Registered Number: 1141570

Directors' Report and Accounts 2017

AGF Holdings (UK) Limited

Directors:	J M Dye
	M J Churchlow
	G A Gibson
Secretary:	R C Jack-Kee
Registered Office:	57 Ladymead, Guildford, Surrey, GU1 1DB
Registered No:	1141570

Strategic Report

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

Principal activity and review of the business developments

AGF Holdings (UK) Limited (the Company) is a parent company and most of the activities of the group were conducted through subsidiary companies. The principal activity of the group had been the settlement of claims arising on non-life insurance in the United Kingdom conducted through its main subsidiary AGF Insurance Limited which ceased writing new business in 1998. On 10 October 2016, the Company sold its investment in AGF Insurance Limited to Catalina Holdings UK Limited. The Company's main activity since then has been as sponsor for the AGF Pension and Life Assurance Scheme (see note 11). It is expected that this scheme will merge into the Allianz Retirement and Death Benefit Fund (see note 15). Following this it is likely that the subsidiary, AGF Pension Trustees Limited, will be wound up.

The results for the year are set out in the Statement of Comprehensive Income on page 6. The profit for the year amounted to £1.8m (2016: £20.4m). At the year end, the Company had net assets of £87.4m (2016: £82.6m).

Principal risks and uncertainties

The principal risk facing the Company is a possible adverse development in the past service deficit of the defined benefit employee pension scheme, and therefore a discussion of the Company's wider risks would not be appropriate for an understanding of the development, performance or position of the Company's business. Full disclosure in relation to the defined benefit employee pension scheme has been given in Note 11.

The Company has a 5% shareholding in LUC Holdings Ltd which holds a lease on the London Underwriting Centre building. The lease expired in March 2016 and the shareholders are liable for a share of the dilapidations costs.

By order of the Board

M J Churchlow
Director

March 23, 2018

Directors' Report

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

Results and dividends

The results for the year are set out in the Statement of Comprehensive Income on page 6.

The Directors do not recommend payment of a dividend for the year ended December 31, 2017 (2016: £nil).

Directors

The names of the current Directors are shown on page 1. All served throughout this period. B Bovermann and R O Hudson served as Directors until their resignations on January 20, 2017.

Directors' responsibility to the auditor

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

Pension Scheme Trustee Indemnity

The Company, as sponsoring employer of the AGF Pension and Life Assurance Scheme, has maintained in respect of each of the Directors of AGF Pension Trustees Limited, qualifying pension scheme indemnity provisions (as referred to in section 236 of the Companies Act 2006).

Auditor

Pursuant to the 2017 Allianz UK group audit tender process, KPMG LLP will resign as auditor of the Company following completion of their statutory and regulatory audits of the Allianz UK group 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

R C Jack-Kee
Secretary

March 23, 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 financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (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 the profit or loss of the Company for that period. In preparing these 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 the 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.

Responsibility Statement

We confirm that to the best of our knowledge:

- the financial statements on pages 6 to 20, 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 page 1 includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the Company face.

Signed by Order of the Board

M J Churchlow
Director

March 23, 2018

Independent Auditor's Report

to the members of AGF Holdings (UK) Limited

Opinion

We have audited the financial statements of AGF Holdings (UK) Limited ("the Company") for the year ended December 31, 2017 which comprise the Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows, and 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 December 31, 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 have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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.

Strategic report and 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 the strategic report and the directors' report;
- in our opinion the information given in those reports 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.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Independent Auditor's Report

to the members of AGF Holdings (UK) Limited

Directors' responsibilities

As explained more fully in their statement set out on page 3, the Directors are responsible for: the preparation of the financial statements and for 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.

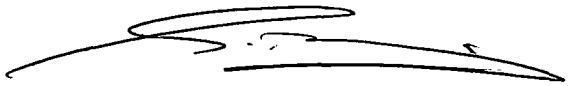
Auditor's responsibilities

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 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 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.

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
United Kingdom

March 23, 2018

Statement of Comprehensive Income

For the year ended December 31, 2017

	Notes	*2017* *£'000*	*2016* *£'000*
Operating income		118	2,940
Operating costs	3	(841)	(636)
Operating (loss)/profit		(723)	2,304
Realised gain	5	–	19,016
Finance credit - pensions	11	2,586	90
Provision release		543	–
Other expenses		(258)	(1,007)
Profit before taxation		2,148	20,403
Tax (charge)/credit	4	(336)	5
Profit for the year		1,812	20,408
Other comprehensive income:			
Gain/(loss) on pension fund		3,637	(4,825)
Tax (charge)/credit on pension fund		(618)	567
Other comprehensive income for the period, net of tax		3,019	(4,258)
Total comprehensive income for the period, net of tax		4,831	16,150

The notes on pages 10 to 20 are an integral part of these financial statements.

Balance Sheet

As at December 31, 2017

	Notes	*2017* *£'000*	*2016* *£'000*
Assets			
Cash at bank	9	221	–
Other receivables	10	82,949	86,761
Deferred taxation	4	–	469
Tax receivable	4	699	415
Defined benefit pension plan surplus	11	6,995	–
Total assets		90,864	87,645
Equity and liabilities			
Issued capital and reserves attributable to equity holders of the parent			
Equity share capital	7	201,631	201,631
Other non distributable reserve	14	78,533	78,533
Retained earnings		(192,758)	(197,589)
Total equity		87,406	82,575
Liabilities			
Defined benefit pension plan liability	11	–	2,761
Accruals and other payables	6	2,269	2,309
Deferred taxation	4	1,189	–
Total liabilities		3,458	5,070
Total liabilities and shareholders' equity		90,864	87,645

The notes on pages 10 to 20 are an integral part of these financial statements.

These financial statements were approved by the Board of Directors on March 23, 2018 and signed on its behalf by:

M J Churchlow
Director

Statement of cash flows

For the year ended December 31, 2017

	Notes	*2017* *£'000*	*2016* *£'000*
Operating activities			
Profit before tax		2,148	20,403
Changes in working capital			
Decrease/(increase) in other receivables		3,812	(80,442)
Employer contribution to pension scheme		(4,362)	(4,353)
Pension (income)/charge in profit and loss		(1,757)	543
(Decrease)/increase in accruals and other payables		(40)	2,047
Realised gains from disposal of subsidiary		–	(19,016)
Cash generated from operations		(199)	(80,818)
Income tax received		420	2
Net cash flow from operating activities		221	(80,816)
Cash generated from Investing Activities			
Disposal of Subsidiary		–	80,816
Net cash from investing activities		–	80,816
Net increase in cash and cash equivalents		221	–
Cash and cash equivalents at the beginning of the year		–	–
Cash and cash equivalents at the end of the year		221	–

In 2016, the Company did not have its own bank account, all cash items were dealt with through inter-company accounts. As of 2017, the Company has its own bank account – Lloyds AGF Sterling. Cash items continue to be dealt with through inter-company accounts.

The notes on pages 10 to 20 are an integral part of these financial statements.

Statement of changes in equity

for the year ended December 31, 2017

	Share capital £'000	*Other non distributable reserves £'000*	*Retained earnings £'000*	*Total £'000*
Balance as at January 1, 2016	201,631	78,533	(213,739)	66,425
Net profit for the year	–	–	20,408	20,408
Loss on pension fund	–	–	(4,825)	(4,825)
Tax on loss on pension fund	–	–	567	567
Balance as at December 31, 2016	201,631	78,533	(197,589)	82,575
Net profit for the year	–	–	1,812	1,812
Gain on pension fund	–	–	3,637	3,637
Tax on gain on pension fund	–	–	(618)	(618)
Balance as at December 31, 2017	201,631	78,533	(192,758)	87,406

The notes on pages 10 to 20 are an integral part of these financial statements.

Notes to the financial statements

for the year ended December 31, 2017

1. Accounting policies

1.1 Company and its operations

The financial statements of AGF Holdings (UK) Limited (the 'Company') for the year ended December 31, 2017 were authorised for issue by the Board of the Directors on March 23, 2018 and the balance sheet was signed on the Board's behalf by M J Churchlow. AGF Holdings (UK) Limited is a private limited company incorporated and domiciled in England & Wales.

1.2 Statement of compliance

The financial statements of AGF Holdings (UK) Limited have been prepared 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.

The financial statements are compiled on a going concern basis.

The Company is exempt from preparing group accounts by virtue of Section 400 of the Companies Act 2006, as it is a subsidiary undertaking of an EU parent (see Note 8). The financial statements present information about the Company as an individual undertaking and not about the group.

1.4 Summary of significant accounting policies

The significant accounting policies adopted in the presentation of the financial statements are set out in the following paragraphs:

(a) Impairments

The carrying value of the investment in subsidiary undertakings 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 expected future cash flows, observable market prices and expected net selling prices.

(b) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

(c) Other receivables

Other receivables are stated at cost less impairment losses.

(d) Other payables

Other payables are stated at cost.

Notes to the financial statements

for the year ended December 31, 2017

1. Accounting policies (continued)

(e) Income taxes

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

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

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

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

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

(f) Pension benefit obligation

The Company operates a defined benefit pension scheme with pension benefits funded over employees' periods of service.

The Company accounts for pensions in accordance with IAS19 and the disclosures given are those required by that standard.

2. Use of estimates, assumptions and judgements

Surplus or deficit on defined benefit pension scheme

Any surplus or deficit on the scheme is calculated based on the fair value of the assets and liabilities in the scheme. Fair values of the scheme assets are based on quoted market prices for the specific instrument, comparisons with other highly similar financial instruments, or the use of valuation models. The cost of providing benefits under the plan is determined by using the projected unit credit method. The valuation of the obligation is performed at each reporting year end by an independent qualified actuary. The pension benefit obligation is accounted for in the manner detailed in accounting policy 1(f).

3. Operating costs

Operating costs include auditor's remuneration, in their capacity as such, of £3,000 (2016: £3,000). Non audit fees in 2017 were £nil (2016: £nil).

The Directors received no emoluments from the Company during the year (2016: £nil).

Notes to the financial statements

for the year ended December 31, 2017

4. Income taxes relating to continuing operations

(a) Income tax recognised in profit or loss

	2017	*2016*
	£'000	*£'000*
Current income tax:		
In respect of the current year	(699)	(415)
In respect of prior years	(5)	(2)
	(704)	(417)
Deferred tax:		
In respect of the current year	1,178	762
Adjustment recognised in the current year in relation to the current tax of prior years	(138)	(350)
	1,040	412
Total current income tax expense recognised in the current year relating to continuing operations	336	(5)

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

	2017	*2016*
	£'000	*£'000*
Profit before tax from continuing operations	2,148	20,403
Income tax expense calculated at 19.25% (2016: 20%)	414	4,081
Effect of pension adjustment	(138)	(350)
Effect of prior year adjustment	(5)	(2)
Effect of imputed transfer pricing adjustments	65	71
Effect of capital gain not taxable	–	(3,805)
Income tax expense recognised in profit or loss (relating to continuing operations)	336	(5)

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	*2016*
	£'000	*£'000*
Re-measurement of pension obligation	618	(567)
Total income tax recognised in other comprehensive income	618	(567)

Notes to the financial statements

for the year ended December 31, 2017

4. Income taxes relating to continuing operations (continued)

(c) Tax paid for cash flow purposes

	2017	*2016*
	£'000	*£'000*
Current tax payable at January 1	(415)	–
Amounts charged to the income statement	336	(5)
Movements in deferred tax asset in the Statement of Comprehensive Income	(1,040)	(412)
Tax received during the year	420	2
Current tax payable at December 31	(699)	(415)

(d) Current tax assets and liabilities

	2017	*2016*
	£'000	*£'000*
Current tax assets	699	415

The following is the analysis of deferred tax assets/(liabilities) presented in the statement of financial position:

	2017	*2016*
	£'000	*£'000*
Deferred tax assets	–	469
Deferred tax liabilities	(1,189)	–
	(1,189)	469

2017

	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	£'000	*£'000*	*£'000*	*£'000*
Deferred tax (liabilities)/assets in relation to:				
Pension	469	(1,040)	(618)	(1,189)
	469	(1,040)	(618)	(1,189)

2016

	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	£'000	*£'000*	*£'000*	*£'000*
Deferred tax (liabilities)/assets in relation to:				
Pension	314	(412)	567	469
	314	(412)	567	469

In 2017, a deferred tax asset on capital losses of £310k was not recognised.

Notes to the financial statements

for the year ended December 31, 2017

5. Investment

Investment in subsidiary undertakings

Group Undertakings	Country of Incorporation	Primary Business Operation	Cost of Investment £	Percentage Holding
AGF Pension Trustees Limited	England	Pension Trustees	100	100%

	Deemed Cost	
	2017	*2016*
	£'000	*£'000*
Investment in subsidiary undertakings as at 1 January	–	61,800
and as at 31 December	–	–

The subsidiary, AGF Insurance Limited, was disposed of in 2016.

6. Accruals and other payables

	2017	*2016*
	£'000	*£'000*
Accruals	307	543
Other payables	1,962	1,766
Total	2,269	2,309

During the year, a provision of £543,000, in respect of future dilapidation costs relating to LUC Holdings Ltd., was released as it was no longer required.

7. Share capital

	2017	*2016*
	£'000	*£'000*
Allotted, called up and fully paid:		
201,631,237 ordinary shares of £1 each	201,631	201,631

8. Ultimate parent undertaking

The immediate parent undertaking is Allianz Europe B.V., a company registered in the Netherlands.

The ultimate parent undertaking, Allianz Societas Europaea, is incorporated in Germany and is the parent of the largest and smallest 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.

Notes to the financial statements

for the year ended December 31, 2017

9. Cash and cash equivalents

	2017	*2016*
	£'000	*£'000*
Cash at bank and in hand	221	–

10. Other receivables

	2017	*2016*
	£'000	*£'000*
Amounts due from related parties	82,949	86,761
Total other receivables	82,949	86,761

	2017	*2016*
	£'000	*£'000*
Current other receivables	82,949	86,761

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

11. Pensions and other post-retirement benefits

The Company sponsors a funded defined benefit pension scheme. The plan is administered by a separate board of Trustees which is legally separate from the Company. The Trustees are composed of representatives of both the employer and members. The Trustees are required by law to act in the interest of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day to day administration of the benefits. The assets of the Scheme are held in a separate trustee administered fund.

The AGF Pension and Life Assurance Scheme (the Scheme) is a defined benefit pension scheme. This provides final salary benefits, although as of January 1, 2009 there are no remaining active members. Under the Scheme, members are entitled to annual pensions on retirement at age 65 (and some employees are entitled to retire at age 60) of one-sixtieth of final pensionable salary for each year of service. Benefits are also payable on death or if a member wishes to transfer to another scheme.

No other post-retirement benefits are provided.

Changes to IAS19

IAS19 was revised in 2011 and adopted for the accounting period beginning January 1, 2013. Thus, the figures provided in this report have been calculated under the revised IAS19.

Funding requirements

UK legislation requires that pension schemes are funded prudently. The last completed funding valuation of the Scheme was carried out by a qualified actuary as at March 31, 2014 and showed a deficit of £21.7m. The Company has agreed to pay deficit contributions of £4.35m p.a. from April 1, 2015 until March 31, 2025 with an additional £0.9m paid in March 2015. Along with investment returns from return-seeking assets, this is expected to make good the shortfall by March 31, 2025. A contribution of £4.35m was paid by the Company during the year ending on December 31, 2017 in line with this schedule.

The next funding valuation date is March 31, 2017. However it is expected that the Scheme assets and liabilities will be transferred to another scheme before the statutory requirement to complete this valuation. Valuation data as at March 31, 2017 has been used for the purpose of calculating the December 31, 2017 IAS19 liabilities.

Notes to the financial statements

for the year ended December 31, 2017

11. Pensions and other post-retirement benefits (continued)

Scheme Characteristics

The AGF Scheme is a Registered Scheme under the provisions of Schedule 36 of the Finance Act 2004. The defined benefit obligation includes benefits for former employees and current pensioners. Approximately 50% of the liabilities are attributable to former employees and 50% to current pensioners.

The Scheme duration is around 17 years. This is an indicator of the weighted average time until benefit payments are made.

Special events over the year

The Scheme completed an exercise in 2017 to allow pensioners to exchange their inflationary pension increases for a higher amount of non-increasing pension now (known as a Pension Increase Exchange exercise or PIE). The exercise was implemented in two waves. The December 31, 2017 IAS19 position includes a £2,546k reduction in the liabilities to reflect both waves of the PIE exercise and also the ongoing offer that will be made to future retirees.

Risks associated with the AGF Pension and Life Assurance Scheme

The Scheme exposes the Company to a number of risks. The most significant risks are:

- **Asset volatility** - The liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The Scheme holds a proportion of growth assets (equities and property) which, though expected to outperform corporate bonds in the long-term, create volatility and risk in the short-term. The allocation to growth assets is monitored to ensure it remains appropriate given the Scheme's long term objectives. The current target allocation of growth assets is 22.5%.
- **Changes in bond yields** - A decrease in corporate bond yields will increase the value placed on the Scheme's liabilities for accounting purposes, although this will be partially offset by an increase in the value of the Scheme's bond holdings. The Scheme's target bond holding is 77.5%.
- **Inflation risk** - A significant proportion of the Scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). Whilst a proportion of the assets are correlated with inflation, an increase in inflation will likely increase the deficit. The Pension Increase Exchange option introduced in 2017 will reduce the Scheme's exposure to inflation.
- **Life expectancy** - The majority of the Scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

A table summarising the potential impact of these risk factors on the liabilities is set on page 17.

Change in deficit / surplus over the year

The funded status of the Scheme has improved over the year from a deficit of £2.8m at December 31, 2016 to a surplus of £7.0m at December 31, 2017.

The liability decrease over the year reflects:

- Favourable changes in demographic assumptions (mortality and proportion of members assumed to be married);
- Better than expected experience since the March 31, 2014 valuation, reflected in the data for the funding valuation as at March 31, 2017; and
- The Pension Increase Exchange (or PIE) exercise carried out during the year including the introduction of an assumption that future retirees will be expected to take the PIE option;
- This has been partially offset by a decrease in the net discount rate.

The assets also increased over the year due to higher than expected market returns and the £4.35m deficit contribution.

Notes to the financial statements

for the year ended December 31, 2017

11. Pensions and other post-retirement benefits (continued)

The following table sets out the key IAS19 assumptions used for the Scheme:

Assumptions:	*December 31, 2017*	*December 31, 2016*	*December 31, 2015*
RPI inflation	3.2%	3.3%	3.0%
CPI inflation	2.1%	2.2%	1.8%
Long term RPI/CPI difference	1.1%	1.1%	1.2%
Discount rate	2.4%	2.9%	3.9%
Pension increases (pre April 1997 including GMP)	3.4%	3.5%	3.4%
Pension increases (post April 1997)	3.7%	3.7%	3.6%
Life expectancy of male aged 60 in 2017 (2016 and 2015)	27.2	27.8	27.7
Life expectancy of male aged 60 in 2037 (2036 and 2035)	28.8	29.7	29.6

- Discount rate - As at December 31, 2017, a small alteration has been made to the universe of bonds considered in setting the discount rate compared to year-end 2016. This update has decreased the discount rate adopted as at December 31, 2017 by around 0.15% pa, leading to an increase in the defined benefit obligations of approximately £5m.

- RPI Inflation rate - At December 31, 2017, the Group adopted an updated approach to deriving the inflation assumption, where a "term dependant" forward rate inflation risk premium is used. The Group believes that the updated approach is more appropriate given current market distortions in the gilt markets, which was previously used to derive the curve beyond a certain time-horizon. This update has increased the inflation assumption as at December 31, 2017 by around 0.05% pa, leading to an increase in the defined benefit obligations of less than £1m.

- Life expectancies (for both male and female, current and future) – The Company have updated the mortality assumption as at December 31, 2017 to reflect the scheme-specific mortality experience analysis performed for the Trustee as part of the triennial valuation in 2017 and also the latest available industry wide data for future improvement projections. These changes together led to a decrease in the defined benefit obligations of approximately £9m.

Sensitivity to key assumptions

The key assumptions used for IAS19 are: discount rate, inflation and mortality. The sensitivity of the Defined Benefit Obligation (DBO) at December 31, 2017 to these assumptions is as follows:

		DBO £'000
Current Figure		207,053
	Change	18,616
Following a 0.5% decrease in the discount rate	New value	225,669
	Change	3,500
Following a 0.25% increase in the inflation assumption	New value	210,553
	Change	13,122
Following a 1 year increase in life expectancy	New value	220,175

Reporting at December 31, 2017

The liabilities have been calculated by an independent qualified actuary in accordance with IAS19 based on a roll forward of a full actuarial valuation as at March 31, 2017. As required by IAS19, the value of the defined benefit obligation has been measured using the Projected Unit Credit method.

Notes to the financial statements

for the year ended December 31, 2017

11. Pensions and other post-retirement benefits (continued)

The amounts included in the balance sheet arising from the Company's obligations in respect of the Scheme is as follows:

	December 31,2017 £'000	*December 31,2016 £'000*	*December 31,2015 £'000*
Present value of defined benefit obligation	(207,053)	(213,225)	(179,447)
Fair value of scheme assets	214,048	210,464	177,701
Asset/(liability) recognised in the balance sheet	6,995	(2,761)	(1,746)

When determining the adjustment in respect of the minimum funding requirement, it has been assumed that the Company would be entitled to a refund from the Scheme of any surplus arising in the Scheme in the future once the benefits have been settled. This reflects the provisions of the Scheme documentation.

The amounts recognised in comprehensive income are as follows:

	Year ending December 31, 2017 £'000	*Year ending December 31, 2016 £'000*
Operating cost:		
Current service cost	–	–
Past service cost *	(2,546)	–
Administration expenses	829	633
Financing cost:		
Interest on net defined benefit liability	(40)	(90)
Pensions (benefit)/expense recognised in profit and loss	(1,757)	543
Re-measurements in OCI:		
Return on plan assets (in excess of)/below that recognised in net interest	(2,925)	(29,802)
Actuarial losses due to changes in financial assumptions	14,689	36,361
Actuarial (gains) due to changes in demographic assumptions	(8,805)	–
Actuarial (gains) due to liability experience	(6,596)	(1,734)
Total amount recognised in OCI	(3,637)	4,825
Total amount recognised in profit and loss and OCI	(5,394)	5,368

*Reflecting PIE exercise

Notes to the financial statements

for the year ended December 31, 2017

11. Pensions and other post-retirement benefits (continued)

The current allocation of the Scheme's assets is as follows:

	December 31, 2017 £'000	*December 31, 2016 £'000*	*December 31, 2015 £'000*
Equity instruments	11%	11%	21%
Debt instruments	81%	79%	67%
Property	7%	9%	11%
Other (Cash)	1%	1%	1%
	100%	100%	100%

The value of assets not quoted in an active market is nil. Less than £0.2m of the fair value of the Scheme's assets, are in respect of the Parent Company's (Allianz SE) own financial instruments.

A reconciliation of the present value of the defined benefit obligation is as follows:

	2017 £'000	*2016 £'000*
Opening defined benefit obligation	213,225	179,447
Past service cost- plan amendments	(2,546)	–
Interest expense	6,090	6,880
Actuarial (gains)/losses	(712)	34,627
Benefits paid	(7,297)	(6,619)
Transfers out	(1,707)	(1,110)
Closing defined benefit obligation	207,053	213,225

A reconciliation of the fair value of the Scheme's assets is as follows:

	2017 £'000	*2016 £'000*
Opening fair value of the scheme assets	210,464	177,701
Gains	6,130	6,970
Gains	2,925	29,802
Contributions by the employer	4,362	4,353
Benefits paid	(7,297)	(6,619)
Transfers out	(1,707)	(1,110)
Administration expenses	(829)	(633)
Closing fair value of scheme assets	214,048	210,464

The actual return on the Scheme's assets over the year was a gain of £9.1m (2016: a gain of £36.8m).

Experience on the liabilities and assets of the Scheme is as follows:

	2017 £'000	*2016 £'000*
Experience adjustments on scheme assets		
Amount of gain	2,925	29,802
Percentage of scheme assets	1.4%	14.2%
Experience adjustments on scheme liabilities		
Amount of gain	6,596	1,734
Percentage of scheme liabilities	3.1%	1.0%

Notes to the financial statements

for the year ended December 31, 2017

12. Staff numbers

The Company employs no staff, all services have been outsourced to a fellow member of Allianz SE Group.

13. Other related party transactions

During the year the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into, and trading balances outstanding at December 31 with other related parties, are as follows:

	2017	*2016*
	£'000	*£'000*
Transactions entered into with related parties		
Management fee received from subsidiary	–	2,940
Group relief	419	–
Cashpool funding and interest	76,584	–
Cash held by fellow subsidiary	80,000	–
Expenses handled by management company	196	–

	2017	*2016*
	£'000	*£'000*
Due from related parties at December 31,		
Other related parties	6,365	86,761
Ultimate parent	76,584	–
Total	82,949	86,761

	2017	*2016*
	£'000	*£'000*
Due to related parties at December 31		
Other related party	1,962	1,766
Total	1,962	1,766

The amounts included above are not secured and are to be settled in cash. There are no provisions for doubtful debts related to the amount of outstanding balances.

14. Other non-distributable reserve

The non-distributable reserve for the Company represents the amount converted from share premium.

15. Subsequent events

As per the merger deed dated February 19, 2018, the AGF Pension and Life Assurance Scheme will merge into the Allianz Retirement and Death Benefits Fund. The first transfer of assets is expected to take place in early April, 2018, with remaining assets expected to be transferred by mid-2018. Upon merging the Schemes, Allianz Management Services Limited will pay an additional £60m contribution into the merged scheme.