of managers to ensure that personal targets in place are objective and understood by the participants.

External non-executive directors receive fixed remuneration.

The Company provides a defined contribution pension scheme which is open to all employees. In previous years employees were offered a defined benefit pension plan (Allianz Retirement and Death Benefit Fund, "ARDBF") that provided benefits linked to salary. This was closed to any further accrual of benefits in 2015.

During 2018 the only material transactions with shareholders, persons who exercise significant influence on the undertaking, or with members of the Board were the payment of a dividend of £175m to Allianz Holdings plc together with the payment of £31m of reinsurance premium to Allianz SE and the receipt of £4m of reinsurance recoveries.

In this context we have understood "persons who exercise significant influence" to be equivalent to "People with Significant Control" as defined by the Companies Act 2006, together with the People with Significant Control over those People and so on to the ultimate group shareholder.

B.2 FIT & PROPER REQUIREMENTS

The company requires that all directors and other senior managers possess integrity, repute, specific skills, knowledge and the experience necessary to execute their respective roles. This requirement has been aligned to satisfy the requirements of the PRA and/or FCA within the UK regulatory Senior Managers and Certification Regime ("SM&CR"), including all managers identified as Key Function Holders and/or Key Function Performers. The individuals, with the support of their line managers, are responsible for ensuring that their skills, knowledge and experience remains adequate and is kept up to date.

Processes are undertaken to assess the fitness and propriety of individual managers and directors subject to the SM&CR prior to those persons joining the company. Thereafter, annually throughout their employment, a detailed attestation is required from the relevant individual. This includes declarations concerning:

- criminal proceedings or investigations against them or any firm over which they have held influence;
- civil proceedings and bankruptcy orders or liquidation or similar proceedings against them or any firm over which they have held influence;
- disciplinary and regulatory proceedings or findings against them;
- compliance with procedures concerning personal account dealings in Allianz SE and other securities;
- potential or actual conflicts of interest.

B. SYSTEM OF GOVERNANCE CONTINUED

B.3 RISK MANAGEMENT SYSTEM INCLUDING OWN RISK & SOLVENCY ASSESSMENT

RISK MANAGEMENT SYSTEM

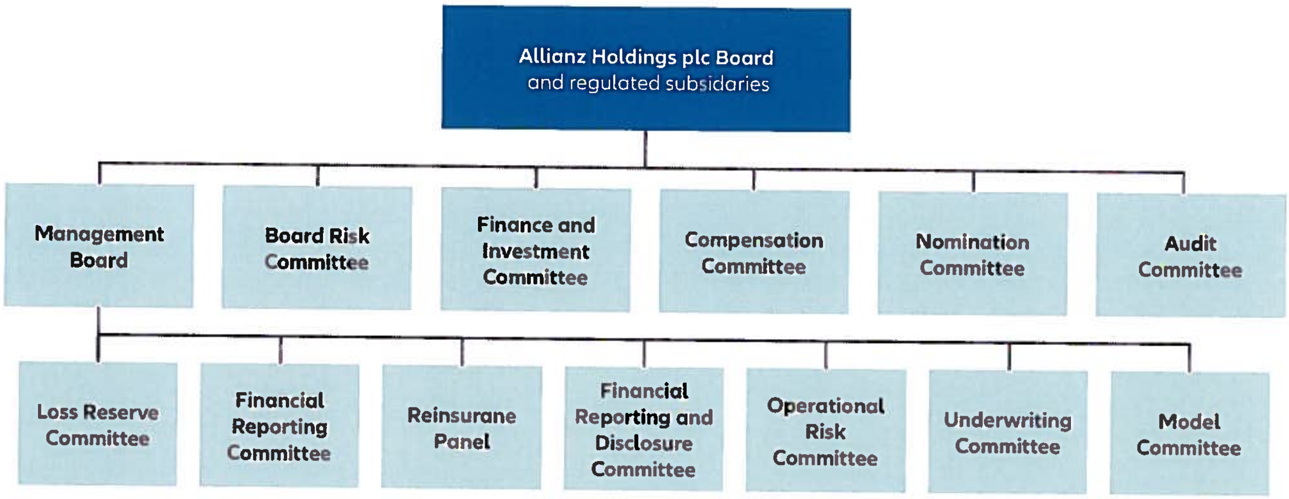
The design and operation of the Risk Management System is the responsibility of the Chief Risk Officer. The Risk Management System encompasses all levels of the Company's management. The components of the System, described below, are embedded in the operations of the organisation.

The System is built around the Three Lines of Defence model:

- The first-line of defence comprises risk taking units which are responsible for delivering profit and loss.
- The second-line comprises independent risk controlling units, including Risk and Compliance, which oversee the framework in which the business works.
- The third-line of defence is the Internal Audit function, which reviews the activities of both first and second lines of defence.

The Board of directors and Management Board are responsible for setting the firm's strategy and risk appetite, with the support and challenge of the Risk function.

The following committee structure is in place to ensure the adequacy of the system of governance.



The Board identifies and prioritises all the material risks facing its business, supported by the Management Board, the Board Risk Committee and the Risk function. After identifying the risks the Management Board ensures arrangements are put in place to control those risks. Risk and control policies are documented.

To ensure risk management is fully integrated into the business and effective control is maintained, key risks and controls are owned by members of the Management Board. Members of the Management Board and their direct reports take first-line accountability for the identification and management of all risks in the organisation.

The main risks are kept under regular review by the Board via reports from the Risk function to the Board Risk Committee. The Board Risk Committee is supported in its oversight of risk by an Operational Risk Committee, an Underwriting Committee and an Investment Committee.

The role and responsibilities of the Chief Risk Officer, the Board Risk Committee, and its sub committees, are laid down in relevant Terms of Reference.

The Chief Risk Officer is supported by a full-time Risk function consisting of risk and actuarial professionals. It has responsibility for the calculation of risk capital and validation of the risk capital model, the development and monitoring of the implementation of risk policies, the identification and monitoring of risks, including conduct risks, and the management testing of the key controls that mitigate risk. It has a reporting line independent of first-line functions, and independence is guaranteed by written policy and by the oversight of the Board Risk Committee.

In order to ensure comprehensive coverage of the risk landscape, risk analysis is undertaken within a risk taxonomy which is also represented in the design of the internal model (see section C).

B. SYSTEM OF GOVERNANCE CONTINUED

The local risk taxonomy is split into three broad groups of risk types:

1 Quantified: Market, Credit, Insurance, Operational

2 Unquantified: Reputational, Liquidity, Strategic

3 Cross-risks: Aggregation and accumulation, Conduct, Group, Emerging

Modelled risks are quantified using the internal capital model and recalculated in a full model run each quarter. Risk tolerance limits are used to monitor quantifiable risks regularly. A number of qualitative risk assessment processes covering all risks are undertaken by the first-line of defence, with support, challenge and oversight from the Risk team. The results of these assessments are used to inform key business decisions and planning.

INTERNAL MODEL GOVERNANCE AND VALIDATION

Allianz received approval from the PRA as a member of the College of Supervisors of the Allianz SE group to use the Allianz SE group internal model to calculate its Solvency Capital Requirement ("SCR"). A full governance framework is in place including defined roles and responsibilities based on requirements laid down by Allianz SE group.

The Board is responsible for confirming the ongoing appropriateness of the internal model at least annually, and for approving internally any major model change and associated application for regulatory approval.

The Board Risk Committee is responsible for making a recommendation to the Board on those subjects, and for monitoring remediation action for identified model weaknesses. It is supported by a Model Committee, which is an executive sub-committee of the Board Risk Committee. The Model Committee undertakes detailed reviews of modelling decisions and validations and makes recommendations to the Board Risk Committee.

All components of the internal model are subject to independent validation, either locally or at Allianz SE group level. For each component of the model maintained at group level, a Suitability Assessment is produced by the Risk function on a rolling cycle over 3 to 5 years (timing is dependent on the materiality of the component). The Suitability Assessment reviews the appropriateness of the component as it pertains to the Company. These validation components are brought together in an Annual Validation Report. All parts of the validation suite are reviewed in depth by the Model Committee on behalf of the Board Risk Committee. The Board Risk Committee reviews the recommendations of the Model Committee and applies a top-down, high-level validation of the model and its results.

ORSA PROCESS

The Own Risk and Solvency Assessment (ORSA) process forms a substantial part of the Risk Management System described above. The ORSA consists of a number of interlinked sub-processes, including:

- Top Risk Assessments
- Stress and Scenario Testing
- Internal Capital Modelling
- Corporate Strategy and Planning, Risk Strategy and Appetite setting
- Capital Management Process

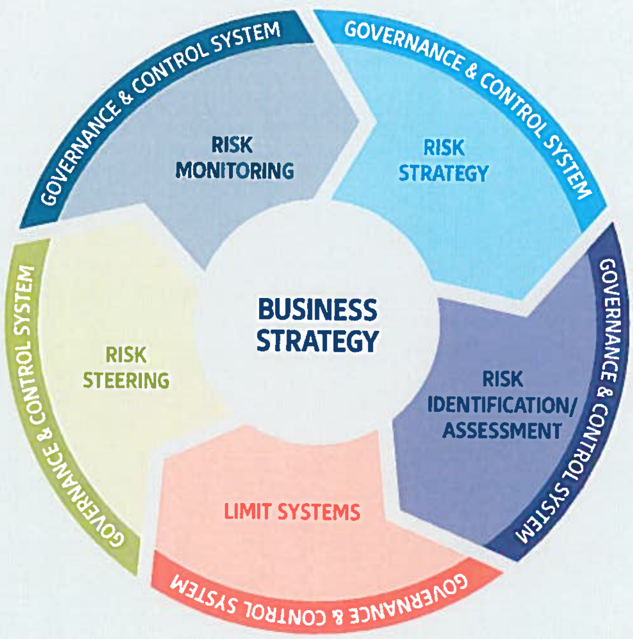
The Board is responsible for setting Allianz's business strategy and risk appetite. Business strategy is determined by the Board and its implementation in terms of types of business, business volumes, capital requirements, financial performance and other appropriate measures, is set out in the Corporate Plan. The Corporate Plan is prepared annually and outlines the goals in support of corporate strategy to be implemented by the Management Board throughout the business.

The risk strategy and appetite are agreed by the Board with reference to the latest versions of the Allianz SE Group Risk Strategy and Risk Appetite. These include specific principles around capital management which give the Board comfort that the Company can rely on its ultimate parent for support. The Company manages risk in line with the stated risk appetite through its Enterprise Risk Management framework. This consists of ORSA processes which identify, evaluate, treat, mitigate and monitor events or combination of events, so that through an informed decision making process their likelihood and consequences of occurrence are within limits considered acceptable by the Board.

The ORSA covers the overall solvency needs from a forward-looking perspective taking into account the Company risk profile, approved risk tolerance limits and the business strategy and the significance with which the Company risk profile deviates from the assumptions underlying the internal capital model. The ORSA is an integral part of the development and monitoring of the business strategy and is taken into account on an ongoing basis in strategic decisions. The roles and responsibilities relating to the ORSA include the Board setting the process requirements and challenging and signing off the ORSA report.

The ORSA report is produced annually coincident with the production of the corporate plan, and is supported by quarterly updates to the Board Risk Committee. The ORSA may also be updated following any event that materially changes the risk profile of the organisation.

B. SYSTEM OF GOVERNANCE CONTINUED



A full non-regular ORSA process may be required after any events that could substantially alter the overall conclusions of the most recent (regular annual) ORSA report. The following potential trigger events have been identified:

- Large UK-based natural catastrophe events that have a significant impact on the Company risk portfolios;
- Major change in business situation e.g. merger, acquisition or divestiture activity which would require the Company to assess the impact on its current and projected solvency;
- Significant capital market dislocation that has a material impact on the Company investment portfolios;
- Material regulatory intervention;
- Significant changes to the risk capital model;
- Significant changes to reinsurance arrangements;
- Significant changes in regulation or legislation, e.g. material changes to capital requirements;
- Materialisation of a significant non-quantified risk (e.g. strategic, reputational or liquidity risk).

In 2018, a comprehensive analysis of the potential impact of different Brexit scenarios has been regularly performed.

The ORSA process is overseen by the Board in the system of governance described in B.1, the main route for this oversight being the consideration and approval of an annual ORSA report.

The ORSA process is underpinned by individual accountabilities and processes undertaken by first-line managers across the organisation. These include but are not limited to defined authority levels for claim handling and underwriting, and limits on investment risk-taking.

The major sub-processes which contribute to the ORSA process are:

- The setting of risk strategy and appetite by the Board, on the advice of the Board Risk Committee and Chief Risk Officer.
- The development of strategy and a corporate plan by the Management Board within the defined risk appetite.
- The approval of policy on the management of risk by appropriate governance bodies and the monitoring of compliance with that policy by the Risk function.

B. SYSTEM OF GOVERNANCE CONTINUED

- A number of Risk evaluation processes, including:
  - The maintenance of a Top Risk register, including a record of the controls around those risks.
  - The regular analysis of the impact of specific stress scenarios.
  - The operation of the internal model.
  - The maintenance of a register of key operational risks.
- Regular internal reporting on risk exposure and control to governance bodies inside the organisation.
- Regular external reporting to regulators and to the public, as required by Solvency II and UK regulation.

The Company uses Allianz SE's risk based internal model to determine its solvency needs. This capital model is directly based on the risk profile of the Company (see section C) and is used as the primary input for decisions on capital management (see section E). The Chief Financial Officer ensures that recommendations to the Board on capital management take account of risk management activities, including internal model calculations. The Company's policy on capital management is documented and approved by the Board.

Dividends are planned through the Company's annual planning mechanisms, taking into account the Board's requirement to hold an appropriate buffer of capital over SCR and also the requirements to fund planned growth or absorb planned increased risk

B.4 INTERNAL CONTROL SYSTEM

To ensure an effective internal control system, all functions cooperate to exchange necessary information and advice. Second and third line functions maintain open lines of communication with first-line functions, and regularly attend key committees at all levels.

With specific regard to the integrity of financial reporting, the Risk function oversees the operation of a process of Internal Control via the Integrated Risk and Control System (IRCS). Under IRCS, processes relevant for financial reporting are tested by first-line management and discussed with the Risk function. Internal Audit tests the Entity Level Controls. Senior managers across the organisation, culminating in the Chief Financial Officer and the Chief Executive Officer, are held accountable for the effective design and performance of processes within their span of control. The IRCS process, including the reporting of deficiencies and their remediation, is monitored by the Audit Committee.

COMPLIANCE FUNCTION

The Compliance Function is a key function within the Internal Control System of the Group. The function's primary responsibilities and activities are:

- to support and monitor compliance with applicable law, regulations and administrative provisions to protect the Company against compliance and conduct risks.
- to advise senior management, committees and the Board on compliance with laws, regulations and administrative provisions adopted pursuant to the Solvency II Directive.

The activities and processes of the Compliance Function are not exclusively performed by the Compliance Department but may be delegated to, or supported by, other departments, business areas, Internal Audit, Risk, and Actuarial, or external resources.

The Compliance Department comprises a full-time team of compliance professionals led by the Group Compliance Officer. It is a second-line function reporting into the Chief Financial Officer, but with dotted lines to the Board Risk Committee, Head of Group Compliance for Allianz SE Group and the FCA; independence of the function is ensured by written policy and by the oversight of the Board Risk Committee. The Compliance Department produces an annual plan in consultation with the Risk and Internal Audit functions for approval by the Management Board and the Board. Delivery of this plan, findings from monitoring exercises and remediation of those findings are overseen by the Management Board and the Operational Risk Committee on behalf of the Board Risk Committee.

B.5 ACTUARIAL FUNCTION

The Actuarial Function consists of the Chief Actuary who holds a Chief Actuary Practicing Certificate. The Chief Actuary leads a team of qualified and student actuaries. The primary responsibilities and activities of the Function are to:

- inform the Board of the reliability and adequacy of the calculation of technical provisions;
- coordinate and oversee the calculation of technical provisions;
- ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- assess the sufficiency and quality of the data used in the calculation of technical provisions;
- express an opinion on the overall underwriting policy and adequacy of reinsurance arrangements;
- contribute to the calculation of insurance risk capital in the internal model framework.

B. SYSTEM OF GOVERNANCE CONTINUED

The Actuarial Function's independence is supported by written policy. It provides guidance to the Chief Financial Officer on technical provisions through reserve committees. The work of the Actuarial Function and its independence is overseen on behalf of the Board by the Board Risk Committee.

B.6 INTERNAL AUDIT FUNCTION

The Internal Audit function comprises a full-time team of audit professionals led by the Head of Internal Audit. It has a reporting line to the Audit Committee Chairman and Chief Executive to ensure independence from first-line and second-line functions; independence and objectivity is supported by written policy and by the oversight of the Audit Committee. The Internal Audit function produces an annual audit plan in consultation with the Management Board, the second-line functions and the Board. Delivery of this plan, findings from audits and remediation of those findings are overseen by the Audit Committee.

The primary responsibilities and activities of the function are to:

- carry out reviews of major business activities focusing on the areas of greatest risk to the business together with in-depth reviews of corporate functions and provide specialist expertise such as IT audit capability.
- assess adherence to and monitor the overall effectiveness of internal systems and controls, risk management, procedures and policies.

B.7 OUTSOURCING

Allianz has a local outsourcing policy that aligns with the key principles of the corresponding document at the Allianz SE group level and the requirements of Solvency II. This local policy provides necessary local further guidance, particularly in the area of underwriting and claims activities, for example concerning delegated authorities.

The Local Outsourcing Policy ('LOP') sets out a clear framework for the management of outsourcing (as defined by the Group Outsourcing Policy, the 'GOP'). Compliance with the policy is overseen by the Local Outsourcing Function ('LOF'), who also provide expert advice on setting up, managing and terminating outsourcing and other contracts.

The most material outsourcing arrangements are defined as Critical or Important Functions or Services (CIFS) in the LOP. These are reviewed at least annually by the Management Board on behalf of the Board, and the review process is monitored by the Board Risk Committee.

The table below outlines the critical or important functions or activities that are outsourced, and the jurisdiction in which the service providers are located.

The Company does not outsource outside the Group any of the four key functions – Risk, Compliance, Actuarial and Internal Audit – as defined by Solvency II. They are all provided as part of the Management Services in the final row of the table below and outsourced to a fellow subsidiary of the Group.

B.8 ANY OTHER INFORMATION

The Group continuously monitors the effectiveness and adequacy of its System of Governance, including the effectiveness of specific functions, and believes them to be operating effectively. This assessment takes into account the nature, scale and complexity of the risks inherent in its business.

Activity outsourced	Fellow member of the Allianz SE Group	Outsourcing Provider's Jurisdiction
Delegated authority to handle specific claims and/or underwriting of specific segments	N	United Kingdom
Handling of runoff claims and provision of specific underwriting expertise	Y N	Germany United Kingdom
Loss adjusting services	N	United Kingdom
Provision of document preparation, printing and distribution	N	United Kingdom
Application development and maintenance, customer and business services	Y	India
Information technology infrastructure provision	Y	Germany
Management Services, including provision of staff	Y	United Kingdom

C. RISK PROFILE

This section is unaudited.

This section provides information on the Company overall risk profile followed by a description of each risk category in detail.

Risk is measured and steered using a number of quantitative and qualitative tools. The main quantitative tool is the approved internal model, under which the Company derives its risk capital from potential adverse developments of Own Funds. The resulting profile provides an overview of how risks are distributed over different risk categories and determines the regulatory capital requirements in accordance with Solvency II.

The Company uses a combination of processes, such as expert judgement and incident management, to identify, assess and control qualitative risks. Qualitative risks are regularly monitored by management to ensure that they do not materially impact on the operational activities necessary for the achievement of business plans.

During 2018 minor changes were made to the internal model in order to address validation findings. There were no other material changes in the methods used to assess risks during 2018.

The Company insures only non-life insurance risks though it is also exposed to some small life insurance risks because it settles certain claims as PPOs (Periodic Payment Orders). As a result of its asset management activities to support its primary business activities it is also exposed to market and credit risks. In addition, the Company has a legacy defined benefit pension scheme (ARDBF) through which it has exposure to life insurance risks as well as further market and credit risks. Full details of the ARDBF and its valuation can be found in note 16 to the Annual Report and Financial Statements of Allianz Holdings plc[12] (pages 63-66).

Management of the ARDBF assets and of the risks of the scheme are the responsibility of the trustees of the scheme, although they are obliged to consult the Company in respect of major matters such as the investment policy or funding. In order to mitigate the risk to the Company, the assets and liabilities of the scheme are considered and modelled alongside the assets and liabilities of the Company. Decisions on risk exposure and on capital management for the Company take into account the risk exposure, assets and liabilities of the ARDBF.

In order to adequately understand its risk exposures, the Company extensively uses stress testing and sensitivity analysis for all material risks and events. Information on Allianz's risk sensitivities, including a description of methods used, the assumptions made and the outcome of stress testing and sensitivity analysis for material risks is provided in section C.7. The Company does not use Special Purpose Vehicles to transfer risk and is not exposed to risk from positions off its balance sheet, except in relation to securitised investments, as described in section C.3 Credit Risk.

C.1 UNDERWRITING RISK

Underwriting risk consists of:

- premium risk and reserve risk for the insurance business,
- longevity risk for the pension fund, and
- business risk.

The capital held for underwriting risk before diversification within this category or with other risk categories is £598m.

The key underwriting risk concentration for the Company is geographical – most of its business is written in the United Kingdom, so it does not have international geographical diversity and is exposed to UK government decisions, such as the change in the Personal Injury Discount Rate. Nevertheless, its insurance portfolio is geographically dispersed within the country, and it displays significant diversity within its product set, as illustrated by the table in section A.2.

The diversity of the Company risk exposure has changed slightly over 2018 as a result of the joint venture with LVGIG. During the year renewal rights to the Company's Personal Motor and Home portfolios started to transfer into the joint venture, while the opposite is true for LVGIG's Commercial lines business. However, the impact on diversification within the underwriting risk capital has been immaterial.

At the end of the year the Civil Liability Bill received Royal Assent, entering into force as the Civil Liability Act 2018. In line with the legislation the Personal Injury discount rate will now be reviewed and any change implemented by August 2019. However, the prospective change in the rate and the exact timing of its introduction remain uncertain. This continues to affect the premium and reserve risk exposure as any change in the discount rate will impact the value at which personal injury claims settle.

PREMIUM RISK

The Company receives premiums from its customers and provides insurance protection in return. Changes in profitability over time are measured based on combined ratios and their fluctuations. The Company faces the risk that underwriting profitability is less than expected because there are more claims than expected, or claims are higher in value than expected on average.

Premium risk is subdivided for the purposes of assessment into natural catastrophe risk, terror risk and non-catastrophe risk. The calculation of premium risk capital is derived from actuarial models that are used to derive loss distributions and from external models for natural catastrophe risk.

[12] https://www.allianz.co.uk/about-allianz-insurance/company-info.html/financials?opentab=#financials

C. RISK PROFILE CONTINUED

The Company actively manages its premium risk. There are clear underwriting limits and restrictions, and other controls, defined and monitored by the Chief Underwriting Officer. There is a product development process which defines governance around product development, including review by both the Technical and Risk teams.

Peak risks including accumulation risks are mitigated by reinsurance agreements, and their continued effectiveness is overseen by a Reinsurance Panel, which is a sub-committee of the Management Board.

The Underwriting Committee provides review and oversight of the underwriting risk and technical underwriting control environment. It acts as the prime interface between the Technical and the Risk Department, Compliance Department and Board Risk Committee on underwriting risk matters.

The main change to premium risk exposure during 2018 was the business transfers between the Company and the LVGIG joint venture.

RESERVE RISK

The Company holds reserves for claims resulting from past events that have not yet been settled. If the claims reserves are insufficient to cover claims to be settled in the future due to unexpected changes, losses would be incurred. Claims reserves could be under-estimated if, for example, more claims had occurred in the past than have been estimated or average amounts paid per claim to settle these are higher than expected.

The Company monitors the development of reserves for insurance claims on a line of business level quarterly, and conducts annual reserve uncertainty analyses based on similar methods to those used for premium risk calculations. Allianz SE Group performs regular independent reviews of these analyses and representatives participate in the local Reserve Committee meetings.

Section D.2 (Technical Provisions) covers reserve risk in more detail.

LIFE INSURANCE RISKS

The ARDBF is subject to a number of life underwriting risks. The only material risk is longevity, the risk that members live longer than expected and therefore the pension fund liabilities increase. The Company monitors its exposure by using actuarial models to assess that possibility, and performs scenario analyses. The Company holds risk capital against this risk; the risk diversifies very well against other risks and so is of limited materiality in combination.

Technical provisions held in respect of PPO claims are classified as Annuities stemming from non-life insurance contracts and are also subject to longevity risk. The longevity risk from these technical provisions is assessed within the reserve risk module of the internal model and is therefore categorised as reserve risk in the SCR breakdown (in section E.2).

BUSINESS RISK

The business risks for the Company include cost risks associated with expenses incurred in administering policies transpiring to be higher than expected, or that new business volumes decrease to a level that does not allow the Company to absorb its fixed costs.

The Company has no material sensitivity to business risk.

C.2 MARKET RISK

The guiding principle for the Company's investment risk management, covering Market Risk, Credit Risk and Liquidity Risk, is the Prudent Person Principle (Article 132 of the Solvency II EU Directive).

The Company meets the Prudent Person Principle by employing a professional Chief Investment Officer, who is backed up by the global and specialist expertise of Allianz Investment Management. It also invests with reference to a Strategic Asset Allocation (SAA) which defines its long-term investment strategy for the investment portfolio as a whole.

The Company is exposed to movements in financial markets both through its own investments and through the investments of the ARDBF.

The risk capital before diversification within this category and with other risk categories allocated to market risks amounts to £541m. The main driver is credit spread risk.

The Company assesses its market risk exposure via quantitative and qualitative processes carried out by the Investment and Risk functions, including regular dialogue between the functions and formal reporting to the Finance & Investment Committee and the Board Risk Committee.

When setting up the SAA, care is taken to ensure an adequate target level of asset quality and security (for example, ratings and collateral) together with a sustainable return, as well as sufficient liquidity.

Allianz only invests in assets it can properly identify, measure, monitor, manage, control, report and appropriately integrate in its solvency assessment. The table in section A.3 provides information on the investment portfolio as at December 31, 2018.

C. RISK PROFILE CONTINUED

The SAA is the main mechanism used to mitigate investment risk – it covers both the target value of assets in particular asset classes and the matching of duration between the asset and liability portfolios. Compliance with the SAA is monitored by the Risk function and by the Board Risk Committee with support from the Finance & Investment Committee.

There have been no material changes in exposures to market risk and the Company has no material concentration of market risks, as illustrated by the table in section A.3.

The Company performs stress testing and sensitivity analysis in order to understand the impact of certain changes in market variables on its solvency position. Details of these analyses are provided in section C.7.

EQUITY RISK

Equity investments are held to diversify the portfolios and take advantage of expected long-term returns. The key risk from equity holdings is a decrease in share prices. Equity risk arises from the equity investments held by both the Company and ARDBF but is not material.

INTEREST RATE RISK

Movements in interest rates can cause the value of the Company's investments to move adversely relative to its technical provisions which are discounted on the market value balance sheet. Exposure to this risk is mitigated substantially by undertaking asset-liability matching exercises, and in particular by setting a target for matching as part of the SAA.

CREDIT SPREAD RISK

Movements in credit spreads can cause the value of the Company's investments in fixed income assets – such as bonds – to move adversely relative to the ARDBF liabilities (which are valued under IAS19 using corporate bond yields). Credit spread is the difference in yield between two assets of similar maturity but different credit quality. Credit spread risk is mitigated by managing the credit quality of the fixed interest portfolio.

INFLATION RISK

The Company is exposed to changing inflation rates due to its non-life insurance obligations, and its pension obligations. Since inflation increases both claims and costs, higher rates of inflation will lead to greater liabilities. This risk is mitigated to some extent by investment in Index Linked bonds and other inflation-linked assets, although the mitigation is not perfect because of caps and floors in the sensitivity of pension liabilities to inflation indices and because the inflationary pressures on insurance liabilities are very varied.

CURRENCY RISK

Currency risk is not a material risk as almost all the Company's insurance business is written in Sterling and there are limited historical insurance liabilities in other currencies. It is mitigated by ensuring that where such exposures do exist they are matched by appropriate assets. The Company tolerates the currency risk inherent in outsourcing services to Allianz Technology India and Allianz Technology in Europe, which charge in Indian Rupees and Euros respectively.

REAL ESTATE RISK

Direct and fund real estate investments are held to diversify the portfolios and take advantage of expected long-term returns and increased short-term yields. The key risk from these holdings is a decrease in property values. Real estate risk is mitigated by maintaining a diverse, high quality property portfolio and by taking advice from professional property managers.

DERIVATIVES

The Company uses a derivative to hedge against fluctuations in share price within long-term incentive plans awarded to senior managers. In addition, the Company used an equity put option during 2018 to partially hedge the downside risk on its equity portfolio; however, this derivative expired prior to 2018 year-end and was not renewed.

C.3 CREDIT RISK

The Company's credit risk exposure arises from its investment portfolio and reinsurance counterparties. Credit risk arising from the investment portfolio accounts for the most significant part of the pre-diversified credit risk. Credit risk is measured as the potential economic loss in the value of the Company's portfolio due to changes in the credit quality of its counterparts ("migration risk") or the inability or unwillingness of the counterparty to fulfil contractual obligations ("default risk").

The risk capital before diversification with other risk categories allocated to credit risk amounts to £140m.

The only material concentration of credit risk is in respect of fellow Allianz SE Group entities. The Company's current reinsurance programme is placed with Allianz SE and Allianz Re Dublin for all risks, with the former providing catastrophe cover and the latter providing Risk XL cover for all other lines of business and whole-account quota-share cover. In respect of reinsurance, the financial strength of Allianz SE and the interdependency between Allianz Re Dublin and Allianz SE is such that an impact on UK customers would only be felt in the event of a major global shock impacting the ability of reinsurance to respond to a major localised shock, such as an extremely major natural catastrophe in the UK.

C. RISK PROFILE CONTINUED

The Company is exposed to off-balance-sheet credit risk in respect of the collateral maintained by issuing institutions to back certain securitised investments. This credit risk is managed by means of a careful selection of counterparties and by ensuring over-collateralisation of securitised investments.

The Company monitors and manages credit risk exposures and concentrations monthly to ensure it is able to meet policyholder obligations when they are due and to maintain adequate capital and solvency positions. Limits are set and monitored by counterparty, with limits varying by type of investment and by counterparty credit rating.

This credit risk monitoring includes monitoring of off-balance-sheet exposures, to ensure that the risk mitigation techniques which give rise to the exposures remain effective.

C.4 LIQUIDITY RISK

Liquidity risk is the risk that requirements for current or future payment obligations cannot be met. Liquidity risk is not modelled within the internal model because capital is not an appropriate mitigant. Instead, the Company closely monitors liquidity risk on a quarterly basis through scenarios.

The nature of the Company's core business limits its exposure to liquidity risk, to the extent that it has negligible residual risk in normal circumstances.

Premiums are received well in advance of liabilities, and most assets are traded in deeply liquid markets so that funds are available from the selling of these without a material discount except in the most extreme situations.

The Company monitors the liquidity position under stressed scenarios, including major claim events and extreme reductions in market liquidity, to ensure that should large amounts of liquidity be required at short notice adequate liquidity would be available. Even in the most extreme modelled situation, the Company retains access to very significant liquidity.

There have been no material changes in exposure to liquidity risk over the reporting period and Allianz has no major concentrations which affect its liquidity risk. There are a small number of specific predictable large cash transfers out per year. These are managed closely by the accounting functions in conjunction with the Chief Investment Officer.

At December 31, 2018 the amount of expected profit in future premiums was £70m.

C.5 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, or from external factors other than financial risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The risk capital before diversification with other risk categories allocated to operational risk amounts to £91m.

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.

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 these standards is supported by a programme of periodic reviews.

The main operational risks identified are those related to information security, provision of IT services and political risk associated with regulatory change; these are included on the risk register reviewed by the Board Risk Committee for the Board. The main concentration of operational risk relates to the provision of services by an intra-group third party Company.

The key mitigants around operational risk are the development and maintenance of operational risk and control registers with the support of the Risk function, and the detailed monitoring of operational risk by first-line governance forums and by the Operational Risk Committee.

Concentration of internal operational risks, in so far as it exists in relation to business continuity, compliance and outsourcing risks, is monitored and managed through second-line and first-line review and oversight. In addition, the Internal Audit department assesses the effectiveness of the internal control system through planned reviews of business activities.

C. RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS

STRATEGIC RISK

Strategic risk is defined as negative effects on capital and earnings due to business policy decisions, changes in the economic environment, deficient or insufficient implementation of decisions, or a failure to adapt to changes in the economic environment. Strategic risks are mitigated by the review of strategies and plans by the Board and Allianz SE. They are evaluated and analysed as an input to the strategy and planning process and as part of the review of corporate plans by the Chief Executive, Chief Financial Officer and Chief Risk Officer.

REPUTATIONAL RISK

Reputational risk is the risk of an unexpected negative change in the company's value as a result of a decline in the reputation of the Company in the eyes of its customers, regulators or staff. Reputational risks are mitigated by the implementation of policies on external and internal communication, and by active management of the relationships between the Company and its regulators. They are evaluated and analysed in discussions between the Risk function and the corporate communications team.

CONDUCT RISK

Conduct risk is defined as the risk that inappropriate decisions, actions, and/or processes impact the ability to achieve fair customer outcomes. Conduct risk considerations arise for all business activities and risk categories. The Company endeavours to execute its business activities appropriately, seeking to ensure that there is no risk of significant detriment to customers, the Company itself or corporate partners as a result of inappropriate execution. The Company aims to have a culture of appropriate behaviour throughout the business.

Conduct risk is mitigated by internal processes and is reinforced by thorough training and communication programmes. It is evaluated and analysed by the Risk function and the Compliance function in conjunction with the first-line.

C.7 ANY OTHER INFORMATION

RISK SENSITIVITY ANALYSIS

In order to adequately understand its risk exposures, the Company uses stress testing and sensitivity analysis for all material risks and events. The primary mechanism for this analysis is the internal model, which is itself a stress testing model, assessing the impact on the total balance sheet of stresses on specific parameters.

It is also periodically used to perform investigations into specific real-world scenarios of relevance to the Company, across all risk types, and also to undertake regular analyses of one-factor stresses. These analyses cover both the direct impact on the balance sheet and also secondary impacts on solvency. All these analyses are reported to the Board Risk Committee, and are also used as input into decisions about capital requirements.

As at December 31, 2018 the Company's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) prior to dividend payments was 156%. The following table shows the results of the sensitivity analysis for one-factor stresses, covering both market and non-market risks. The results include the impact on Own Funds, the subsequent impact on the SCR and the resulting combined impact on the Company's Solvency ratio. The impact on Solvency ratio is the absolute change in percentage points (%p).

The results in the table demonstrate the impact of a one-factor stress with all other variables being held constant. While in reality there are interactions between the risks and movements in one variable would coincide with or cause movements in other variables, this analysis provides an insight into the relative sensitivity of the Solvency ratio to the different individual risks.

The results are reasonable given the strategy and business of the Company.

C. RISK PROFILE CONTINUED

The results represent the estimated direct quantitative impact of the stresses and do not consider future management actions that could potentially alleviate the situation. Examples of possible recovery options that the Company's management could decide to action following a stress include changing the investment portfolio to address market or credit risk, requesting capital from Allianz SE, altering the business portfolio and changing reinsurance arrangements.

	Impact on Own Funds (£m)	Impact on SCR (£m)	Impact on Solvency ratio
Market risk			
Interest Rates: 50bps increase	(12)	(12)	1%p
Interest Rates: 50bps decrease	16	14	(1%p)
Credit Spreads: 50bps increase relative to swaps	(81)	(14)	(9%p)
Credit Spreads: 50bps decrease relative to swaps	66	17	6%p
Inflation: 50bps increase	(15)	9	(4%p)
Inflation: 50bps decrease	19	(12)	6%p
Equity: 30% decrease in equity markets	(31)	(11)	(2%p)
Real estate: 10% decrease in property markets	(17)	(6)	(1%p)
Non-market risk			
Premium risk: 1 in 10 year event	(66)	8	(11%p)
Reserve risk: 1 in 10 year event	(67)	8	(12%p)
Longevity risk: 1 in 10 year event	(18)	(3)	(2%p)
Credit risk: 1 in 10 year event	(24)	(2)	(3%p)

D. VALUATION FOR SOLVENCY PURPOSES

SCOPE OF REPORT AND INTRODUCTION

The scope of this section of the report is to represent the excess of assets over liabilities of the Company.

The Company has two insurance subsidiaries, British Reserve Insurance Ltd and Trafalgar Insurance plc, each of which publishes its own SFCR, and two investment subsidiaries, Allianz Equity Investments Limited and Allianz Properties Limited. The figures for those subsidiaries are not consolidated into the figures shown, but are reported as participations.

The recognition, measurement and valuation policies for IFRS reporting purposes applied by the Allianz Holdings plc group, of which the Company is a member, are summarised in notes 1.4 and 2 within the Allianz Holdings plc Group Annual Report and Financial Statements[13] (pages 45-54). The Company adopts the same recognition, measurement and valuation policies for IFRS purposes as the other members of the Group. This report summarises any differences to those valuation policies for solvency purposes.

The table overleaf shows the IFRS balance sheet of the Company as at December 31, 2018, and the key reclassifications and valuation differences between that and the balance sheet used for solvency purposes.

In 2018, the Company changed the valuation methodology relating to the deposit withheld from the quota share reinsurer. Under IFRS, the deposit is valued at cost but for Solvency II, the balance is discounted. In 2017, the future ceded investment income falling due under the quota share contract was included within technical provisions. In 2018, this treatment was amended so that the amount is now included within the deposits from reinsurers. There were no other changes made to the recognition and valuation bases used or to the bases used for making estimations during the reporting period.

[13] https://www.allianz.co.uk/about-allianz-insurance/company-info.html/financials?opentab=#financials

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

	IFRS Balance Sheet £m	Reclassifications £m	Valuation Difference £m	Solvency II MVBS £m
Assets				
Goodwill	3	–	(3)	–
Deferred acquisition costs	114	–	(114)	–
Intangible assets	45	–	(45)	–
Deferred tax asset	3	–	25	28
Property, plant and equipment held for own use	16	–	–	16
Investments				
Holdings in related undertakings, including participations	287	–	193	480
Government Bonds	536	4	–	540
Corporate Bonds	1,646	(421)	–	1,225
Collateralised Securities	–	440	–	440
Collective Investment Undertakings	85	–	–	85
Accrued Interest	23	(23)	–	–
Derivatives	–	7	–	7
Deposits other than cash equivalents	7	–	–	7
Loans and mortgages	50	29	–	79
Reinsurance recoverables from:				
Non-life and health similar to non-life	1,159	(27)	(155)	977
Life and health similar to life, excluding health and index-linked and unit-linked	94	–	28	122
Insurance and Intermediaries receivables	793	–	(691)	102
Reinsurance receivables	–	2	–	2
Receivables (Trade, not insurance)	323	(29)	(2)	292
Cash and cash equivalents	10	–	–	10
TOTAL ASSETS	**5,194**	**(18)**	**(764)**	**4,412**
Liabilities				
Technical provisions				
Best Estimate – non-life	2,587	40	(950)	1,677
Risk Margin – non-life	–	–	61	61
Best Estimate – life	129	–	58	187
Risk Margin – life	–	–	39	39
Provisions other than technical provisions	5	6	–	11
Deposits from reinsurers	898	27	–	925
Insurance and intermediaries payables	98	(40)	–	58
Reinsurance payables	62	(54)	–	8
Payables (trade, not insurance)	55	3	–	58
Other liabilities	339	–	–	339
TOTAL LIABILITIES	**4,173**	**(18)**	**(792)**	**3,363**
Excess of assets over liabilities	**1,021**	**–**	**28**	**1,049**

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS

Participations in other undertakings are valued using the adjusted equity method, that is, at their IFRS Net Asset Value, adjusted for Solvency II valuation differences. Goodwill, intangible assets and deferred acquisition costs are valued at nil.

Receivables have been reported in the MVBS at the value included under IFRS accounts. This is deemed market consistent given that most of the receivables are estimated to be collected within 12 months and therefore the discounting effect of the time value of money is not deemed significant.

In the case of insurance-related receivables, the difference between IFRS and MVBS mainly relates to the recognition of certain premiums that are already included in the receivables under IFRS, while they are recognised within technical provisions in the MVBS, because such premiums are not yet due by the balance sheet date.

Where there are quoted prices in active markets for identical assets, these assets are classified as "Level 1". Investments classified as Level 1 are reported in the MVBS at the value included under the IFRS accounts. Where there are inputs other than quoted prices that are observable either directly or indirectly these assets are classified as "Level 2". According to Article 10 of the Delegated Regulation 2015/35, Level 2 investments are valued using quoted market prices in active markets for similar assets with adjustments to reflect factors specific to the asset, including the condition or location of the asset, the extent to which inputs relate to items that are comparable to the asset and the volume or level of activity in the markets within which the inputs are observed. The value used for the preparation of the IFRS accounts is considered a fair approximation of the market value according with Solvency II rules, therefore no adjustment has been made except for the reclassification of the accrued interests presented in the caption "Other assets" under IFRS. Where inputs that are not based on observable market data are used, these assets are classified as "Level 3". Investments classified as Level 3 are valued using an income approach for both IFRS and MVBS and are covered in section D.4 Alternative Valuation Methods. The split of Investment classifications is provided in the table below.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Government and government agency bonds	228	312	–	540
Corporate bonds	–	1,225	–	1,225
Collateralised	17	410	13	440
Collective investment undertakings	85	–	–	85
Total	**330**	**1,947**	**13**	**2,290**

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

For the following classes of asset there is no material difference in valuation between the MVBS and the IFRS accounts: Property for own use; cash and cash equivalents. Full details on the valuation methodology used are disclosed in the IFRS Allianz Holdings plc Group Annual Report and Financial Statements referred to in the introduction to this section.

For all material classes of assets there have been no changes to the recognition or valuation basis in the year.

Assumptions and judgements that affect the reported amounts of assets are disclosed in the IFRS Allianz Holdings plc Group Annual Report and Financial Statements.

DEFERRED TAXES

Deferred taxes, except deferred tax assets arising from the carry forward of unused tax losses, are valued on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with the Solvency II Directive, and the values ascribed to assets and liabilities as recognised and valued for tax purposes. The valuation difference relating to deferred taxes mainly results from differences in technical provisions and insurance receivables for Solvency II.

Temporary differences between the Solvency II value of the assets and liabilities and their corresponding tax base as defined in IAS 12 are assessed, and any deferred tax asset or liability is adjusted or set up as required. The methods used to value deferred tax assets and/ or liabilities under IAS 12 are disclosed in the Allianz Holdings plc Group Annual Report and Financial Statements referred to in the introduction to this section.

The tax rates used in the calculation are the applicable UK tax rates. For losses and claims equalisation reserve balances, this is a blended rate based on the applicable rate at the time the deferred tax items are expected to reverse. Deferred tax on all other items is calculated at the rate that was in force on the reporting date.

The Solvency II to IFRS valuations differences, their applicable tax rate and the deferred tax impact are outlined in the table below.

	Valuation differences before deferred tax £m	Tax rate applied	Deferred tax impact £m	Net differences between IFRS and SII £m
Goodwill	(3)	0%	–	(3)
Intangible assets	(45)	0%	–	(45)
Deferred acquisition costs – gross	(114)	17%	20	(94)
Holdings in related undertakings, including participations	193	0%	–	193
Non-life	(155)	17%	26	(129)
Life	28	17%	(5)	23
Insurance and intermediaries receivables	(691)	17%	117	(569)
Trade receivables	(2)	17%	–	(2)
Best Estimate – non-life	950	17%	(161)	790
Risk Margin – non-life	(61)	17%	10	(51)
Best Estimate – life	(58)	17%	10	(48)
Risk Margin – life	(39)	17%	7	(32)

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS

SII line of business	IFRS provisions £m	Adjustment in respect of future premiums and exposures £m	Sundry adjustments £m	Discounting adjustment £m	Risk margin £m	SII technical provisions £m
Motor vehicle liability insurance	496	(69)	1	(8)	12	**432**
Other motor insurance	48	(30)	–	–	–	**18**
Fire and other damage to property insurance	207	(162)	–	(1)	5	**49**
Miscellaneous financial loss	184	(252)	–	(1)	1	**(68)**
Legal expenses insurance	29	(45)	–	–	4	**(11)**
General liability insurance	332	(38)	1	(7)	39	**326**
Non-proportional marine, aviation and transport reinsurance	17	2	(3)	(1)	1	**16**
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	34	–	6	25	39	**104**
Total	**1,347**	**(594)**	**6**	**6**	**100**	**865**

The table above shows a breakdown of the differences between IFRS provisions and Solvency II technical provisions by line of business. The first column shows the IFRS technical provisions net of reinsurance and deferred acquisition costs. The final column shows the Solvency II net technical provisions including the risk margin.

In this table, "Sundry adjustments" includes adjustments in respect of expenses and counterparty defaults, which are not material individually. The most significant adjustment is the column "adjustment in respect of future premiums and exposures", which mainly reflects the inclusion of future premiums within the technical provisions, rather than being held as debtors on the IFRS balance sheet. This is most material for the large portfolio of regular premium Animal Health business contained within the 'miscellaneous financial loss' line. This adjustment also impacts the Allianz Legal Protection business contained within the 'legal expenses insurance' line and the Engineering business contained within the fire and other damage to property insurance' line. In the case of the 'miscellaneous financial loss' and 'legal expenses insurance' lines, this adjustment causes overall technical provisions to be negative.

The discounting adjustment for the annuities line is positive because reserves for the periodical payment orders contained within this line are already discounted under IFRS. The discount rate assumed under IFRS is higher than the risk-free rate prescribed under Solvency II as it reflects the expected yields over a long time period on the types of assets held by the Company.

The Solvency II risk margin is a material component of the technical provisions that is not required under IFRS. The risk margin for the annuities line is most significant as a proportion of overall provisions, due to the long duration of these liabilities and high capital charges that it attracts under Solvency II.

BASIS

Technical provisions are calculated in respect of all insurance obligations to policyholders.

The value of the technical provisions corresponds to the current amount required to transfer insurance obligations immediately to another insurance entity.

The technical provisions consist of the claims provision, premium provision and risk margin, and these elements are calculated separately. Together the claims provision and the premium provision constitute the best estimate liabilities (BEL). Each element is calculated by line of business, both gross of reinsurance and for associated reinsurance recoveries. For each line of business, the approach taken is the same, and the methods and assumptions used for each line of business are based on the actual exposure and experience of that line of business.

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

METHODS AND ASSUMPTIONS

The calculation of the BEL is based on up-to-date and credible information and realistic assumptions and is performed using actuarial and statistical methods relevant to the line of business.

The claims provision is based on the IFRS claims provision, with the addition of an allowance for future claims handling and investment management expenses. A payment pattern derived from historical data for each line of business is applied to each element of the claims provisions to obtain future cash flows, which are discounted to reflect the time value of money in line with Solvency II requirements. A final adjustment is made as described below in respect of future premiums.

To calculate the premium provision, the IFRS Unearned Premium Reserve ("UPR"), adjusted to allow for future premium development arising from mid-term adjustments or cancellations, is used as an exposure measure.

Future loss ratio assumptions, derived separately for each line of business, are applied to the adjusted UPR to obtain an estimate of future claims. Allowances are also made for future expenses, profit commission and levies. A payment pattern is applied to each element of the premium provision to obtain future cash flows, which are discounted in line with Solvency II requirements.

Under IFRS, future premiums are held as receivables on the balance sheet. Under Solvency II, all future cash flows arising from insurance contracts, including future premiums, must be included within the technical provisions. Accordingly, the portion of IFRS receivables that is not yet due is transferred to the technical provisions under Solvency II.

The receivables are adjusted for future premium development consistent with the UPR adjustment described above, and are discounted. Future premiums relating to business that has already been earned are included within the claims provision, whereas the part that is unearned is assigned to the premium provision.

The risk margin is calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement ("SCR") necessary to support the insurance obligations over their lifetime.

Our approach to estimating future SCRs is based on the current SCR as a proportion of best estimate provisions, adjusted to reflect the increased levels of riskiness of the claims reserves over time. It uses ratios to assess premium risk and reserve risk capital throughout the runoff period, and grossing up factors to scale up for other risks.

This approach is based on the following assumptions:

- The current ratios of reserve risk capital to net reserves by line of business will increase over the run-off.
- The run-off profile of non-insurance risks follows that of the insurance risks (for example operational risk will not reduce faster or slower than reserve risk).
- The risk margin is held to cover run-off of an ongoing entity, which benefits from its existing diversification between reserve risk and premium risk.

The cost of capital rate used in the calculation of the risk margin is set by EIOPA at 6%.

The table below shows technical provisions both gross and net of reinsurance by Solvency II line of business.

	Gross (£m)			Net (£m)		
SII line of business	**Claims Provision**	**Premium Provision**	**Risk Margin**	**Claims Provision**	**Premium Provision**	**Risk Margin**
Motor vehicle liability insurance	687	114	12	374	46	12
Other motor insurance	5	45	–	3	15	–
Fire and other damage to property insurance	218	(25)	5	127	(83)	5
Miscellaneous financial loss	54	(22)	1	32	(101)	1
Legal expenses insurance	(2)	(23)	4	10	(25)	4
General liability insurance	479	51	39	276	11	39
Non-proportional marine, aviation and transport reinsurance	93	2	1	15	(0)	1
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	187	–	39	65	–	39
Total	**1,721**	**143**	**100**	**902**	**(137)**	**100**

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

The Solvency II basis has inherent uncertainty around the discount benefit arising from future movements in the yield curve and payment patterns. Other than discounting, 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:

- the impact of the change in Ogden discount rate and future changes in the rate;
- claim reporting patterns being different from those expected;
- claims settlement amounts being different in aggregate to that expected for example as a result of different levels of inflation;
- reinsurance recoveries being different to the levels expected;
- claim handling costs being different from those expected;
- the emergence of currently unknown latent diseases at a different level from that expected.

The calculation of the technical provisions requires a number of assumptions in addition to those supporting the IFRS calculations. Key additional assumptions include:

- Future loss ratio assumptions drive the allowance for future claims within the best estimate premium provision.
- Future expense assumptions are required for claims management expenses, future policy administration expenses and future investment management expenses as well as future reinsurance costs (net of future recoveries) and levies.
- Future cash-flow assumptions are used for the discounting calculation.

Sensitivity analysis has been conducted to understand how the technical provisions react to changes in the key assumptions documented above. The results are shown below.

Sensitivity	% change in net technical provisions
Increase future loss ratios by 1%p	0.7%
Decrease future loss ratios by 1%p	(0.7)%
Increase risk yield by 0.5%p	(3.0)%
Decrease risk yield by 0.5%p	3.6%
Delay payment time by 1 Year	(1.7)%
Advance Payment	1.3%

No matching adjustment or volatility adjustment is applied to the risk free yield curve used to discount the technical provisions. No transitional arrangements are applied.

REINSURANCE RECOVERABLES

Reinsurance recoverables are calculated separately for the claims provision and premium provision. The following cash-flows are taken into account:

Cash in-flows:

- recoverables from reinsurance contracts for claims payments and related expenses;
- revenues from reinsurance commission and profit shares where specified in individual reinsurance contracts.

Cash out-flows:

- future premiums for reinsurance contracts;
- counterparty default adjustment.

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. Any difference in timing between expected claims settlement and related reinsurance recoveries is reflected in the timing of the reinsurance cash flows.

For the premium provision, future claims within the premium provision are calculated both gross and net of reinsurance and the reinsurance recoverable is calculated as the difference between them. Future net claims are based on a loss ratio method consistent with the gross claims projection. The net UPR is adjusted to ensure that contract boundaries are consistent between the gross liabilities and the reinsurance recoveries on those liabilities. This involves removing any reinsurance exposure related to future new business and including additional reinsurance exposure for current business covered by the reinsurance treaties incepting on January 1, 2019. This is based on an assumed management action to renew the annual excess of loss reinsurance treaties on January 1. Correspondingly, a share of the future reinsurance premiums for these contracts relating to current business is also allowed for within the technical provisions.

Reinsurance future premiums are included within the technical provisions based on the payment terms of the individual reinsurance contracts. In respect of the whole account quota share with Allianz Re Dublin, the assumed management action continues to be that this cover remains in place throughout the runoff of the liabilities. Allowance is made for the expected future cash flows arising from this arrangement and this has seen some refinement over the year, though the financial impact on the technical provisions is negligible.

A counterparty default adjustment is held to reflect the expected amount of losses due to default of reinsurance counterparties. This consists of the bad debt provision held under IFRS in respect of run-off Marine business, as well as a further default adjustment in respect of PPO reinsurance recoveries, given the very long term relationship involved with the reinsurers for these exposures.

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

MATERIAL CHANGES IN ASSUMPTIONS

	Net (£m)			Gross (£m)		
	2018	2017	Change	2018	2017	Change
Best estimate	765	804	(39)	1,864	1,951	(87)
Risk Margin	100	100	–	100	100	–
SII Technical Provisions	**865**	**904**	**(39)**	**1,964**	**2,051**	**(87)**

The table above shows the change in the technical provisions from 2017 to 2018, both gross and net of reinsurance. Overall, the net technical provisions have reduced by £39m over the year.

Assumptions are subject to a regular review cycle with the period between reviews chosen to reflect the materiality of the assumption. Over the year, the assumption for the discount rate which is used to calculate lump sum costs awarded to claimants by the courts, the Ogden discount rate, has been revised from -0.75% to 0% to reflect our current best estimate view. This has led to a reduction in the level of technical provisions.

SIMPLIFICATIONS

The calculation of the technical provisions is carried out using materially appropriate, complete and correct data and using valuation methods which are appropriate to the nature and complexity of the insurance technical risks. The limitations of the calculation methodology are identified and understood. Selection of the appropriate method is based on expert judgement, considering the quality, quantity and reliability of the available data and analysis of all important characteristics of the business. The assumptions and parameters used in each method are clear and explicitly identified. The key drivers and uncertainties associated with the best estimate are explored and described.

For some elements of the technical provisions, simplified methods are applied that are appropriate to the nature and complexity of the risks. These are outlined below.

For the premium provision, the reinsurance recoverables are estimated as the difference between the best estimate provisions gross and net of reinsurance. This is defined as a simplified method under Solvency II and is appropriate because the exposure assumptions underlying the gross and net estimates of future claims use consistent contract boundaries.

The Risk Margin is estimated using an adjusted proportional proxy method to project future SCRs. It uses ratios to assess premium risk and reserve risk capital throughout the runoff period allowing for the changing nature of the liabilities through the run off period and grossing up to allow for other risks, adjusted to reflect the changing levels of riskiness of the claims reserves over time. This method is defined by Solvency II regulation as a simplification.

D.3 OTHER LIABILITIES

Differences between IFRS and MVBS relating to the valuations of deposits from reinsurers, reinsurance payables and insurance and intermediaries payables arise from the reclassification of interest on funds withheld under the quota share contract from reinsurance payables to deposits from reinsurers. A provision for abandonment of "after the event" policies is reclassified from insurance payables to technical provisions. Reinsurance payables are also reclassified to technical provisions.

As already noted, differences between IFRS and MVBS valuations result in changes to deferred tax.

For all other classes of liability there is no difference between the IFRS valuation and the MVBS valuation. Full details on valuation methodologies can be found in the Allianz Holdings plc Annual Report and Financial Statements (notes to the accounts numbers 32 and 33). As already noted, the Company has adopted those same valuation methodologies.

D.4 ALTERNATIVE VALUATION METHODS

During 2017, an infrastructure bond was acquired and classified as Level 3. This was valued using an income approach for Solvency II purposes. This method involved discounting future cash flows (coupon and principal payments). Full details on the valuation methodology can be found in the Allianz Holdings plc Annual Report and Financial Statements (notes to the accounts number 35). As already noted, the Company has adopted those same valuation methodologies.

D.5 ANY OTHER INFORMATION

There is no other material information on the valuation of assets or liabilities.

E. CAPITAL MANAGEMENT

E.1. OWN FUNDS

One of the core objectives of the Company strategy is to maintain its financial strength. Capital is a resource that supports the risk bearing capacity of the Company, forming a foundation for the Company's long-term viability and the trust of its customers.

The Company maintains a formal capital management policy, and capital management planning is embedded within the main planning process, with a time horizon of three years.

The Company applies an integrated risk capital framework, taking into account appetite and capital allocation across the Company. Capital management protects the Company's Own Funds in line with the Allianz Risk Strategy and Appetite. Both risk considerations and Own Funds needs are integrated into management processes through the attribution of risk and allocation of Own Funds to the various lines of business.

A core element of the approach to capital management is the approval by the Board of any dividends or requests for additional capital. This approval is subject to maintaining an adequate local buffer over the SCR.

The current liquidity plan and solvency projections reflect all planned changes in Own Funds for the next three years.

There were no material changes over the reporting period with regards to objectives, policies and processes employed by the Company for managing its Own Funds.

The table below shows the breakdown of the Own Funds by Tier, and the SCR coverage. The SCR figures are unaudited.

	2018 £m	2017 £m	Movement £m
Tier 1			
Ordinary shares	173	173	–
Share premium	5	5	–
Reconciliation reserve	844	766	78
Total Tier 1	**1,022**	**944**	**78**
Tier 3			
Net deferred tax assets	27	20	7
Total Tier 3	**27**	**20**	**7**
Total eligible own funds to meet the SCR	**1,049**	**964**	**85**
SCR (see below)	672	741	(69)
SCR Coverage ratio*	**156%**	**130%**	**26%**
Total eligible own funds to meet the MCR	**1,022**	**944**	**78**
MCR	191	198	(7)
MCR Coverage ratio	**536%**	**476**	**60%**

* The Own Funds at 31 December 2017 were net of a foreseeable dividend of £175m which reduced the SCR coverage ratio to 130%. At December 31, 2018, there is no allowance for a foreseeable dividend.

E. CAPITAL MANAGEMENT CONTINUED

Only Tier 1 and Tier 2 Own Funds are eligible to meet the MCR so Tier 3 Own Funds have been excluded from the MCR coverage ratio. No Own Fund items for the Company are subject to transitional measures for their inclusion in Tier 1. The Company does not have any Tier 2 Own Funds. There are no restrictions on the eligibility of available Own Funds to support the SCR and MCR, and no matching adjustment portfolio exists. The Company has no subordinated debt, or ancillary Own Fund items. No Own Fund items were issued or redeemed during the year. The reconciliation reserve is made up of retained earnings and reconciliation adjustments from IFRS to Solvency II balance sheet only.

The sensitivity of the Own Funds to both market and non-market risks is provided in the table in section C.7. The significant changes in Own Funds over the reporting period are provided in the table below. The changes in Tier 1 capital over the reporting period are all within the reconciliation reserve.

	£m
Profit after tax earned by the company in the year	**45**
Net unrealised gains after tax on the investment portfolio	**(48)**
Amortisation of intangible assets	**7**
Pension deficit movement (less associated deferred tax)	**79**

As at December 31, 2018 there is no difference between the excess of assets over liabilities and Own Funds. The ARDBF, which is valued in accordance with IAS19 (reported in the financial statements of the sponsoring employer, Allianz Management Services Limited, a fellow Group subsidiary), is now in surplus and is therefore no longer included in the 'Foreseeable dividend, distribution and charges' line of Own Funds.

RECONCILIATION BETWEEN IFRS AND MVBS EXCESS OF ASSETS OVER LIABILITIES

The MVBS excess of assets over liabilities amounts to £1,049m, whereas the IFRS excess of assets over liabilities amounts to £1,016m. The difference of £33m is largely attributable to five key drivers, which are illustrated in the table below.

A detailed comparison of the IFRS and MVBS balance sheets is provided in section D.

	£m
IFRS excess of assets over liabilities	**1,021**
Goodwill and intangible assets (IFRS balance sheet items that are not recognised in the MVBS)	(48)
Risk margin (an MVBS balance sheet item that is not recognised in IFRS)	(100)
Differences in recognitiion and valuation of technical provisions and reinsurance recoverabes (including associated receiveable/payable and DAC)	(42)
Inclusion of participations at Solvency II value	193
Deferred taxes on the above mentioned balance sheet differences	25
MVBS excess of assets over liabilities	**1,049**

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

This sub-section is unaudited with regards to information on the SCR.

The Company has received approval to use an internal model to determine its SCR. The SCR at December 31, 2018 amounts to £672m, and the MCR amounts to £203m.

The calculation of the MCR follows the methodology described in the Solvency II regulation. It uses the SCR as an input parameter for determining the possible range for the MCR, as well as the standard set of inputs required by the formula-based calculation.

A split of the SCR by the different risk categories modelled by the internal model is shown in the following table.
The comparative figures for 2017 and the movement over the reporting period are also shown.

The total diversified SCR for the Company reduced by £68m over the year from £741m to £672m. The movement is predominantly driven by a reduction in the management loads applied to the SCR as well as a reduction in market risk and longevity risk.

E. CAPITAL MANAGEMENT CONTINUED

Category of risk	Capital (£m)		
	2018	2017	Movement
Underwriting risk	**598**	**680**	**(82)**
Premium risk	276	268	8
Longevity risk	114	199	(85)
Reserve risk	184	191	(7)
Business risk	24	22	2
Market risk	**541**	**657**	**(116)**
Equity risk	52	50	2
Interest rate risk	58	115	(57)
Credit spread risk	285	259	26
Inflation risk	36	135	(99)
Currency risk	2	2	–
Real estate risk	108	96	12
Credit risk	**140**	**116**	**24**
Operational risk	**91**	**98**	**(7)**
Sum of standalone risks	**1,370**	**1,551**	**(181)**
Diversification benefit	(740)	(908)	168
Management loads	42	98	(56)
SCR	**672**	**741**	**(69)**

At December 31, 2017 the Company applied two management loads to the total diversified SCR to allow for identified shortcomings in the internal model. One of these management loads was removed in 2018 following the implementation of a change to the internal model to improve the modelled impact of expected business growth over a one-year time horizon. The second management load remains and is held in respect of the modelling of the pension fund. However, an improvement in the understanding and modelling of the interaction between risks for the Company and the pension scheme led to a reduction in this management load, which now stands at £42m. The combined impact of the changes to these management loads resulted in a £56m reduction in the total diversified SCR.

The remaining £13m movement in the diversified SCR is driven by a combination of model updates, that is, the annual re-parameterisation of individual risk types, and changes in the portfolio or positions of assets and liabilities. In particular, following the merger of the AGF Pension and Life Assurance Scheme into the ARDBF during 2018 the size of the pension fund's assets and liabilities increased. Contributions made by ARDBF's principal and participating employers (Allianz Management Services Limited, Allianz Global & Corporate Specialty SE and Allianz Technology SE), meant the ARDBF moved from a deficit into a surplus and the better matched position substantially reduced inflation risk and interest rate risk. In addition, the annual re-parameterisation of the longevity stress led to a reduction in longevity risk.

E.3 USE OF VARIOUS OPTIONS IN THE STANDARD FORMULA AND ANY INTERNAL MODEL USED

This sub-section is unaudited.

Because the Company uses an internal model rather than the Standard Formula, simplifications, undertaking-specific parameters and the duration-based equity risk sub-module are not applicable.

E. CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA CALCULATION

This sub-section is unaudited.

The scope of the internal model is the whole of the business of the Company. It also covers the risks inherent in the ARDBF which is sponsored by Allianz Management Services Limited, a fellow subsidiary of the Group.

The risk categories covered by the internal model are presented and explained in section C.

The table below outlines at a high level the key material differences between the methodologies underlying the internal model applied to the Company and the Standard Formula, including identification (marked with an asterisk*) of risks modelled within the internal model but not within the Standard Formula.

Risk Module	Methodologies used by Allianz Insurance plc Internal Model
Underwriting Risk for Non-life	Differences in calibration, based on specific local experience, and split between attritional, large and catastrophic claims. Explicit allowance modelled for variability of rate strength*. Catastrophe risk modelled using an externally supplied model. Risk mitigating effect of reinsurance replicated closely. Lapse risk and underperformance of new business risk modelled explicitly*. Risks aggregated using a copula and Monte Carlo simulation. Allowance is made* for additional market risk resulting from planned growth in underwriting risk.
Equity	Differences in calibration, based on specific local experience.
Interest rate	Model includes consideration of complex changes to yield curves, including twists.
Property	Differences in calibration, based on specific local experience.
Spread	Differences in calibration, based on specific local experience. Sovereign bonds are assumed to be subject to spread risk*. Spread risk applies to both assets and spread-sensitive liabilities*.
Concentration	No separate concentration risk module; concentration risk covered by the credit risk module.
Credit risk/counterparty default risk	Differences in calibration, based on specific experience. Credit risk is calculated for current market value of exposure of entire fixed interest, cash and reinsurance assets* plus an allowance for possible future exposure* in an insurance stress scenario.
Pension fund risk	Longevity risk is modelled*, based on specific local experience.
Intangible asset risk	Intangible asset risk is not covered by the internal model.
Operational Risk	Capital based on specific scenarios, modelled using a frequency and severity approach, and aggregated using Monte Carlo simulation.
Aggregation	Aggregation uses a Gaussian copula applied using Monte Carlo simulation.

E. CAPITAL MANAGEMENT CONTINUED

USE OF THE INTERNAL MODEL

The internal model is widely integrated into the Company's Enterprise Risk Management System and is the primary method used to understand the material and quantifiable risks inherent in the Company's business. To that end it is used for a number of purposes, in particular for comparison of different risk categories and segments. It is a fundamental element for risk based and forward looking steering.

Uses of the model are documented internally and include:

- Setting the risk strategy
- Setting risk tolerance limits
- Risk and capital reporting
- Calculating capital requirements
- Capital management, including the affordability of dividends and requirements for capital injections
- Setting the business strategy
- Capital allocation between lines of business
- Underwriting, reserving and pricing of lines of business and accounts
- Setting the reinsurance strategy
- Strategic asset allocation
- Performance management
- M&A Transactions
- Stress and scenario testing
- Planning

METHODOLOGICAL APPROACH OF THE INTERNAL MODEL

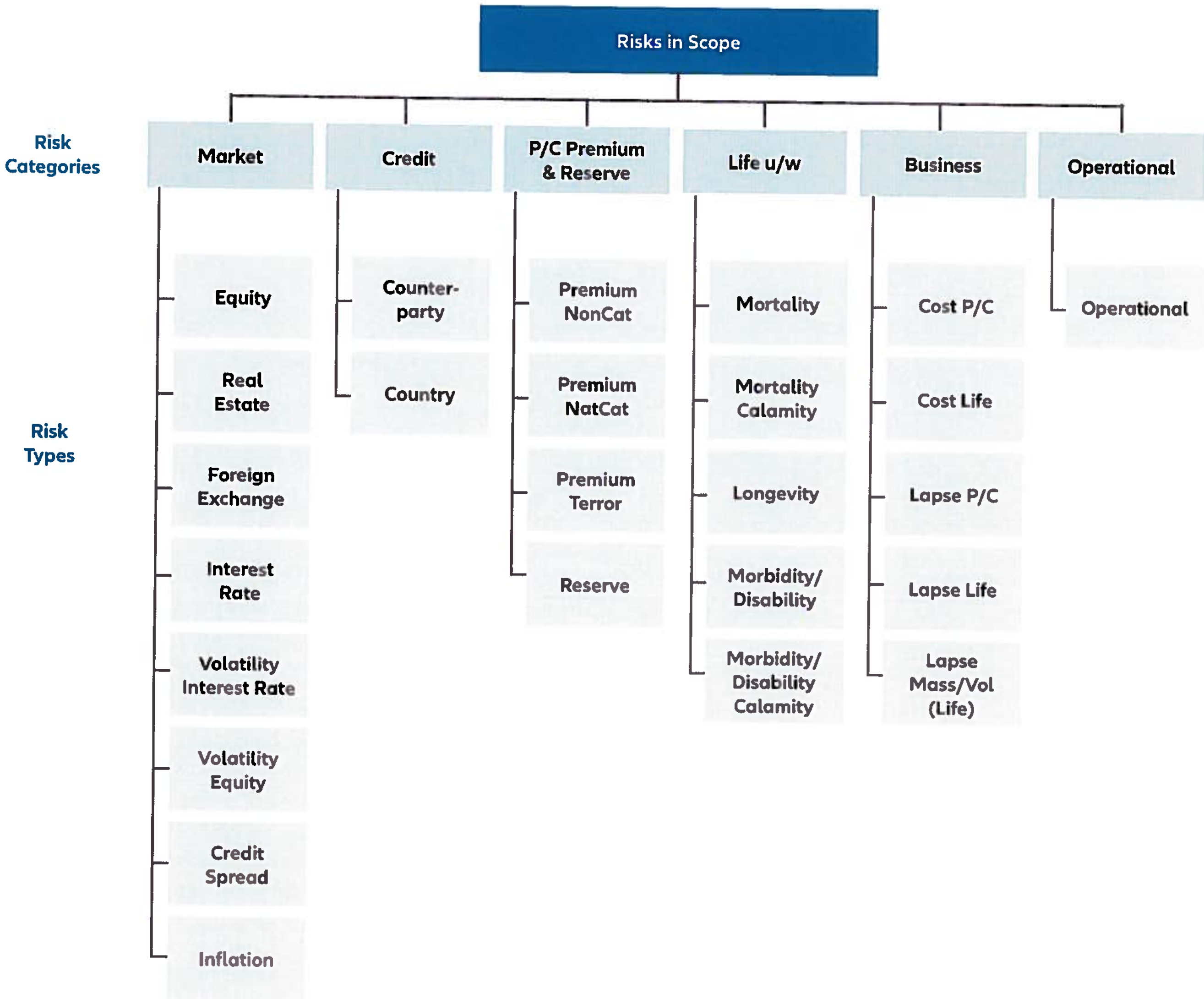
The internal risk capital model is based on a Value-at-Risk approach using a Monte Carlo simulation model. The starting point of the risk calculation is the market value balance sheet and the allocation of each item to the relevant risk categories. Risk capital for each category is defined as the change in economic value over the projected time period based on the underlying distribution assumptions for each risk factor. Where possible, the distributions are calibrated to market data or the Company's internal historical data. Where appropriate, Expert Judgement is used to support historical data analysis within the confines of a defined and documented governance process.

Following this approach, the maximum loss in the portfolio value is determined within a specified timeframe ("holding period") and probability of occurrence ("confidence level"). The risk capital is computed as the 99.5th percentile Value at Risk from the profit and loss distribution for a one year holding period, where in each scenario the change in economic value is derived from the joint realization of all risk factors. Accordingly the SCR is calculated using exactly the risk measure and time period specified in article 101(3) of the Solvency II Directive (Directive 2009/138/EC).

The internal model contains different risk categories, which can themselves be further subdivided into different risk types. For each level the internal model delivers risk capital figures on a standalone basis, that is, before diversification with other risk types or categories, but also on an aggregated level taking diversification into account.

E. CAPITAL MANAGEMENT CONTINUED

The risk categories available in the Allianz SE Group internal model, and the aggregation structure of the model, are outlined below.



Allianz's pension fund risk is modelled as a life insurance risk, and is captured partly under the market risk and credit risk categories and longevity risk in the Life underwriting category.

The following modules are not used by the Company because there is no material exposure to the risks modelled therein:

Module	Reason
Volatility Interest rate, Volatility Equity	Modules applicable to derivative holdings only
Mortality, Mortality Calamity	Death benefits are not material within the pension fund
Morbidity/Disablity, Morbidity/Disability Calamity	Disability benefits are not material within the pension fund
Cost Life, Lapse Life, Lapse mass/Vol (Life)	Modules not applicable because the pension fund book is closed to new entrants and there is no material risk associated with withdrawal

E. CAPITAL MANAGEMENT CONTINUED

The Company did use the Volatility Equity module during 2018 in order to model the risk associated with the equity put option that was held. However, this derivative expired prior to year-end and was not renewed; therefore the Volatility Equity module is not used as at December 31, 2018.

For the aggregation of risks, the internal model uses a copula to derive an overall distribution of risk for the whole of the Company, from which the 99.5th percentile is taken as the SCR. The dependency structure between risks of the copula is given by a matrix of correlations. Where possible, correlation parameters are derived for each pair of market risks through statistical analysis of historical market data, considering observations over several years. Where historical market data or other portfolio-specific observations are insufficient or not available, correlations are set according to a well- defined process using Expert Judgement.

MODEL CHANGES

Allianz has a defined and approved policy for making changes to its internal model. This policy includes internal validation and governance processes to ensure that proposed changes are appropriate for the Company's business.

Allianz made several minor changes to its internal model during 2018. These covered modules concerning market risk and credit risk and ultimately led to a reduction in the management loads applied to the SCR.

NATURE AND APPROPRIATENESS OF DATA

Various sources of data are used as input for the internal model and for the calibration of parameters. A control framework is in place to ensure that the data is accurate, complete and appropriate. This control framework is tested in line with the requirements of the Allianz Internal Controls over Financial Reporting framework.

Where possible, the input data is identical to data used for other purposes, for example the calculation of the insurance liabilities for the purposes of IFRS reporting or the valuation of the IFRS balance sheet.

E.5 NON-COMPLIANCE WITH THE MINIMUM CAPITAL REQUIREMENT AND NON-COMPLIANCE WITH THE SOLVENCY CAPITAL REQUIREMENT

The Company has complied continuously with the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 ANY OTHER INFORMATION

All important information regarding the capital management of the undertaking is addressed in the above sections.

DIRECTORS' RESPONSIBILITY STATEMENT

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and

b it is reasonable to believe that the insurer has continued so to comply subsequently and will continue so to comply in future.

By order of the Board
SJ Hutchings Secretary
Allianz Insurance plc
Registered Number: 84638

AUDITORS' REPORT

Report of the external independent auditor to the Directors of Allianz Insurance plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms.

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report.

OPINION

Except as stated below, we have audited the following documents prepared by Allianz Insurance plc as at 31 December 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Allianz Insurance plc as at 31 December 2018, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S.02.01.02, S.12.01.02, S.17.01.02, S.23.01.01 and S.28.01.01 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**Relevant Elements of the Solvency and Financial Condition Report**'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the **Other Information** which comprises:

- Information contained within the Relevant Elements of the Solvency and Financial Condition Report set out above which are, or derive from, the Solvency Capital Requirement, as identified in the Appendix to this report;
- The '**Summary**', **Business and performance**', '**System of governance**' and '**Risk profile**' elements of the Solvency and Financial Condition Report;
- Company templates S.05.01.02, S.19.01.21 and S.25.03.21;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**Directors' responsibility statement**').

To the extent the information subject to audit in the relevant elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Allianz Insurance plc as at 31 December 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, and as supplemented by supervisory approvals.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

ISAs (UK) require us to report to you where:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

AUDITORS' REPORT CONTINUED

EMPHASIS OF MATTER – BASIS OF ACCOUNTING

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

OTHER INFORMATION

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report 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 the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS FOR THE SOLVENCY AND FINANCIAL CONDITION REPORT

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been supplemented by the approvals made by the PRA under the PRA Rules and Solvency II regulations on which they are based, as detailed below:

- Approval to use a full internal model and the approval of subsequent major changes thereto.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE RELEVANT ELEMENTS OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the Relevant Elements of the Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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 decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

AUDITORS' REPORT CONTINUED

OTHER MATTER

The Company has authority to calculate its Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. 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 in this regard.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT

18 April 2019

APPENDIX

RELEVANT ELEMENTS OF THE SOLVENCY AND FINANCIAL CONDITION REPORT THAT ARE NOT SUBJECT TO AUDIT

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of template S.02.01.02:
  - Row R0550: Technical provisions – non-life (excluding health) – risk margin
  - Row R0590: Technical provisions – health (similar to non-life) - risk margin
  - Row R0640: Technical provisions – health (similar to life) – risk margin
  - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin.
- The following elements of template S.12.01.02:
  - Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin.
- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds.
- The following elements of Company template S.28.01.01
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

S.02.01.02
Balance Sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	27,605
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	15,935
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2,783,925
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	480,335
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	2,204,767
Government Bonds	R0140	539,709
Corporate Bonds	R0150	1,224,580
Structured notes	R0160	
Collateralised securities	R0170	440,477
Collective Investments Undertakings	R0180	84,950
Derivatives	R0190	6,880
Deposits other than cash equivalents	R0200	6,994
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	78,908
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	78,908
Reinsurance recoverables from:	R0270	1,098,591
Non-life and health similar to non-life	R0280	977,028
Non-life excluding health	R0290	977,028
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	121,562
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	121,562
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	102,367
Reinsurance receivables	R0370	1,841
Receivables (trade, not insurance)	R0380	292,226
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	10,313
Any other assets, not elsewhere shown	R0420	542
Total assets	R0500	4,412,255

Liabilities		
Technical provisions – non-life	R0510	1,738,346
Technical provisions – non-life (excluding health)	R0520	1,738,346
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	1,677,091
Risk margin	R0550	61,255
Technical provisions - health (similar to non-life)	R0560	
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	225,412
Technical provisions - health (similar to life)	R0610	
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	225,412
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	186,647
Risk margin	R0680	38,765
Technical provisions – index-linked and unit-linked	R0690	
Technical provisions calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	10,564
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	924,865
Deferred tax liabilities	R0780	(0)
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	58,368
Reinsurance payables	R0830	7,507
Payables (trade, not insurance)	R0840	58,137
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	
Any other liabilities, not elsewhere shown	R0880	339,737
Total liabilities	R0900	3,362,936
Excess of assets over liabilities	R1000	1,049,319

S.05.01.02.01
Premiums, claims & expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of Business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110				518,918	137,321		485,667	239,408		41,077		615,769					2,038,160
Gross - Proportional reinsurance accepted	R0120																	
Gross - Non-proportional reinsurance accepted	R0130															1		1
Reinsurers' share	R0140				221,893	58,498		229,130	105,541		29,232		246,605			3		890,901
Net	R0200				297,025	78,823		256,537	133,867		11,845		369,164			(2)		1,147,259
Premiums earned																		
Gross - Direct Business	R0210				531,113	154,709		522,543	232,869		40,959		601,624					2,083,817
Gross - Proportional reinsurance accepted	R0220																	
Gross - Non-proportional reinsurance accepted	R0230															779		779
Reinsurers' share	R0240				226,952	65,490		244,250	102,907		28,889		242,855			686		912,030
Net	R0300				304,161	89,219		278,292	129,963		12,070		358,769			93		1,172,566
Claims incurred																		
Gross - Direct Business	R0310				246,540	153,129		280,242	88,418		33,970		396,977					1,199,276
Gross - Proportional reinsurance accepted	R0320																	
Gross - Non-proportional reinsurance accepted	R0330															836		836
Reinsurers' share	R0340				83,776	61,252		113,359	40,181		24,456		159,510			(99)		482,435
Net	R0400				162,764	91,877		166,882	48,237		9,514		237,468			935		717,677
Changes in other technical provisions																		
Gross - Direct Business	R0410																	
Gross - Proportional reinsurance accepted	R0420																	
Gross - Non-proportional reinsurance accepted	R0430																	
Reinsurers' share	R0440																	
Net	R0500																	
Expenses incurred	R0550				91,941	28,167		138,035	53,596		5,566		96,850			756		414,913
Other expenses	R1200																	
Total expenses	R1300																	414,913

S.05.01.02.02

Premiums, claims & expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									
Reinsurers' share	R1420									
Net	R1500									
Premiums earned										
Gross	R1510									
Reinsurers' share	R1520									
Net	R1600									
Claims incurred										
Gross	R1610						-391			-391
Reinsurers' share	R1620						-267			-267
Net	R1700						-124			-124
Changes in other technical provisions										
Gross	R1710									
Reinsurers' share	R1720									
Net	R1800									
Expenses incurred	R1900									
Other expenses	R2500									
Total expenses	R2600									

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010																
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	R0020																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030								186,647		186,647						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								121,562		121,562						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090								65,085		65,085						
Risk Margin	R0100								38,765		38,765						
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110																
Best estimate	R0120																
Risk margin	R0130																
Technical provisions - total	R0200								225,412		225,412						

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Non-Life Technical Provisions

		Segmentation for: Direct business and accepted proportional reinsurance												Segmentation for: Accepted non-proportional reinsurance:				Total Non-Life obligation
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to	R0050																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060				114,298	44,679		(24,631)	51,416		(22,767)		(21,638)			1,700		143,057
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140				68,618	29,571		58,142	40,248		1,878		78,926			2,187		279,570
Net Best Estimate of Premium Provisions	R0150				45,679	15,108		(82,773)	11,167		(24,644)		(100,564)			(487)		(136,513)
Claims provisions																		
Gross	R0160				687,032	5,050		218,098	479,290		(2,065)		53,746			92,884		1,534,034
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected	R0240				313,068	2,469		91,292	203,277		(11,964)		21,733			77,583		697,458
Net Best Estimate of Claims Provisions	R0250				373,964	2,581		126,806	276,013		9,899		32,012			15,300		836,576
Total Best estimate - gross	R0260				801,329	49,729		193,468	530,706		(24,832)		32,108			94,584		1,677,091
Total Best estimate - net	R0270				419,643	17,689		44,033	287,181		(14,745)		(68,552)			14,814		700,063
Risk margin	R0280				11,934	313		5,177	38,563		3,623		846			798		61,255
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290																	
Best estimate	R0300																	
Risk margin	R0310																	
Technical provisions - total																		
Technical provisions - total	R0320				813,264	50,042		198,645	569,269		(21,208)		32,954			95,382		1,738,346
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330				381,686	32,040		149,434	243,525		(10,087)		100,660			79,770		977,028
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340				431,578	18,002		49,210	325,743		(11,121)		(67,706)			15,612		761,317

S.19.01.21 - 01 **Accident**

Non-life Insurance Claims Information

Accident year / Underwriting year	Z0020	1

Gross Claims Paid (non-cumulative)
(absolute amount)

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											19,941
N-9	R0160	418,336	214,864	69,445	57,686	37,271	39,980	9,962	1,567	1,796	7	
N-8	R0170	457,183	254,937	90,835	57,802	57,462	16,525	6,539	2,447	1,568		
N-7	R0180	480,440	238,693	79,948	71,719	45,271	16,348	4,895	2,895			
N-6	R0190	559,710	261,919	81,563	54,596	43,041	24,248	11,307				
N-5	R0200	577,316	263,961	72,940	55,792	42,877	15,898					
N-4	R0210	662,433	284,495	79,551	54,614	42,709						
N-3	R0220	753,812	357,873	90,544	53,581							
N-2	R0230	795,711	274,340	66,714								
N-1	R0240	755,539	276,391									
N	R0250	783,613										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	19,941,480	4,115,945,691
	R0160	6,580	850,911,824
	R0170	1,568,130	945,298,129
	R0180	2,895,490	940,208,707
	R0190	11,306,540	1,036,384,774
	R0200	15,898,080	1,028,784,715
	R0210	42,708,720	1,123,802,728
	R0220	53,580,830	1,255,809,880
	R0230	66,713,840	1,136,765,360
	R0240	276,390,850	1,031,929,570
	R0250	783,613,460	783,613,460
Total	R0260	1,274,624,000	14,249,454,839

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											129,358
N-9	R0160	624,670	287,193	179,374	114,710	74,849	30,581	32,473	12,609	13,583	13,129	
N-8	R0170	626,512	282,304	165,525	103,396	50,633	40,481	30,666	18,985	14,468		
N-7	R0180	582,823	284,876	193,853	121,727	57,567	33,006	24,511	17,865			
N-6	R0190	649,946	283,096	162,208	102,245	63,636	40,610	24,029				
N-5	R0200	553,477	282,016	162,014	87,171	54,061	31,225					
N-4	R0210	644,539	314,017	209,552	185,245	123,815						
N-3	R0220	724,520	306,739	202,119	126,088							
N-2	R0230	586,608	332,676	222,205								
N-1	R0240	609,113	292,275									
N	R0250	574,556										

		Year end (discounted data)
		C0360
	R0100	124,180
	R0160	12,881
	R0170	14,100
	R0180	17,371
	R0190	23,391
	R0200	30,446
	R0210	120,951
	R0220	123,774
	R0230	216,873
	R0240	285,010
	R0250	565,058
Total	R0260	1,534,034

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Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	R0010	172,759	172,759			
Share premium account related to ordinary share capital	R0030	5,244	5,244			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	843,711	843,711			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	27,605				27,605
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	1,049,319	1,021,714			27,605
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	1,049,319	1,021,714			27,605
Total available own funds to meet the MCR	R0510	1,021,714	1,021,714			
Total eligible own funds to meet the SCR	R0540	1,049,319	1,021,714			27,605
Total eligible own funds to meet the MCR	R0550	1,021,714	1,021,714			
SCR	R0580	672,179				
MCR	R0600	190,779				
Ratio of Eligible own funds to SCR	R0620	1.5611				
Ratio of Eligible own funds to MCR	R0640	5.3555				

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Own funds

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	1,049,319
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	205,608
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	843,711
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non-life business	R0780	69,490
Total Expected profits included in future premiums (EPIFP)	R0790	69,490

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Solvency Capital Requirement (for undertakings on Full Internal Models)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
103701	Interest rate vola risk	0
103901	Interest rate risk	57,718
103991	Diversification within interest rate risk	0
104101	Equity risk	51,768
104201	Equity vola risk	0
104991	Diversification within equity risk	0
106001	Real estate risk	107,841
107001	Credit spread risk	285,182
109001	FX risk	2,393
110101	Inflation risk (insurance business)	60,729
11010P	Inflation risk (pension scheme)	9,949
199001	Diversification within market risk	-239,865
201001	Type 1 counterparty default risk	21,216
202001	Type 2 counterparty default risk	975
203101	Other counterparty default risk - investment credit risk	118,295
203901	Other counterparty default risk - other	0
299001	Diversification within counterparty default risk	0
30200P	Longevity risk	113,602
501501	Premium non-cat risk	140,419
502101	Reserve risk	184,175
503101	Non-life catastrophe risk: natural (aka Premium nat-cat risk)	117,276
503301	Non-life catastrophe risk: man-made (aka Premium Terror risk)	18,475
503991	Diversification within non-life catastrophe risk	0
504001	Lapse risk	12,611
505901	Cost risk	11,173
505991	Diversification within business risks	-3,007
599001	Diversification within non-life underwriting risk	-156,083
701001	Operational risk	91,400
803001	Loss absorbing capicity of deferred taxes	0
804911	Internal Model Capital add-on: Multi-usage of buffers	0
804921	Internal Model Capital add-on: Replications	0
804931	Internal Model Capital add-on: Ring fenced funds	0
804941	Internal Model Capital add-on: Others	42,000
804951	Regulatory Add-ons	0
804961	Residuals	0

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	1,048,242
Diversification	R0060	-376,063
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	0
Solvency capital requirement excluding capital add-on	R0200	672,179
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	672,179
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Linear formula component for non-life insurance and reinsurance obligations		MCR components
		C0010
MCRNL Result	R0010	189,412

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020		
Income protection insurance and proportional reinsurance	R0030		
Workers' compensation insurance and proportional reinsurance	R0040		
Motor vehicle liability insurance and proportional reinsurance	R0050	420,264	266,660
Other motor insurance and proportional reinsurance	R0060	17,754	109,188
Marine, aviation and transport insurance and proportional reinsurance	R0070		
Fire and other damage to property insurance and proportional reinsurance	R0080	44,291	256,537
General liability insurance and proportional reinsurance	R0090	287,245	133,867
Credit and suretyship insurance and proportional reinsurance	R0100		
Legal expenses insurance and proportional reinsurance	R0110		11,845
Assistance and proportional reinsurance	R0120		
Miscellaneous financial loss insurance and proportional reinsurance	R0130		369,164
Non-proportional health reinsurance	R0140		
Non-proportional casualty reinsurance	R0150		
Non-proportional marine, aviation and transport reinsurance	R0160	14,822	
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations		C0040
MCRL Result	R0200	1,367

Total capital at risk for all life (re)insurance obligations		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210		
Obligations with profit participation - future discretionary benefits	R0220		
Index-linked and unit-linked insurance obligations	R0230		
Other life (re)insurance and health (re)insurance obligations	R0240	65,085	
Total capital at risk for all life (re)insurance obligations	R0250		

Overall MCR calculation		C0070
Linear MCR	R0300	190,779
SCR	R0310	672,179
MCR cap	R0320	302,480
MCR floor	R0330	168,045
Combined MCR	R0340	190,779
Absolute floor of the MCR	R0350	3,281
Minimum Capital Requirement	R0400	190,779

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