Registered Number: 84638

Directors' Report and Accounts 2017

Allianz Insurance plc

Directors:	R O Hudson (Acting Chairman)
	M J Churchlow
	C W T Dinesen
	J M Dye
	R M Murison
	D A Torrance
Secretary:	S J Hutchings
Registered Office:	57 Ladymead, Guildford, Surrey, GU1 1DB
Registered No:	84638

Strategic Report

The Directors present their Strategic Report for the year ended December 31, 2017.

On December 28, 2017, having secured regulatory approval, Allianz and LV= completed the first stage in the creation of a joint venture, with Allianz acquiring a 49% stake in the LV= General Insurance business (LVGIG). As part of the agreement, the joint venture will acquire Allianz's personal home and motor renewal rights while Allianz will obtain LVGIG's commercial renewal rights.

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

Allianz Insurance looks to leverage the skills, expertise and scale of the wider Allianz Group. In particular, we are heavily committed to the Renewal Agenda, which focuses on five important themes: true customer centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. We are already strong in these aspects of our business and we utilise these themes to drive the business forward.

On February 27, 2017, the UK Government's Lord Chancellor announced a new discount rate to be used to calculate future pecuniary losses in respect of personal injury (the 'Ogden rate'). The real discount rate used in the UK changed from 2.5% to minus 0.75% resulting in an impact of £80m, of which £58m was accounted for in the 2016 result and £22m relating to the 2017 accident year. Since the announcement, compensators have lobbied the Government for a review of the mechanism for setting the rate, and following a Government consultation, an intention to change the mechanism through statute was announced. An indication was given that if a new rate was set today, it would be between 0% to 1%. However, the statement in December from the Justice Select Committee indicated that the range may be lower than this and it is clear that there is considerable uncertainty about any outcome and the timing of any change.

The underlying profit is driven by the strength of our Commercial business, continuing profitable growth in Petplan and the absence of a major weather event.

Profit after tax was £88m (after quota share), which included £26.8m from an early loan redemption fee. This compares to a profit after tax of £43m in 2016. Gross written premium grew by 2.0% predominantly driven by growth in Petplan and Commercial business.

Commercial Lines profits increased in 2017 compared to 2016 which included a larger charge due to the Ogden rate change. The 2017 result was impacted by an increase in the number of large losses but these were mitigated by the benefit of benign weather conditions and improved performance in relation to prior years. Personal Lines sustained another year of losses with the result being impacted heavily by the performance of Broker Household and Corporate Partner Motor as a result of poor claims experience.

The written premium of Commercial Lines grew by 5.8% in 2017 partially driven by pricing for the Ogden rate change within motor and liability lines, however at an underlying level, the market rating environment remained difficult. Motor business continued its excellent record of profitability and the Engineering business returned very satisfactory profits. The Liability account saw a fourth successive year of profits, as a result of some positive prior year claim reserve releases. Large losses, partially offset by benign weather conditions, caused the Property account to return marginal profits and Packages to move into loss.

Strategic Report

Commission rates to intermediaries rose marginally in 2017 with consolidation continuing to be a feature of the broker market. Rate increases were generally below claims inflation including the effects of the Ogden rate change; consequently the business has faced another year of a weak rating environment. Further rate strength is needed across all Commercial lines of business.

Once again, the Personal Lines results varied significantly by account in 2017. Unacceptable loss ratios resulted in the Broker Motor and Corporate Partner accounts returning a loss. The household accounts also made significant losses with claims experience remaining difficult and extreme competitiveness within the market continuing to persist. Focus on improvement action continues and where appropriate, the worst performing motor and home schemes have been terminated.

Our Animal Health business had another very good year, continuing to grow strongly and deliver attractive returns. The Corporate Partner Animal Health business reduced slightly in 2017 as measures to manage profitability took effect. The Corporate Partner all risks account, which is primarily mobile phone coverage, shrunk year on year, however it continues to generate reasonable profits. The Legal Protection account continues to adapt its business model following the 2013 reforms and delivered losses due to prior year deterioration on a small number of schemes.

Investment returns continue to be impacted by low interest rates, underlining the importance of achieving strong underwriting profits. Investment policy has remained largely unchanged in 2017. After loans to Allianz SE were repaid, a small allocation in emerging market sovereign debt and global investment grade credits were added to the portfolio for diversification purposes. Operating investment income continued to decline as the reinvestment of maturing bonds continues to be at lower levels.

The Company continues to pursue its strategy of only underwriting business where there is a realistic prospect of achieving a return in excess of the cost of capital. Transfers of the Personal home and motor portfolios to LVGIG and consolidation of the LVGIG Commercial business to the Company will leverage the expertise in each respective business and ensure returns are maximised. Central to our objective of profitable growth is the continuing investment in the development of the technical, sales and leadership skills of our employees. The well-established Underwriting Academy and Claims Academy programmes are key to the continued development of technical insurance skills. We have also been running for several years an extensive programme of development in our sales skills and this continues.

We continued to update our customer propositions by upgrading our e-trade capability, launching a new mini fleet product and adding new digital solutions for Professional Indemnity and Directors' and Officers' cover. We also expanded our mid-corporate offering with the launch of a new Construction Select product, offering a one-policy solution that combines property, liability and engineering cover. We also continue to leverage the wider covers available within the Allianz Group and by tailoring propositions for our customers we will continue to build on our strong reputation.

We achieved our highest-ever 'net promoter score' (a customer loyalty metric) in the commercial market, keeping our position of loyalty leadership. Engineering remains top of its market, too. Our score in personal broker has improved and we remain in an 'at market' position. Petplan remains number one in the pet insurance market. Customer centricity is one of the key objectives for the Allianz Group and we will continue to work hard to improve our scores and achieve loyalty leadership in all markets.

We were recognised in the insurance industry and further afield in 2017, with individuals and teams picking up awards across a range of categories. The Brand team won several awards for their 'Dare to Believe' videos with Channel 4 during the Rio 2016 Paralympic Games, while Petplan won Most Trusted Pet Insurance Provider at the Moneywise Customer Service Awards. Our claims service was recognised, with both individuals and teams winning several awards. Our Commercial team also won three categories at the Underwriting Service Awards. We are proud of the commitment and leading performance of our employees.

The Company has continued to put significant effort into minimising its impact on the environment, including reducing its carbon emissions, where Allianz have been awarded the Carbon Trust Standard for the fourth time since 2010. The accreditation, which lasts for two years, was awarded in 2016. In addition, Allianz continues to promote social responsibility and raising funds for charitable purposes. In February 2016, we launched a new corporate charity partnership with the Association of Air Ambulances Charity, and aim to raise £1m in 3 years. In 2017, we raised a total of £358,000, comprising employee fundraising and company contributions. This brought the total raised to date to £662,000 at the end of 2017.

2017 was an exciting year for our brand. Our successful partnership with European Champions, Saracens was renewed for at least a further three years and Allianz Park remains an important venue for both the local community and the rugby club.

Strategic Report

Our partnership with ParalympicsGB continued, complementing Allianz Group's support of the International Paralympic Committee. Our Dare to Believe Festivals developed the legacy of the Paralympics, bringing together young people, local communities and brokers for inclusive, multi-sport events – with over 2,500 children and over 150 Allianz volunteers taking part. We also introduced another element to our Paralympics partnership through a sport and business mentoring scheme, with 35 of our employees mentoring staff at the British Paralympic Association, as well as Olympic and Paralympic athletes.

At Allianz Group level, two global digital partnerships were added to our sponsorship portfolio, with us becoming the title sponsor of the Drone Racing League and a partner of the FIA Formula E Championship.

In 2017 we implemented a number of changes to our capital model, following the approval of BaFin, the German regulator, the Prudential Regulatory Authority (PRA) and the College of Supervisors. The most material was a change to better align our pension risk modelling with our accounting approach.

The financial services regulatory environment in the UK continues to be driven by the two main regulators, dealing respectively with conduct risk (the Financial Conduct Authority – FCA) and prudential risk (the PRA). We have continued to respond to the output of various reviews by the FCA, and have completed implementation of the changes required under the new renewal transparency rules. Preparation for implementation of the EU's insurance distribution directive rules has begun and will continue in 2018. Similarly, preparation for implementation of the EU's new data protection rules, effective from May 2018, has continued throughout 2017. With regard to the PRA, firm specific and market wide feedback is reviewed and actioned as a matter of course. Allianz participated in the PRA General Insurance Stress Test in 2017 and received approval of major model changes applied for. We continue to maintain open and regular communication with our regulators.

In addition to the Ogden rate change, there continues to be legal and political pressure regarding the way personal injury claims are handled. The Government has confirmed its commitment to the whiplash reforms with the announcement of the Civil Liability Bill during the Queen's speech in July 2017. This will introduce tariff damages for injuries up to 2 years duration; small claims limits for Road Traffic Accidents will increase from £1,000 to £5,000 and all other types of personal injury claims will increase to £2,000. It is however unlikely that any changes will be implemented before April 2019 at the earliest.

Furthermore, an extension of fixed legal costs beyond the current £25k limit of injury claims is expected to gather pace in 2018 with fixed costs likely to be extended initially up to £100k.

With the continuing development of autonomous technologies within vehicles, the Automated and Electric Vehicles Bill was also introduced to Parliament in the Queen's Speech. The bill ensures compulsory insurance remains in place to compensate innocent victims of road traffic accidents even when the vehicle is operated in a self-driving mode. Limited hands-off driving will be permitted on UK motorways by 2019.

In 2017, terrorists adopted new and devastating strategies in the UK with vehicles being used as weapons. The insurance industry is working with Pool-Re to look at gaps in cover such as where there is no damage but consequential business interruption. The industry is looking at ways in which exposure can be pooled by the Motor Insurers' Bureau (MIB).

Following the Grenfell Tower tragedy, a review of building regulations has found the system is "not fit for purpose" and is open to abuse by those trying to save money. Dame Judith Hackitt's interim report into building safety called for an overhaul of the construction industry to put safety above cutting costs.

Strategic Report

The Company remains in a strong business position relative to our competitors and we are backed by the biggest property and casualty insurance company in the world. There is continuing uncertainty about the long term effect of Brexit following the referendum result to leave the EU. The Office for Budget Responsibility now expects the economy to grow by 1.5% in 2018. Growth is predicted to drop to 1.3% by 2020 and then rise to 1.5% in 2021. The Bank of England base rate of interest increased from 0.25% to 0.5% in November 2017 and inflation has increased from an average of 0.7% in 2016 to 2.7% in 2017. There remains surplus capacity in the insurance market and our customers are rightly as price-conscious as ever, so these features are likely to keep competition very strong. We expect to continue to see insurance business being written at rates that on too many occasions are inadequate, particularly with the backdrop of very low investment yields. Nevertheless, the Group is well equipped through its customer relationships, strong service delivery, wide range of products, robust financial position and a knowledgeable and dedicated workforce to meet these challenges and again be successful in 2018.

Principal risks

The Company's policies in respect of risk management are given in Note 28 to the Financial Statements on page 38.

By order of the Board

J M Dye
Director

March 27, 2018

Directors' Report

The Directors present their Directors' Report and the audited financial statements for the year ended December 31, 2017.

RESULTS AND DIVIDEND

The results for the year are set out in the statement of comprehensive income on page 12. A review of the Company's business activities and any likely future developments can be found in the Strategic Report.

On March 27, 2018, the Directors approved the payment of an interim dividend of £175m in respect of the year ended December 31, 2017 (2016: £nil). The Directors are not recommending the payment of a final dividend for the year ended December 31, 2017. (2016: £nil).

FINANCIAL INSTRUMENTS

The Company's policies in respect of financial instruments are given in Note 28 to the Financial Statements on page 38.

BASIS OF PREPARATION

These financial statements have been prepared on a going concern basis. The Company has a good financial and trading position, with capital significantly in excess of the minimum regulatory requirement. In November 2015, the Company received regulatory approval for the use of its Solvency II Internal Model. In addition, the Board has reviewed the Company's forecasts for the next 12 months and beyond. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months.

DIRECTORS

The names of the current Directors are shown on page 1. All of these Directors served throughout this period. B Bovermann and A Theis served as Directors until their resignations on March 31, 2017 and December 31, 2017 respectively.

The Directors retiring by rotation at the next Annual General Meeting are C W T Dinesen and D A Torrance who, being willing, offer themselves for re-election.

ONE.FINANCE

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

DIRECTORS RESPONSIBILITY TO THE AUDITOR

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

AUDITOR

Pursuant to the Company's audit tender process in 2017, KPMG LLP will resign as the Company's auditor following completion of their statutory and regulatory audits for the financial year ended December 31, 2017, and PriceWaterhouseCoopers LLP will be appointed as auditor of the Company for the financial year ending December 31, 2018 in their place.

By order of the Board

S J Hutchings
Secretary

March 27, 2018

Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Company financial statements for each financial year. Under that law they have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements on pages 12 to 47, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the financial position of the Company and profit of the Company; and
- the Strategic Report on pages 1 to 4 includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties the Company face.

Independent auditor's report to the members of Allianz Insurance plc

1. Our opinion is unmodified

We have audited the financial statements of Allianz Insurance plc ("the Company") for the year ended 31 December 2017 which comprise the Statement of comprehensive income, Balance Sheet, Statement of cash flows, Statement of changes in equity and the related notes including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the directors.

We were appointed as auditor by the directors on 30 June 2006. The period of total uninterrupted engagement is for the 12 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Allianz Insurance plc

<table>
<tr><td colspan="2">Valuation of Insurance Liabilities (excluding unearned premiums)
(2017 £1,768.7m; 2016 £1,740.2m)

Refer to note 1.4(n) of Summary of significant accounting policy and note 21 of Notes to Financial Statements.</td></tr>
<tr><td>The risk</td><td>Our response</td></tr>
<tr><td>Subjective Valuation:
Insurance liabilities represent the single largest liability for the Company. Valuation of these liabilities is highly judgmental because it requires a number of assumptions to be made in respect of past experience to project future claims development with high estimation uncertainty such as loss ratios, inflation rates, estimates of the frequency and severity of claims.

Certain lines of business have greater inherent uncertainty, for example those where claims emerge more slowly over time, or where there is greater variability in claim settlement amounts. This includes classes of business affected by emerging industry issues such as the impact of Periodic Payment Orders (which are akin to annuities with longevity and inflation risk) on UK motor business including the relevant discount rate.

The determination and application of the methodology and performance of the calculations are also complex. Small changes in the assumptions and estimates used to value the insurance contract liabilities can have a significant impact on the overall valuation.

A margin is added to the actuarial best estimate of insurance liabilities to make allowance for specific risks and uncertainties that are not specifically allowed for in establishing the actuarial best estimate. The appropriate margin to recognise is a subjective judgement and based on the perceived uncertainty and potential for volatility in the underlying claims.

Completeness and accuracy of data
The valuation of claims outstanding depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are often used to form expectations about future claims.

If the data used in calculating insurance liabilities, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of insurance liabilities may arise.</td><td>With the assistance of our actuarial specialists, we performed the following procedures:
— Control design and observation: Evaluation of the governance around the overall reserving process. We assessed qualifications and experience of those responsible and examined the output of the reviews to assess the scope and depth of these processes. Our evaluation of the methodologies and key assumptions for the most significant and subjective classes of business enabled us to assess the quality of challenge applied through the Company's reserving process.

— Sector experience and Benchmarking: Comparison of assumptions, reserving methodologies and estimates of losses to expectations based on the Company's historical experience, current trends and benchmarking to our own industry knowledge.
— Sensitivity analysis: Evaluation of sensitivity analysis over key judgements and assumptions.
— Independent re-performance: Independent re-projection of the reserve balances for key classes of business (representing the 80% of the total actuarial best estimate of insurance liabilities) using our own model. The determination of which classes to re-project was based on risk assessment and consideration of the evidence available from other alternative data analysis procedures.
— Transparency of disclosures: We considered the adequacy of the disclosures regarding the degree of estimation uncertainty and the sensitivity of recognised amounts to changes in assumptions.
— Margin evaluation: Evaluation of the appropriateness of the Reserve Committee's recommended margin to be applied to the actuarial best estimate. In order to do this we assessed the Director's approach to, and analysis performed, in setting the margin with respect to recognised actuarial methods. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with the Directors and with respect to our understanding of the Company and our own sector experience of approaches to setting the margin and the level of margin held by the Company's peers.

In addition to the above the audit team performed procedures to assess the completeness and accuracy of data:
— Control observation and operations: Evaluation and testing of key controls designed to ensure the integrity of the data used in the actuarial reserving process, including both current and prior year incurred case reserve (incurred and reported outstanding claims) data. The controls included reconciliations between data in the actuarial reserving systems and data in the policy administration systems. We tested controls through inspecting or re-performing the Company's reconciliations.
Our results
— We found the valuation of the insurance liabilities to be acceptable.</td></tr>
</table>

Independent auditor's report to the members of Allianz Insurance plc

<table>
<tr><td colspan="2">Valuation of Financial Investments
(2017: £2,586.7m; 2016: £2,176.6m)
Refer to note 1.4(i) of Summary of significant accounting policy and note 17(a) of Notes to Financial Statements.</td></tr>
<tr><td>The Risk</td><td>Our Response</td></tr>
<tr><td>Subjective Valuation
Valuation of available for sale financial instruments may involve significant judgments and assumptions or be based on inappropriate fair value source data.
Impairments may not be appropriately recognized according to the accounting standards.

Existence of assets and accuracy of ownership
The valuation of financial investments depends on existence of the assets and accurate ownership of the latter since they are the base of the valuation itself. If the ownership is not accurate or the underlying assets do not exist then material impacts on the valuation of financial investments may arise.</td><td>Our procedures included:

— Control design and observation: Evaluation and testing of key controls over the investment process including testing of three way reconciliation of custodian and investment manager reports to the general ledger.

— Obtaining external confirmations: Verifying the ownership of the investments through external confirmation received from custodians.

— Re-pricing: Using our in-house investment valuation specialist team to reprice the entire investment portfolio and comparing with the carrying value of investments for any impairment indicators.

Our results
— We found the valuation of investments to be acceptable.</td></tr>
</table>

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £10.7m (2016: £10.6m), determined with reference to a benchmark of Gross Earned Premiums, of which it represents 0.5% (2016: 0.5%).

We agreed to report to the directors any corrected or uncorrected identified misstatements exceeding £0.5m (2016: £0.5m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was mainly performed at the Allianz group office in Guildford, Surrey.

4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report to the members of Allianz Insurance plc

6. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 6 the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. In planning and performing our audit, we considered the impact of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital, conduct and certain aspects of company legislation recognising the financial and regulated nature of the company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Independent auditor's report to the members of Allianz Insurance plc

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

March 27, 2018

Statement of comprehensive income for the year ended December 31, 2017

Continuing operations	Notes	2017 £m	2016 £m
Gross earned premiums	3	2,095.4	2,112.4
Reinsurers' share of gross earned premiums	3	(910.4)	(918.7)
Net insurance revenue		1,185.0	1,193.7
Reinsurance commission		155.7	176.5
Investment income	4	61.4	64.1
Net realised gains	5	43.4	10.3
Other revenue		260.5	250.9
Total revenue		1,445.5	1,444.6
Gross insurance claims paid	21	(1,332.0)	(1,441.7)
Reinsurers' share of gross insurance claims paid	21	554.7	297.1
Gross change in insurance liabilities		(26.7)	(10.8)
Reinsurers' share of gross change in insurance liabilities		5.3	338.4
Net insurance claims		(798.7)	(817.0)
Commission		(370.5)	(357.8)
Net fair value gain/ (loss)	6	0.5	(1.5)
Other operating and administrative expenses	7	(174.6)	(217.0)
Other expenses		(544.6)	(576.3)
Total claims and expenses		(1,343.3)	(1,393.3)
Profit before tax		102.2	51.3
Income tax charge	9(a)	(14.6)	(8.2)
Net profit for the year wholly attributable to the equity holders		87.6	43.1
Other comprehensive income			
Net change in fair value of available for sale financial assets		(3.0)	51.3
Net change in fair value of available for sale financial assets transferred to profit or loss		(12.0)	2.7
		(15.0)	54.0
Tax on fair value movements	9(b)	2.6	(8.8)
Foreign currency translation adjustment		3.2	7.3
Other comprehensive income for the year, net tax		(9.2)	52.5
Total comprehensive income for the year		78.4	95.6

The notes on pages 16 to 47 are an integral part of these financial statements.

Balance Sheet as at December 31, 2017

	Notes	2017 £m	Restated (2) 2016 £m
ASSETS			
Intangible assets	11	54.9	2.9
Investment in group undertakings	26	287.2	287.2
Loans to related parties	17(b)	20.0	360.0
Property and equipment	12	15.9	15.4
Deferred acquisition costs	13	210.9	203.3
Deferred tax	9(d)	–	2.7
Reinsurance assets	15 & 21	1,319.9	1,311.7
Accrued income	16	29.8	29.4
Financial assets:			
Available for sale financial assets **(1)**	17(a)	2,586.7	2,176.6
Loans	17(b)	66.8	8.6
Insurance receivables	18	777.9	765.1
Other receivables	19	265.1	224.6
Total assets		5,635.1	5,387.5
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	25	172.8	172.8
Share premium		5.2	5.2
Fair value reserve		67.1	79.5
Retained earnings		956.4	865.6
Total equity		1,201.5	1,123.1
LIABILITIES			
Cash and cash equivalents	20	12.7	8.2
Insurance contracts' liabilities	21	2,829.7	2,788.5
Reinsurers' share of deferred acquisition costs	13	84.1	81.3
Insurance related payables	23	1,082.4	1,025.1
Tax payable	9(d)	7.2	4.6
Deferred tax	9(d)	4.5	–
Accruals and other payables	24	413.0	356.7
Total liabilities		4,433.6	4,264.4
Total liabilities and shareholders' equity		5,635.1	5,387.5

(1) Included within available for sale financial assets are £103.2m (2016: £105.3m) of lent securities. See note 17(a).
(2) Refer to note 20.
The notes on pages 16 to 47 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on March 27, 2018 and signed on its behalf by:

J M Dye
Director

Statement of cash flows for the year ended December 31, 2017

	Notes	2017 £m	Restated (1) 2016 £m
Cash generated from operations			
Cash utilised by operating activities	27	101.3	(73.8)
Dividend received	4	3.0	–
Interest received	4	58.4	64.1
Income tax paid	9(c)	(2.3)	(3.2)
Net cash outflow from operating activities		160.4	(12.9)
Cash flows from investing activities			
Decrease in loan to group undertaking	17(b) & 32	340.0	–
Increase in loans	17(b)	(58.2)	(1.8)
Sale of renewal rights	5	1.0	–
Proceeds from early redemption fees	5	26.8	–
Purchase of intangible assets	11	(52.0)	–
Purchase of available for sale financial assets		(1,479.7)	(728.4)
Proceeds from sale of available for sale financial assets		1,057.2	737.9
Net cash inflow/ (outflow) from investing activities		(164.9)	7.7
Cash flows from financing activities			
Dividends paid during the year	10	-	–
Net cash inflow/(outflow) from financing activities		-	–
Net decrease in cash and cash equivalents		(4.5)	(5.2)
Cash and cash equivalents at the beginning of the year	20	(8.2)	(3.0)
Cash and cash equivalents at the end of the year	20	(12.7)	(8.2)

(1) Refer to note 20.

The notes on pages 16 to 47 are an integral part of these financial statements.

Statement of changes in equity for the year ended December 31, 2017

	Share capital £m	Share premium £m	Fair value reserve £m	Retained earnings £m	Total £m
Balance as at January 1, 2016	172.8	5.2	34.3	815.2	1,027.5
Net change in fair value of available for sale financial assets	–	–	51.3	–	51.3
Net change in fair value of available for sale financial assets transferred to profit or loss	–	–	2.7	–	2.7
Tax on fair value movements	–	–	(8.8)	–	(8.8)
Foreign currency translation adjustment	–	–	–	7.3	7.3
Profit for the year	–	–	–	43.1	43.1
Total recognised income for the year	–	–	45.2	50.4	95.6
Balance as at December 31, 2016	172.8	5.2	79.5	865.6	1,123.1
Net change in fair value of available for sale financial assets	–	–	(3.0)	–	(3.0)
Net change in fair value of available for sale financial assets transferred to profit or loss	–	–	(12.0)	–	(12.0)
Tax on fair value movements	–	–	2.6	–	2.6
Foreign currency translation adjustment	–	–	–	3.2	3.2
Profit for the year	–	–	–	87.6	87.6
Total recognised (expense)/income for the year	–	–	(12.4)	90.8	78.4
Balance as at December 31, 2017	172.8	5.2	67.1	956.4	1,201.5

The notes on pages 16 to 47 are an integral part of these financial statements.

Notes to the Financial Statements for the year ended December 31, 2017

1.1 Company and its operations

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

The registered office of the Company is 57 Ladymead, Guildford, Surrey, GU1 1DB, United Kingdom. The financial statements of the Company for the year ended December 31, 2017 were authorised for issue in accordance with a resolution of the Directors on March 27, 2018.

1.2 Statement of compliance

The financial statements of the Company have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

1.3 Basis of preparation

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

- Financial assets classified as available for sale
- Financial liabilities
- Own use properties

These financial statements are compiled on a going concern basis. The functional and presentational currency is British Pounds.

In the current year, the Company has applied amendments to IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after 1 January 2017. The new effective requirements are:

- IAS 7: Amendment: Disclosure initiative (EU effective date: 1 January 2017): and
- IAS 12: Amendment: Recognition of deferred tax assets for unrealised losses (EU effective date: I January 2017).

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

- IFRS 9 Financial Instruments –IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: Recognition and Measurement' and changes the classification and measurement of financial assets, based on the business model under which they are held, as well as hedge accounting requirements and recognising expected credit losses. The Company, based on the impact assessment performed under the One.Finance, will take advantage of the exemption available as its activities are predominantly insurance related to defer applying IFRS 9 'Financial Instruments' (which would otherwise be applicable for annual reporting periods beginning on or after 1 January 2018) until 1 January 2021 which will coincide with the expected implementation of IFRS 17.
- IFRS 15 Revenue from Contracts with Customers – (EU effective date 1 January 2018);
- IFRS 16: Leases – (EU effective date 1 January 2019); and
- IFRS 17 Insurance Contacts – The International Accounting Standards Board (IASB) issued IFRS 17 'Insurance Contracts' in May 2017, which it is expected will replace IFRS 4 'Insurance Contracts' at the latest for annual reporting periods beginning on or after 1 January 2021. The Company has commenced its initial impact assessment under the One.Finance project led by the Allianz Group and is currently going through required changes to finance systems and processes. The Group intends to start implementation activities in 2018 in the UK and complete by 2020 to assure reporting compliance by 1 January 2021.

1.4 Summary of significant accounting policies

The Company has identified the accounting policies that are most significant to its business operations and the understanding of its results. The accounting policies which involve the most complex or subjective decisions or assessments relate to insurance provisions, deferred acquisition costs, the ascertainment of fair values of financial assets and liabilities and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgments based on information and financial data that may change in the future periods.

Notes to the Financial Statements for the year ended December 31, 2017

1.4 Summary of significant accounting policies (continued)

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

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

(a) Group accounts

The Company is exempt from preparing group accounts by virtue of the Companies Act 2006, as it is a subsidiary undertaking of an EU parent (see note 29). The accounts present information about the Company as an individual undertaking and not about the group.

Shareholdings in subsidiary undertakings are reported at cost.

(b) Property and equipment

Owner occupied properties are initially recognised at cost and are subsequently carried at fair value, as assessed by qualified external valuers. Fair value is the estimated amount for which a property can be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. Depreciation has not been charged as the amounts are deemed to be immaterial.

Gains arising from changes in fair values are recognised in the fair value reserve in equity, unless this reverses a revaluation decrease previously recognised in the statement of comprehensive income. Losses arising from changes in fair value are recognised in the statement for comprehensive income, unless this reverses a revaluation increase previously recognised in the fair value reserve.

(c) Intangible assets

The Company applies the cost model to account for intangible assets. The cost of acquiring renewal rights to books of business is amortised on a straight line basis over the expected life of the intangible asset. This useful life has been assessed as 8 years.

(d) Deferred acquisition costs

Commission and other acquisition costs (both gross and reinsurance) incurred during the financial period that vary with and are related to securing new insurance contracts and or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs (DAC) are capitalised and amortised on a straight line basis. All other acquisition costs are recognised as an expense when incurred. The DAC asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written which is unearned at the balance sheet date.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount.

(e) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income.

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

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

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

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

Notes to the Financial Statements for the year ended December 31, 2017

1.4 Summary of significant accounting policies (continued)

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

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

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

(g) Fair values of financial assets and liabilities
Financial assets and liabilities are initially stated at fair value. Listed investments are stated at the bid market price at the close of business on the balance sheet date. The unlisted investments are unit trusts and are stated using the relevant unit price quoted by the unit trust manager. Subsequent remeasurement of the financial assets is in accordance with the financial assets accounting policy (i).

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

(i) Financial assets
The Company classifies its investments as either available for sale financial assets, or loans and receivables.

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

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

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

Loans and receivables are financial assets with fixed or determinable payments and are not quoted on an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

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

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

Notes to the Financial Statements for the year ended December 31, 2017

1.4 Summary of significant accounting policies (continued)

(i) Financial assets (continued)

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

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

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

(k) Fair value reserve
The fair value reserve relates to the changes in the fair value of available for sale financial assets and fair value gains on own use property and properties under construction.

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

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

(n) Insurance contracts' liabilities

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

Provision for unearned premiums
The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium along the duration of the insurance contracts and amortised on a straight line basis. The change in the provision for unearned premium is taken to the statement of comprehensive income in order that revenue is recognised over the period of risk.

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

(o) Provision for other liabilities
A provision is recognised when the Company has a present legal or constructive obligation, as a result of past event, which it is probable, will result in an outflow of resources and when a reliable estimate of the amount of the obligation can be made. If the effect is material, the provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects a current market assessment for the time value of money and, where appropriate, the risk is specific to the liability.

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

Notes to the Financial Statements for the year ended December 31, 2017

1.4 Summary of significant accounting policies (continued)

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

(q) Pension benefit obligation
As part of a group reorganisation during 2005, which included the transfer of its employees to a services company, pension benefits are now provided by that fellow group company. Prior to the reorganisation, the Company provided both defined benefit and defined contribution pension schemes for its employees.

(r) Revenue recognition

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

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

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

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

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

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

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

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

Notes to the Financial Statements for the year ended December 31, 2017

1.4 Summary of significant accounting policies (continued)

(u) Foreign currency translation
The Company's presentational currency is British Pounds. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non monetary items that are measured in terms of historical cost are translated using the exchange rate as at the date of initial transaction. Non monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the statement of comprehensive income, unless required to be taken to equity.

(v) Off setting of financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to off set the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

(w) Current, non current disclosure
For each asset and liability line item, amounts expected to be recovered or settled within twelve months after the balance sheet date, are classified as current at the balance sheet date and the remaining balance as non current.

(x) Dividends
Dividends payable are accounted for as soon as there is an obligation on the Company.

2. Use of estimates, assumptions and judgements

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

(a) Claims liability arising from insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims cost can be established with certainty for some type of policies. The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. Further details of the claims estimation process are described in note 22. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Claims provisions are not discounted for the time value of money except for claims being settled by periodic payments.

The carrying value at balance sheet date for these general insurance contracts is £2,829.7m (2016: £2,788.5m).

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

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and represent actual and regularly occurring market transactions on an arm's length basis.

Assets are measured at bid prices. Fair values reflect the credit risk of the instrument and include adjustment to take account of the credit risk of the counterparty where appropriate.

Investment in equity securities
The fair value of quoted equity securities and interests in pooled investment funds is determined by reference to their closing prices at the reporting date.

The fair values of investments held in non-quoted investment funds are determined by management after taking into consideration information provided by the fund managers.

Notes to the Financial Statements for the year ended December 31, 2017

2. Use of estimates, assumptions and judgements (continued)

(b) Fair value of financial assets (continued)

Investment in debt securities
The fair value of fixed interest securities is based on quoted market prices at the reporting date, where the quotes are binding and reflect the price of recent transactions in an active market.

Independent pricing services will normally derive the security prices through recently reported trades for identical or similar securities, making adjustments through to the reporting date based upon available market observable information. Some debt securities are valued by assessing the credit quality of the underlying borrowers and the credit spreads on comparable quoted debt securities to derive a suitable discount rate relative to government securities.

(c) Deferred tax asset
A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Based on current legislation, there are no restrictions on the ability to utilise the deferred tax asset. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3. Net insurance revenue

	Note	2017 £m	2016 £m
(a) Gross written premiums			
Direct insurance		2,105.3	2,065.7
Assumed reinsurance		2.7	0.1
Total gross written premiums	21	2,108.0	2,065.8
Gross change in unearned premium provision	21	(12.6)	46.6
Total gross earned premiums		2,095.4	2,112.4
(b) Reinsurers' share of gross written premiums			
Direct insurance		(910.4)	(1,099.4)
Assumed reinsurance		(1.1)	(0.1)
Total reinsurers' share of gross written premiums	21	(911.5)	(1,099.5)
Reinsurers' share of change in unearned premium provision	21	1.1	180.8
Total reinsurers' share of gross earned premiums		(910.4)	(918.7)
Total net insurance revenue		1,185.0	1,193.7

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

Notes to the Financial Statements for the year ended December 31, 2017

4. *Investment income*

	Note	2017 £m	2016 £m
Available for sale financial assets			
Interest income		64.8	74.4
Cash and cash equivalents interest income		2.9	3.9
Ceded investment income (1)		(9.3)	(14.2)
Dividend received		3.0	–
Total investment income		61.4	64.1

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

5. Net realised gains recorded in the statement of comprehensive income

	2017 £m	2016 £m
Sale of renewal rights		
Realised gains	1.0	–
Available for sale financial assets		
Realised gains		
Debt securities	17.8	9.2
Realised losses		
Debt securities	(2.2)	(0.4)
Loans		
Early redemption fee	26.8	–
Financial liabilities		
Realised gains	–	1.5
Total net realised gains recorded in the statement of comprehensive income	43.4	10.3

6. Net fair value gains/(loss) recorded in the statement of comprehensive income

	2017 £m	2016 £m
Net gain/(loss) on own use properties	0.5	(1.5)
Total net fair value gains/(loss) recorded in the statement of comprehensive income	0.5	(1.5)

7. Other operating and administrative expenses

	2017 £m	2016 £m
Acquisition costs	86.6	66.5
Movement in deferred acquisition costs	(4.8)	48.9
Unwind of discount on PPO claims reserve	0.8	0.8
Restructuring charges	4.5	8.6
Administration expenses	87.5	92.2
Total other operating and administrative expenses	174.6	217.0

Notes to the Financial Statements for the year ended December 31, 2017

8. Auditor's remuneration

Fees payable to the Company's auditor for the audit of the Company's annual accounts for the year ended December 31, 2017 amounted to £0.3m (2016: £0.3m). Other services supplied pursuant to legislation was £0.2m (2016: £0.3m).

9. Income tax relating to continuing operations

(a) Income tax recognised in profit or loss	2017 £m	2016 £m
Current tax:		
In respect of the current year	9.8	(10.9)
In respect of prior years	(2.4)	(1.6)
	7.4	(12.5)
Deferred tax:		
In respect of the current year	7.7	20.9
In respect of prior years	(0.4)	(0.1)
Adjustments to deferred tax attributable to changes in tax rates and laws	(0.1)	(0.1)
	7.2	20.7
Total income tax expense recognised in the current year relating to continuing operations	14.6	8.2

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

	2017 £m	2016 £m
Profit before tax from continuing operations	102.2	51.3
Income tax expense calculated at 19.25% (2016: 20%)	19.7	10.3
Effect of expenses not deductible for tax purposes	-	-
Effect of prior year adjustment	(2.8)	(1.7)
Effect of dividend received from subsidiary	(0.6)	–
Effect of changes in statutory tax rate	(0.1)	(0.1)
Effect of imputed transfer pricing adjustments	(0.2)	(0.3)
Effect of income that is exempt from taxation	(1.4)	-
Income tax expense recognised in profit or loss (relating to continuing operations)	14.6	8.2

The tax rates used for the 2017 and 2016 reconciliations above is the corporate tax rate payable by corporate entities in the UK on taxable profits under tax law in that jurisdiction. The standard rate of UK corporation tax will be 19% for 2018.

(b) Income tax recognised in other comprehensive income	2017 £m	2016 £m
Current tax	(2.6)	8.8
Total income tax recognised in other comprehensive income	(2.6)	8.8

Notes to the Financial Statements for the year ended December 31, 2017

9. Income tax relating to continuing operations (continued)

(c) Tax paid for cash flow purposes	2017 £m	2016 £m
Current tax payable at January 1	4.6	11.2
Amounts charged to the statement of comprehensive income	14.6	8.2
Amounts charged to other comprehensive income	(2.6)	8.8
Movements in deferred tax asset in the statement of comprehensive income	(7.2)	(20.7)
Tax paid during the year	(2.3)	(3.2)
Other movements	0.1	0.3
Current tax payable at December 31	7.2	4.6

(d) Current tax assets and liabilities	2017 £m	2016 £m
Current tax assets	–	–
Current tax liabilities	7.2	4.6

The following is the analysis of deferred tax (liabilities)/assets presented in the consolidated balance sheet:

	2017 £m	2016 £m
Deferred tax assets	9.7	20.8
Deferred tax liabilities	(14.2)	(18.1)
	(4.5)	2.7

2017	Opening balance £m	Recognised in profit or loss £m	Closing balance £m
Deferred tax assets (liabilities)/assets in relation to:			
Claims equalisation reserve	(18.1)	3.9	(14.2)
Properties	1.4	(0.1)	1.3
Provisions and other temporary differences	1.0	-	1.0
Tax losses	18.4	(11.0)	7.4
Technical reserves	-	–	-
	2.7	(7.2)	(4.5)

2016	Opening balance £m	Recognised in profit or loss £m	Closing balance £m
Deferred tax assets (liabilities)/assets in relation to:			
Claims equalisation reserve	(22.4)	4.3	(18.1)
Properties	1.2	0.2	1.4
Provisions and other temporary differences	1.2	(0.2)	1.0
Tax losses	43.4	(25.0)	18.4
Technical reserves	–	–	–
	23.4	(20.7)	2.7

10. Dividends

No dividend was paid during the year ended December 31, 2017. On March 27, 2018, the Directors approved the payment of an interim dividend of £175m in respect of the year ended December 31, 2017 (2016: £nil).

Notes to the Financial Statements for the year ended December 31, 2017

11. Intangible assets

Amortisation charges have been included within other operating and administrative expenses.
The Company has considered whether there are any indications of impairment of the intangible assets at the balance sheet date. No indications of impairment were identified.

	Total £m
Cost	
At January 1, 2016	26.0
Additions	–
At December 31, 2016	26.0
Additions	52.0
At December 31, 2017	78.0
Accumulated amortisation and impairment	
At January 1, 2016	23.0
Amortisation charge for the year	0.1
At December 31, 2015	23.1
Amortisation charge for the year	–
At December 31, 2016	23.1
Carrying amount	
At December 31, 2016	2.9
At December 31, 2017	54.9

During the year, the Company acquired renewal rights to commercial lines business from the Liverpool Victoria Friendly Society Group for consideration of £52m.

12. Property

	Total £m
At January 1, 2016	17.1
Fair value losses in the statement of comprehensive income	(1.7)
At December 31, 2017	15.4
Fair value gain in the statement of comprehensive income	0.5
At December 31, 2017	15.9
Carrying amount	
At December 2016	15.4
At December 2017	15.9

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

Notes to the Financial Statements for the year ended December 31, 2017

13. Deferred acquisition costs

Gross	2017 £m	2016 £m
At January 1	203.3	215.6
Costs deferred during the year	495.7	446.8
Amortisation charge for the year	(488.1)	(459.1)
At December 31	210.9	203.3

Reinsurance	2017 £m	2016 £m
At January 1	81.3	44.7
Impact of quota share as of January 1	-	68.4
Costs deferred during the year	282.6	240.3
Amortisation charge for the year	(279.8)	(272.1)
At December 31	84.1	81.3

Net	2017 £m	2016 £m
At January 1	122.0	170.9
Impact of quota share as of January 1	-	(68.4)
Costs deferred during the year	213.1	206.5
Amortisation charge for the year	(208.3)	(187.0)
At December 31	126.8	122.0

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

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

14. Leases

	2017 £m	2016 £m
The total of future minimum lease payments under non-cancellable operating leases are set out below		
No later than one year	0.5	0.5
Later than one year and not later than five years	2.2	2.2
Later than five years	2.2	2.7
	4.9	5.4

All operating lease rentals are paid by Allianz Management Services Limited.

The Company owns two operational properties. The lease described above relates to an operational property located in Great Britain. There is no individually significant lease arrangement or purchase option attached to this property.

Notes to the Financial Statements for the year ended December 31, 2017

15. Reinsurance assets

	2017 £m	2016 £m
Reinsurers' share of insurance contracts liabilities	1,319.9	1,311.7
Total reinsurance assets	1,319.9	1,311.7

For the current and non-current split, refer to note 21.

16. Accrued income

	2017 £m	2016 £m
Interest	29.8	29.4
Total accrued income	29.8	29.4

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

17. Financial assets

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

	2017 £m	2016 £m
Available for sale financial assets	2,586.7	2,176.6
Loans and receivables	66.8	8.6
Total financial assets	2,653.5	2,185.2

(a) Available for sale financial assets	2017 £m	2016 £m
At fair value		
Managed funds	151.6	-
Total managed funds at fair value	151.6	-
Debt securities	2,435.1	2,176.6
Total debt securities at fair value	2,435.1	2,176.6
Total available for sale financial assets at fair value	2,586.7	2,176.6
At cost		
Managed funds	150.0	-
Total managed funds at cost	150.0	-
Debt securities	2,355.8	2,080.8
Total debt securities at cost	2,355.8	2,080.8
Total available for sale financial assets at cost	2,505.8	2,080.8

The Company has entered into securities lending whereby blocks of securities are loaned to third parties. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Company's balance sheet, they continue to be recognised within the appropriate investment classification. At December 31, 2017, the Company had lent £103.2m (2016: £105.3m) and held collateral under such agreements of £104.1m (2016: £116.4m).

Notes to the Financial Statements for the year ended December 31, 2017

17. Financial assets (continued)

(b) Loans	2017 £m	2016 £m
Loans to related parties	20.0	360.0
Other loans	60.2	1.3
Deposits with credit institutions	6.6	7.3
Total loans	86.8	368.6

In February 2017, the £340.0m loan to the ultimate parent company was repaid early.

	2017 £m	2016 £m
Current loans	0.2	1.3
Non current loans	86.6	367.3

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

Included within the deposits with credit institutions is £6.6m (2016: £7.3m) which the Company has pledged as collateral relating to the future settlement of insurance contracts liabilities.

18. Insurance receivables

	2017 £m	2016 £m
Due from policyholders	409.9	391.7
Due from reinsurers *	1.9	4.4
Due from agents, brokers and intermediaries	366.1	369.0
Total insurance receivables	777.9	765.1

* Included in amounts due from reinsurers are balances due from related parties of £1.7m (2016: £1.5m)

	2017 £m	2016 £m
Current insurance receivables	717.7	700.1
Non current insurance receivables	60.2	65.0

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

19. Other receivables

	2017 £m	Restated (1) 2016 £m
Amounts due from related parties	223.0	189.0
Other	42.1	35.6
Total other receivables	265.1	224.6

(1) Refer to note 20.

	2017 £m	2016 £m
Current other receivables	265.1	224.6

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

Notes to the Financial Statements for the year ended December 31, 2017

20. Cash and cash equivalents

	2017 £m	Restated 2016 £m
Cash at bank and overdrafts	(12.8)	(8.5)
Short-term deposits (including demand and time deposits)	0.1	0.3
Total	(12.7)	(8.2)

Deposits are subject to an average interest rate of 0.5% (2016: 0.7%) and have an average maturity of 1 day (2016: 1 days). The carrying amounts disclosed above reasonably approximate fair values at year end.

During the year ended December 31, 2011 the Company entered into a cash pooling arrangement with Allianz SE. Under the terms of the arrangement, the Company was given free and direct access to the cash pool. In prior years the Company reported these funds within cash and cash equivalents. During the year, the Directors have reviewed the treatment of these funds and concluded that they should have been recorded within other receivables. The 2016 balance sheet and cash flow statement have, therefore, been restated to remove these balances from cash and cash equivalents and include them within other receivables.

The restatement had no impact on net assets or equity at 31 December 2016 or 2015, or the Statement of Comprehensive Income for the year then ended. However, this reduced the total assets by £8.2m and increased the total liabilities by £8.2m.

The table below presents the impact of the restatement on the 2016 balance sheet:

	December 31, 2016 as previously reported £m	Restatement £m	December 31, 2016 as restated £m
Other receivables	178.9	45.7	244.6
Cash and cash equivalents	37.5	(45.7)	(8.2)

The table below presents the impact of the restatement on the 2016 statement of cash flows:

	As previously reported £m	Restatement £m	As restated £m
2016 Opening Cash and cash equivalents	52.3	(55.3)	(3.0)

21. Insurance contracts' liabilities

	2017 Insurance Contracts' Liabilities £m	2017 Reinsurers' Share of Liabilities £m	2017 Net £m	2016 Insurance Contracts' Liabilities £m	2016 Reinsurers' Share of Liabilities £m	2016 Net £m
Provisions for claims reported by policyholders	1,770.7	(820.9)	949.8	1,636.9	(729.1)	907.8
Provisions for claims incurred but not reported	(2.0)	(31.6)	(33.6)	103.3	(116.2)	(12.9)
Total claims reported and IBNR	1,768.7	(852.5)	916.2	1,740.2	(845.3)	894.9
Provision for unearned premiums	1,061.0	(467.4)	593.6	1,048.3	(466.4)	581.9
Total general insurance contracts' liabilities	2,829.7	(1,319.9)	1,509.8	2,788.5	(1,311.7)	1,476.8
Current general insurance contracts' liabilities	1,366.2	(607.2)	759.0	1,222.4	(545.2)	677.2
Non current general insurance contracts' liabilities	1,463.5	(712.7)	750.8	1,566.2	(766.6)	799.6

Notes to the Financial Statements for the year ended December 31, 2017

21. Insurance contracts' liabilities (continued)

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

	2017 Insurance Contracts' Liabilities £m	2017 Reinsurers' Share of Liabilities £m	2017 Net £m	2016 Insurance Contracts' Liabilities £m	2016 Reinsurers' Share of Liabilities £m	2016 Net £m
At January 1	1,740.2	(845.3)	894.9	1,723.4	(503.3)	1,220.1
Foreign exchange adjustment	(1.4)	0.5	(0.9)	–	(0.5)	(0.5)
Impact of quota share	–	–	–	–	(304.7)	(304.7)
Unwind of discount	3.2	(2.4)	0.8	3.4	(2.0)	1.4
	1,742.0	(847.2)	894.8	1,726.8	(810.5)	916.3
Claims incurred in the current accident year	1,428.8	(602.0)	826.8	1,520.4	(637.9)	882.5
Movement on claims incurred in prior accident years	(70.1)	42.0	(28.1)	(65.3)	306.0	240.7
Claims paid during the year	(1,332.0)	554.7	(777.3)	(1,441.7)	297.1	(1,144.6)
At December 31	1,768.7	(852.5)	916.2	1,740.2	(845.3)	894.9

The provision for unearned premiums may be analysed as follows:

	2017 Insurance Contracts' Liabilities £m	2017 Reinsurers' Share of Liabilities £m	2017 Net £m	2016 Insurance Contracts' Liabilities £m	2016 Reinsurers' Share of Liabilities £m	2016 Net £m
At January 1	1,048.3	(466.4)	581.9	1,095.0	(285.6)	809.4
Foreign exchange adjustment	0.1	0.1	0.2	(0.1)	–	(0.1)
	1,048.4	(466.3)	582.1	1,094.9	(285.6)	809.3
Premiums written in the year	2,108.0	(911.5)	1,196.5	2,065.8	(1,099.5)	966.3
Premiums earned during the year	(2,095.4)	910.4	(1,185.0)	(2,112.4)	918.7	(1,193.7)
At December 31	1,061.0	(467.4)	593.6	1,048.3	(466.4)	581.9

The 2016 comparatives in the statement of comprehensive income has been represented to reflect a change in classification between Reinsurers' share of gross change in insurance liabilities and Reinsurers' share of gross insurance claims paid due to the increase in quota share percentage from 20% to 40%.

22. Insurance contracts liabilities and reinsurance assets – terms, assumptions and sensitivities

The major classes of general insurance written by the Company include motor, household, commercial property, business interruption and liability. Risks under these policies usually cover a 12 month duration. The Company also writes several more specialist lines of business such as pet insurance, creditor business, and mobile phone all risks. Risk durations under these policies can vary.

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

Notes to the Financial Statements for the year ended December 31, 2017

22. Insurance contracts liabilities and reinsurance assets – terms, assumptions and sensitivities (continued)

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

Outstanding claims provisions are not discounted for the time value of money, apart from those associated with the settlement of high value personal injury claims by way of periodical payment orders (PPOs) established under the Courts Act 2003. During 2017, one new settlement was agreed on this basis, making the total number of outstanding PPO's 38. Total reserves are £124.0m (2016: £114.3m) gross and £34.0m (2016: £33.4m) net of insurance. The corresponding undiscounted amounts are £288.2m (2016: £278.8m) gross and £69.0m (2016: £68.6m) net.

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

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

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

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

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

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

Historical claims development is mainly analysed by accident period. Claims development is separately analysed for each class of business. Estimation uncertainties differ by line of business for reasons such as the following:

- differences in the terms and conditions of insurance contracts
- difference in the complexity of claims
- the severity of individual claims
- differences in the period between the occurrence and the reporting of claims.

Case estimates for large injury claims have been set using Ogden Tables based on a -0.75% discount rate as a base. The Ministry of Justice announced in September 2017 that they plan to legislate to change the mechanism of the Ogden discount rate to take account of investment risk. It was indicated that in the current market conditions, a discount rate of between 0% and 1% might be expected. This would serve to reduce the level of future bodily injury claims, but may increase the propensity of claims to settle as PPOs. No estimate of the expected reduction in cost has been included within the booked reserves.

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

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

Notes to the Financial Statements for the year ended December 31, 2017

22. Insurance contracts liabilities and reinsurance assets – terms, assumptions and sensitivities (continued)

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

- Claim reporting patterns being different from those expected;
- Claim handling costs being different from those expected;
- The emergence of currently unknown latent diseases to a different level from that expected.

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

There were no significant changes in assumptions during the period. Prior year reserve releases have caused a £68.2m gross decrease (2016: £106.2m gross decrease) in insurance provisions. The net effect after reinsurance is a £27.8m decrease (2016: £59.0m). The major reasons for this change are:

- Reductions in the commercial motor, personal motor and liability accounts.
- Partially offset by increases in the legal protection and household accounts.

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

Notes to the Financial Statements for the year ended December 31, 2017

22. Insurance contracts liabilities and reinsurance assets – terms, assumptions and sensitivities (continued)

Loss development triangle

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

Gross of insurance	Note	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Accident year		992.9	950.2	1,004.9	1,046.2	1,159.3	1,139.5	1,285.5	1,540.6	1,495.8	1,428.8	
One year later		956.2	950.5	1,046.2	1,051.9	1,144.0	1,168.1	1,316.5	1,507.2	1,462.9		
Two years later		924.0	929.4	1,017.6	1,046.9	1,115.1	1,130.5	1,318.0	1,461.8			
Three years later		916.4	923.2	1,014.1	1,047.4	1,113.0	1,124.1	1,326.7				
Four years later		912.3	924.3	1,019.8	1,028.2	1,124.8	1,124.6					
Five years later		913.1	921.9	1,023.6	1,021.3	1,120.0						
Six years later		915.3	930.4	1,021.6	1,017.4							
Seven years later		912.3	912.2	1,011.7								
Eight years later		911.4	915.4									
Nine years later		919.4										
Current estimate of cumulative claims		919.4	915.4	1,011.7	1,017.4	1,120.0	1,124.6	1,326.7	1,461.8	1,462.9	1,428.8	11,788.7
Cumulative payments to date		(891.8)	(884.5)	(983.7)	(990.6)	(1,079.8)	(1,066.3)	(1,143.6)	(1,261.1)	(1,133.2)	(805.0)	(10,239.6)
Reserve in respect of prior years		–	–	–	–	–	–	–	–			219.6
Total gross liability as per the balance sheet	21	27.6	30.9	28.0	26.8	40.2	58.3	183.1	200.7	329.7	623.8	1,768.7

Net of reinsurance	Note	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Accident year		951.7	920.8	984.7	1,038.4	1,132.0	1,111.8	1,256.6	1,192.5	857.9	826.8	
One year later		916.1	905.6	1,019.5	1,026.7	1,119.3	1,138.1	1,171.9	1,176.9	838.8		
Two years later		892.2	888.0	1,002.0	1,026.1	1,099.5	1,055.5	1,164.3	1,160.7			
Three years later		886.0	873.7	998.4	1,026.6	1,065.9	1,053.2	1,171.7				
Four years later		883.9	872.5	999.7	991.1	1,070.9	1,055.7					
Five years later		885.9	868.9	989.5	987.6	1,070.7						
Six years later		887.1	866.3	988.1	988.4							
Seven years later		877.7	861.2	984.7								
Eight years later		877.2	861.0									
Nine years later		879.1										
Current estimate of cumulative claims		879.1	861.0	984.7	988.4	1,070.7	1,055.7	1,171.7	1,160.7	838.8	826.8	9,837.6
Cumulative payments to date		(866.6)	(853.1)	(972.6)	(975.2)	(1,048.6)	(1,024.6)	(1,073.3)	(1,041.6)	(663.0)	(468.9)	(8,987.5)
Reserve in respect of prior years		–	–	–	–	–	–	–	–			66.1
	21	12.5	7.9	12.1	13.2	22.1	31.1	98.4	119.1	175.8	357.9	916.2

Whilst the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding as at the end of 2017 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be sufficient.

Notes to the Financial Statements for the year ended December 31, 2017

23. Insurance related payables

	2017 £m	2016 £m
Arising out of direct insurance operations		
Third parties	93.1	59.2
	93.1	59.2
Deposits received from reinsurers		
Amounts due to related parties	937.1	901.3
Third parties	0.1	0.1
	937.2	901.4
Arising out of reinsurance operations		
Amounts due to related operations	5.5	9.8
Third parties	46.6	54.7
	52.1	64.5
Total insurance related payables	1,082.4	1,025.1

	2017 £m	2016 £m
Current insurance related payables	1082.3	1,025.0
Non current insurance related payables	0.1	0.1

24. Accruals and other payables

	2017 £m	2016 £m
Amounts due to related parties	325.0	281.0
Accrued expenses	2.5	4.4
Tax payables	55.8	40.2
Other	29.7	31.1
Total accruals and other payables	413.0	356.7

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

Notes to the Financial Statements for the year ended December 31, 2017

25. Share capital

	Allotted, called up and fully paid	
	2017	2016
	£	£
Ordinary shares (voting) of £1 each fully paid	172,758,609	172,758,609
	172,758,609	172,758,609

26. Investment in group undertakings

The subsidiary undertakings of the Company at December 31, 2017 are shown below.

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

	2017	2016
	£m	£m
Balance at January 1, and December 31,	287.2	287.2

Notes to the Financial Statements for the year ended December 31, 2017

27. Cash generated from operating activities

	Notes	2017 £m	2016 £m
Profit before tax		102.2	51.3
Investment income	4	(61.4)	(64.1)
Non cash items			
Amortisation of AFS financial assets		13.1	16.3
Amortisation of intangible assets	11	–	0.1
Amortisation of net deferred acquisition costs	13	208.3	187.0
Net acquisition costs deferred during the year	13	(213.1)	(138.1)
Net realised gain from sale of available for sale financial assets	5	(15.6)	(8.8)
Net realised gain on sale of renewal rights	5	(1.0)	–
Proceeds from early redemption fees	5	(26.8)	–
Net fair value (gains)/losses on own use properties	6	(0.5)	1.5
Net fair value loss on AFS		–	1.0
Currency losses		3.2	6.6
Changes in working capital			
Increase /(decrease) in reinsurance assets	15	(8.2)	(522.8)
(Increase)/decrease in accrued income	16	(0.4)	1.9
(Increase)/decrease in insurance receivables	18	(12.8)	5.4
(Increase)/decrease in other receivables	19	(40.5)	(27.4)
Increase/(decrease) in insurance contracts' liabilities	21	41.2	(29.9)
Increase/(decrease) in insurance related payables	23	57.3	399.5
Increase/(decrease) in accruals and other payables	24	56.3	46.7
Cash utilised by operations		101.3	(73.8)

The Company classifies the cash flows for the acquisition and disposal of financial assets as operating cash flows, as the cash flows are funded from the cash flows associated with the origination of insurance and investment contracts, net of the cash flows for payments of benefits and claims incurred for insurance and investment contracts, which are respectively treated under operating activities.

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies

The Company only transacts general insurance business which is wholly written in Great Britain and the majority of risk exposure is confined to the United Kingdom.

Insurance risk

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

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

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

The Company limits its exposure to insured events by imposing maximum claim limits on many types of insurance contracts. In addition the Company uses both proportional and non proportional reinsurance protection to limit its maximum exposure to individual loss events and to catastrophic events such as weather related claims. Maximum exposure for each line of business (motor, liability, property and business interruption claims) is limited according to risk appetite, capital requirements and the return on capital. The Company uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses. Based upon the modelling work undertaken, the Company buys reinsurance protection for a 1-in-250-year single event. In order to protect its risk capital from extreme events the Company also purchases catastrophe reinsurance for a modelled 1-in-500-year loss event.

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

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

As detailed below under Financial risk policies (b) Credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full. Members of the Allianz Societas Europaea Group of companies are the Company's largest reinsurers.

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies (continued)

The Company principally issues the following types of general insurance contract: motor, household, property and business interruption, liability and speciality pecuniary. The following table sets out the concentration of insurance risk by contract type:

Claims Liabilities 2017	Gross £m	Reinsurers' Share £m	Net £m
Motor	799.9	(414.0)	385.9
Household	62.9	(25.6)	37.3
Property and business interruption	211.4	(106.5)	104.9
Liability	529.0	(238.8)	290.2
Speciality pecuniary	144.5	(61.6)	82.9
Other	21.0	(6.0)	15.0
Total	1,768.7	(852.5)	916.2

Claims Liabilities 2016	Gross £m	Reinsurers' Share £m	Net £m
Motor	827.4	(435.6)	391.8
Household	68.4	(27.5)	40.9
Property and business interruption	202.6	(103.5)	99.1
Liability	513.0	(230.2)	282.8
Speciality pecuniary	112.2	(46.2)	66.0
Other	16.6	(2.3)	14.3
Total	1,740.2	(845.3)	894.9

Note 22 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the historical accuracy of the Company's estimation techniques for claims payments.

Financial risk

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

(a) Market risk

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

The Company manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders' funds. A substantial part of the Company's financial assets are invested in available for sale fixed interest securities. These are quoted on a recognised stock exchange and are readily tradable.

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies (continued)

i) Interest rate risk

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

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contracts liabilities. At December 31, 2017 the average duration of the fixed interest and cash and cash equivalent portfolios was 3.4 years (2016: 3.2 years) compared with the average duration of the insurance contracts liabilities which is estimated to be 3.1 years (2016: 2.1 years).

ii) Currency risk

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

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

	2017 £m	2016 £m
US Dollars		
Assets	27.6	31.8
Liabilities	28.0	30.6
Euro		
Assets	124.0	92.9
Liabilities	11.4	9.8

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies (continued)

iii) Sensitivity to market risk

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

	2017 Profit/(loss) £m	2017 Equity £m	2016 Profit/(loss) £m	2016 Equity £m
Interest rate risk				
+100 basis points shift in yield curves	–	(79.1)	–	(60.6)
-100 basis points shift in yield curves	–	85.2	–	67.5
Currency rate risk				
10% increase in Euro	–	11.3	8.3	6.3
10% decrease in Euro	–	(11.3)	(8.3)	(6.3)
Equity risk				
10% increase in equity prices	–	15.2	–	–
10% decrease in equity prices	–	(15.2)	–	–

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

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

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

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. Key areas where the Company is exposed to credit risk are:

- Counterparty risk in respect of debt securities, cash and cash equivalents
- Reinsurer's share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance intermediaries and policyholders

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

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies (continued)

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary reinsurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Company's major clients. Where there is a significant or potentially significant exposure to an individual captive, additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2017 was £695.5m (2016: £610.5m).

Insurance receivables are closely monitored via the credit control process. For amounts due from broker, credit terms are applied which are determined by a range of factors including the type of business, size of account and financial standing. For policyholders, credit is managed so that the amount due is matched to the unexpired risk. Where amounts fall outside credit terms a full range of credit control procedures are applied. Where these are not successful, the debt is impaired.

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

2017	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
Reinsurance assets	–	1,182.2	10.1	–	–	–	127.6	1,319.9
Available for sale financial assets	566.3	745.4	468.6	647.6	7.2	–	151.6	2,586.7
Loans	–	86.5	–	–	–	–	0.3	86.8
Insurance receivables (1)	–	85.3	160.0	25.9	–	–	506.7	777.9
Total £m	566.3	2,099.4	638.7	673.5	7.2	–	786.2	4,771.3
Percent	11.9	44.0	13.4	14.1	0.1	–	16.5	100.0

2016	AAA £m	AA £m	A £m	BBB £m	BB £m	Captives not rated £m	Other not rated £m	Total £m
Reinsurance assets	9.9	1,227.9	9.8	–	–	0.7	63.4	1,311.7
Available for sale financial assets	478.8	776.1	351.5	547.5	22.7	–	–	2,176.6
Loans	–	367.3	–	–	–	–	1.3	368.6
Insurance receivables (1)	0.2	89.2	137.7	17.1	–	–	520.9	765.1
Total £m	488.9	2,460.5	499.0	564.6	22.7	0.7	585.6	4,622.0
Percent	10.6	53.2	10.8	12.2	0.5	–	12.7	100.0

1. Included in the not rated balance is £409.9m (2016: £391.7m) due from policyholders under premium instalment plans. Much of the remaining not rated balance relates to debts from intermediaries, most of whom are regional and provincial brokers who whilst not independently rated are regulated by the Financial Conduct Authority.

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies (continued)

The following table provides information on the carrying value of reinsurance assets and insurance receivables. The Company has no available for sale financial assets, loans and receivables or cash and cash equivalents that are impaired.

	Reinsurance assets 2017 £m	Insurance receivables 2017 £m	Reinsurance assets 2016 £m	Insurance receivables 2016 £m
Neither past due or impaired	1,318.3	651.7	1,311.5	659.9
Past due but not impaired	–	125.4	–	104.0
Individually impaired	1.6	0.8	0.2	1.2
Total	1,319.9	777.9	1,311.7	765.1

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

2017	Less than 90 days £m	90 -120 days £m	120-180 days £m	More than 180 days £m	Total £m
Policyholders	0.7	–	–	0.1	0.8
Brokers	44.1	33.2	18.9	26.3	122.5
Reinsurers	0.6	0.1	–	1.4	2.1
Total	45.4	33.3	18.9	27.8	125.4
2016					
Policyholders	–	–	–	–	–
Brokers	39.5	22.6	13.0	28.9	104.0
Reinsurers	–	–	–	–	–
Total	39.5	22.6	13.0	28.9	104.0

Fair value hierarchy

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

Level 1: Quoted prices in active markets for identical assets. Additional criteria was applied to Corporate Bonds which were only included if they were AAA-rated and government-backed. Other Corporate Bonds were included in Level 2.

Level 2: Corporate Bonds which did not meet the criteria necessary to qualify for Level 1.

Level 3: Inputs that are not based on observable market data.

	Fair value as of December 31, 2017	Level 1	Level 2	Level 3
	£m	£m	£m	£m
Own use properties	15.9	–	–	15.9
Available for sale financial assets				
Government and government agency bonds	554.6	383.3	171.3	–
Corporate bonds	1,880.5	27.9	1,838.6	14.0
Managed funds	151.6	151.6	–	–
Total	2,602.6	562.8	2,009.9	29.9

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies (continued)

	Fair value as of December 31, 2016	Level 1	Level 2	Level 3
	£m	£m	£m	£m
Own use properties	15.4	–	–	15.4
Available for sale financial assets				
Government and government agency bonds	551.9	551.9	–	–
Corporate bonds	1,624.7	11.3	1,613.4	–
Total	2,192.0	563.2	1,613.4	15.4

	Fair value as of January 1	Additions	Unrealised gains/(loss)	Fair value as of December 31
	£m	£m	£m	£m
2017				
Own use properties	15.4	–	0.5	15.9
2016				
Own use properties	17.1	–	(1.7)	15.4

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

Significant unobservable inputs:	
Rental growth	Factored into the yield applied (location/sector specific)
Voids	24-33 months
Market Rent (MR)	£12 - £32.50 per square foot (refurbished/redeveloped)
Rent free	12 - 18 months upon re-letting
Letting fees	15% of MR

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

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

(c) Liquidity risk

Liquidity risk is the risk that cash might not be available to pay obligations when they fall due at a reasonable cost. The Company is exposed to daily calls on its available cash resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all the immediately foreseeable demand. The market value of the Company's available for sale financial assets and loans at December 31, 2017 amounted to £2,653.5m (2016: £2,185.2m) plus cash and cash equivalents (including cash pooling to Allianz SE group of £49.4m) of £36.7m (2016: £37.5m). With the exception of lent securities (see note 17), nearly all of these are readily realisable. As a result the Company's exposure to potential liquidity risk is extremely low and in the various risk capital models used by the Company no capital is allocated to this risk.

Notes to the Financial Statements for the year ended December 31, 2017

28. Risk management policies (continued)

The following table shows information about the estimated timing of the net cashflows from the Company's insurance contracts liabilities. The analysis provided is by estimating timings of the amounts recognised in the balance sheet.

Insurance liabilities	Carrying amount £m	Less than 1 year £m	1-2 years £m	2-5 years £m	5-10 years £m	More than 10 years £m
2017	1,762.1	822.1	397.9	379.2	62.2	100.7
2016	1,732.9	736.4	394.5	397.0	101.5	103.5

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

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

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

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

Capital Management

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

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

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

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

The Company also aims to maintain at least an "A" rating with Standard and Poors. It has been designated a "Strategically important" subsidiary of the ultimate parent, and therefore its rating is usually pegged to that of the ultimate parent.

The Company's capital comprises total shareholders' equity and amounts to £1,201.4m (2016: £1,151.4m).

The Company has complied with all externally and internally imposed capital requirements throughout the period. At December 31, 2017 the own funds amount to £964.4m* with a surplus of 30%* on SCR (2016: own funds equal to £1,082.9m with a surplus of 31%* on SCR).
* unaudited figures

Notes to the Financial Statements for the year ended December 31, 2017

29. Ultimate parent undertaking

The ultimate parent undertaking, Allianz Societas Europaea, is incorporated in Germany and is the parent of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Copies of the group accounts are available on request from Allianz Societas Europaea, Königinstrasse 28, 80802 München, Germany.

Allianz Holdings plc is the immediate parent undertaking and the parent undertaking of the smallest group of undertakings of which the Company is a member and for which group accounts are drawn up. Allianz Holdings plc is incorporated in England and Wales and its group accounts are available from the Company Secretary, 57 Ladymead, Guildford, Surrey GU1 1DB.

30. Contingencies and commitments

Legal proceedings and regulations

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

31. Directors' emoluments

All of the Directors are employed by Allianz Management Services Limited and the details of their remuneration can be found in the financial statements of its parent undertaking Allianz Holdings plc.

32. Related party transactions

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

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

	2017 £m	2016 £m
Administration and claims handling service fees	325.6	335.4
Interest from early repayment of group loans	26.8	–
Interest received from group loans	3.8	19.4
Reinsurance premiums paid to related parties	863.9	1,047.9
Reinsurance recoveries	771.8	550.2
Dividend received from subsidiary	3.0	–
Group tax relief	1.2	6.1
Purchase of renewal rights	52.0	–
Sale of renewal rights	1.0	–

Reinsurance contracts are made at normal arms length transaction basis.

Notes to the Financial Statements for the year ended December 31, 2017

32. Related party transactions (continued)

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

	2017 £m	Restated (1) 2016 £m
Due from related parties at December 31,		
Parent	–	–
Subsidiaries	0.2	2.4
Other related parties	222.5	186.7
Total	222.7	189.1

(1) Refer to note 20.

	2017 £m	Restated (1) 2016 £m
Due to related parties at December 31,		
Parent	83.5	4.1
Subsidiaries	133.6	140.2
Other related parties	1,048.6	1,042.9
Total	1,265.7	1,187.2

	2017 £m	Restated (1) 2016 £m
Loan to related parties at December 31,		
Ultimate parent company	–	340.0
Parent	20.0	20.0
Total	20.0	360.0

The loan to the Parent carries 3.28% interest annually. No provision for doubtful debts was made at year end.

(b) Investment in subsidiaries

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

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

(c) Director's interest in contract

During the year, payments totalling £nil (2016: £9,000 (excl. VAT)) were made to Dinesen Associates Ltd in relation to executive coaching services provided by Mr Dinesen (a Director of the Company).

33. Subsequent Events

On March 27, 2018, the Directors approved the payment of an interim dividend of £175m in respect of the year ended December 31, 2017.