SOLVENCY AND FINANCIAL CONDITION REPORT

FOR THE YEAR ENDED DECEMBER 31, 2019

ALLIANZ INSURANCE PLC

Insurers

Chartered

Allianz

CONTENTS

SUMMARY

This is the Solvency and Financial Condition Report ("SFCR") for Allianz Insurance plc ("Allianz" or "The Company"). Publication of the SFCR is a mandatory requirement of the Solvency II Directive[1] for all insurance companies domiciled in the European Union ("EU"). Solvency II, effective from January 1, 2016, is a harmonised EU-wide insurance regulatory regime that aims to improve customer protection and modernise supervision of insurance companies by their local regulators. On Janury 31, 2020 the UK left the EU and entered a transitional period. Solvency II remains applicable during this transitional period and so the Company will continue to comply with all relevant regulation including publication of an SFCR.

The SFCR is made up of 5 key sections that together give a comprehensive overview of the Company's business strategy and performance, its system of governance, its risk profile, its current valuation for Solvency II purposes, and its capital management approach and current capital position.

Allianz is the main insurance operating entity and is the largest subsidiary of the Allianz Holdings plc Group ("Group").

The ultimate parent undertaking is Allianz Societas Europaea ("Allianz SE"). Globally, Allianz SE is a financial services provider with more than 100 million retail and corporate customers in more than 70 countries. In 2019 it had revenue of €142.2bn and made an operating profit of €11.9bn. More information about Allianz SE and its operations around the world can be found on the Allianz SE website[3].

The Prudential Regulation Authority issued a statement on March 23, 2020 confirming that COVID-19 should be treated as a "major development" as per Article 54 (1) of the Solvency II Directive.

The valuations reported within this report are based on information up to December 31, 2019. Therefore, based on the Company's interpretation of Article 77 (2) of the Solvency II Directive, the valuations and technical provisions including the premium provision do not reflect the impact of COVID-19.

The outbreak of COVID-19 has resulted in a pandemic causing extensive disruption across the globe. As at December 31, 2019, a very limited number of cases had been reported to the World Health Organisation. Since then the spread of the virus has been significant and the number of reported cases and deaths has increased substantially.

Whilst there remains significant uncertainty as to the impact of COVID-19 on Allianz, significant progress has been made to mitigate the risks including an efficient migration of almost all staff to home working.

Financial and operational risks have been modelled in order to assess the solvency position under relevant stresses. The Company expects to continue to meet its solvency and capital requirements as required by current laws and regulations. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

Further information relating to the COVID-19 pandemic is included within sections A, B, C, D and E of the report.

SECTION A - BUSINESS AND PERFORMANCE

Business model & strategy

Allianz offers a wide range of products predominantly in the personal and commercial lines general insurance market. The Company writes business in one material geographical area which is the UK. As defined by Solvency II, its material lines of business are motor vehicle liability, other motor, fire and other damage to property, general liability, legal expenses and miscellaneous financial loss.

The Company's business objectives are driven by the overarching strategic levers of the "Simplicity wins – Renewal Agenda 2.0" which continues to focus on five key themes: true customer-centricity, technical excellence, digital by default, growth engines and inclusive meritocracy. The Renewal Agenda aims to provide an even better service to customers, reduce complexity and make the Company even more productive.

The Group's overall performance and investment has been widely recognised both within and beyond the insurance industry and a number of awards have been won. 2019 was an outstanding year for the Group at the British Insurance Awards where it won four of the major awards: General Insurer of the Year, Commercial Lines Insurer of the Year, Business Sustainability Initiative of the Year and Transformational Deal of the Year. Further, the Group was recognised at the Insurance Times Awards and awarded Commercial Lines Insurer of the Year, Fleet Product of the Year, and Jon Dye was awarded CEO of the Year.

[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51–56.
[2] www.allianz.co.uk
[3] www.allianz.com

SUMMARY CONTINUED

Financial performance

In 2019 the Company recorded premium income of £1,991m (2018: £2,038m), a combined operating ratio of 97.5% (2018: 96.4%) and an underwriting result £46m (2018: £70m).

Gross written premium reduced by 2.3% against the prior year which was predominantly driven by the transfer of the Allianz personal home and motor lines to Liverpool Victoria General Insurance Group ("LVGIG") which was only partially offset by LVGIG's commercial lines transferring to Allianz. These transfers, which formed part of the original acquisition, completed in 2019. The retained business lines post the LVGIG transfers, primarily commercial, animal health and specialist lines, grew by 7.6% from 2018.

The underwriting result represents a reduction on the prior year attributable to a number of factors including increased fire, theft and escape of water losses in the commercial property account, claims inflation, a further change in the Ogden discount rate and significant Payment Protection Insurance ("PPI") redress payments.

Commercial lines profits reduced in 2019 to £19m (2018: £54m) with improved performance in relation to prior years partially mitigating large losses and claims inflation. Personal lines also returned a profit predominantly driven by continued strong performance in animal health which offset losses from the run-off of the household account. Further commentary by line of business is set out in section A.2 of this report.

Investment performance remained consistent during the year, returning income of £53m. This compared to investment income of £54m in 2018. Section A.3 provides further detail of the Company's investment activities.

SECTION B - SYSTEM OF GOVERNANCE

The Company's Board of Directors have overall oversight of the business, while day to day running is conducted by Management. The actions of these managers take place within the confines of the System of Governance; a set of rules and processes to ensure that the business is run prudently and in compliance with the Solvency II regulations. Adherence is guaranteed by written policy and oversight by established committees. Further details of the membership and scope of these committees is provided in section B.1.

The only significant change to the Board occurred outside of the reporting period, with Steve Treloar (Chief Executive Officer of LVGIG) being appointed effective January 1, 2020.

Risk Management System

The Company operates a "three lines of defence" model to risk management. The Risk Management System is embedded in the operations of the Company and is managed by the Chief Risk Officer ("CRO").

The Own Risk and Solvency Assessment ("ORSA") process forms a substantial part of the Company's Risk Management System. Produced at least annually, the ORSA report is provided to the Board to inform them of all risks facing the Company and outlines how these are assessed and managed. The ORSA process is overseen by the Board Risk Committee.

Allianz has been granted approval by the Prudential Regulation Authority ("PRA") to use an internal model to assess its capital requirements. A full governance framework is in place to ensure that the appropriateness of the internal model is assessed independently and reviewed by the Board at least annually.

SECTION C - RISK PROFILE

Allianz is exposed to a number of risks including underwriting risk, market risk, credit risk, liquidity risk and operational risk. These risks are proactively identified, managed and mitigated using appropriate tools and methods.

The main quantitative tool used by the Company to measure and steer risks is the internal model. The model profiles the Company's distribution of risks and determines its regulatory capital requirements. Specific commentary on each type of risk to which the Company is exposed is provided in sections C.1 to C.6.

The Company also conducts extensive stress testing and sensitivity analysis to adequately understand the risks to which it is exposed. A risk sensitivity analysis is provided and discussed in Section C.7.

SECTION D - VALUATION FOR SOLVENCY PURPOSES

Section D reviews the balance sheet of the Company. The balance sheet is the main mechanism by which the solvency of the company – the amount of funds it has available to protect it and its policyholders against a shock – is assessed.

Under Solvency II the assets and liabilities are reported at fair value; that is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This valuation principle is broadly similar to that stipulated by International Financial Reporting Standards ("IFRS") and used for the preparation of the Company's 2019 Annual Report and Financial Statements, but there are notable exceptions including the treatment of goodwill, intangible assets, deferred acquisition costs and future premium. Section D provides a reconciliation between IFRS and Solvency II reporting and commentary to explain material differences.

Technical provisions represent the current amount required to transfer insurance obligations immediately to another insurance entity and include the funds the Company has put aside specifically to pay future claims. Section D.2 examines in detail the separate elements that make up the technical provision and explains the actuarial methods and assumptions used.

SUMMARY CONTINUED

SECTION E - CAPITAL MANAGEMENT

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

As at December 31, 2019 Allianz's MCR amounts to £182m and is covered by £908m of eligible Own Funds (tier 1 only). As at December 31, 2019 Allianz's SCR amounts to £586m and is covered by £929m of eligible Own Funds (£908m tier 1 and £21m tier 3). Allianz's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is therefore 159%. Allianz has fully complied with the SCR throughout the period.

Further information about the quality of the Own Funds and the makeup of the SCR is provided in sections E.1 and E.2.

Allianz uses an internal model to determine its capital requirements as opposed to the default standard formula prescribed by Solvency II. The key differences between the two methods are outlined in section E.4.

STATEMENT OF DIRECTORS' RESPONSIBILITIES AND AUDITORS' REPORT

Finally, the SFCR contains a Statement of Directors' Responsibilities and the independent auditors' opinion in respect of those parts of the SFCR which are audited.

A. BUSINESS AND PERFORMANCE

This section is unaudited.

A.1 BUSINESS

Allianz Insurance plc is a public limited company incorporated in the UK under company no 84638.

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

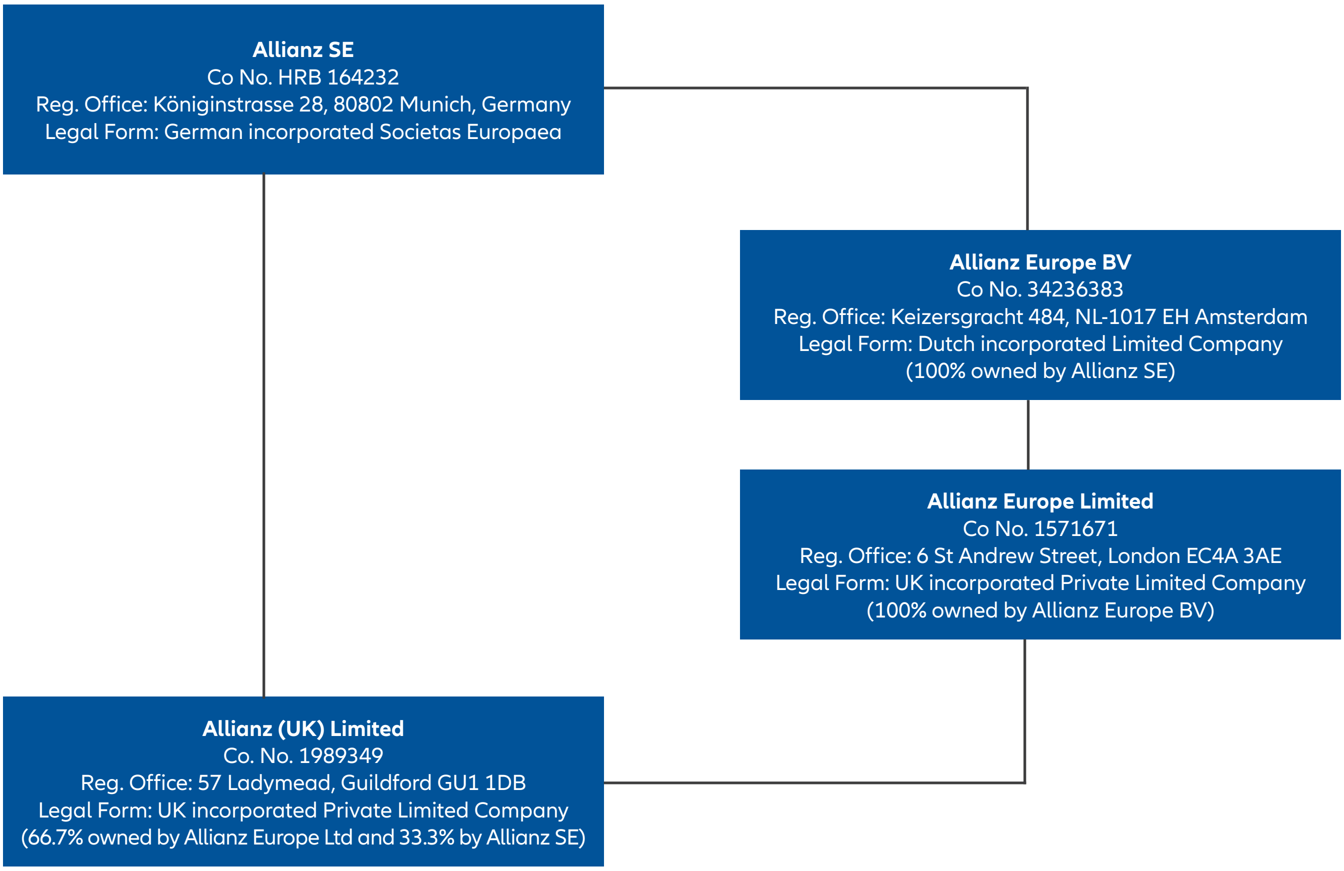
The Company is a wholly owned subsidiary (via intermediate holding companies) of Allianz SE, incorporated in Germany (Registered address; of Königinstraße 28, 80802 München, Germany).

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

Allianz's external auditor is PricewaterhouseCoopers LLP, (Registered address; 7 More London Riverside, London, SE1 2RT).

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

ALLIANZ (UK) LIMITED AND ITS PARENT COMPANIES

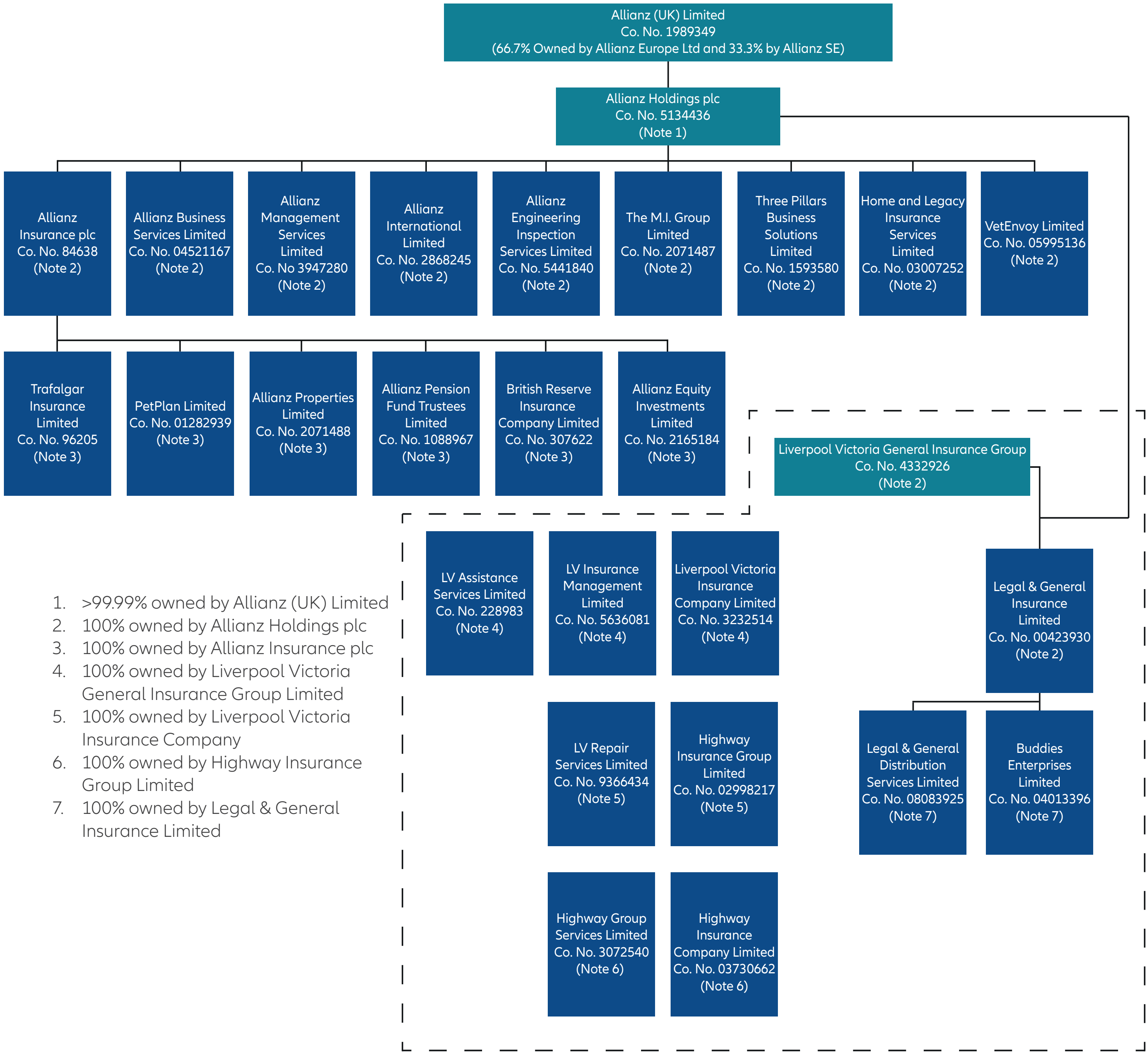


A. BUSINESS AND PERFORMANCE CONTINUED

ALLIANZ (UK) LIMITED AND ITS MATERIAL SUBSIDIARIES/INTERESTS

All Allianz (UK) Limited Group ("Allianz UK") companies shown on this page are UK incorporated. As at December 31, 2019, all Allianz UK companies had their registered offices at 57 Ladymead, Guildford, GU1 1DB except for Liverpool Victoria General Insurance Group Limited and its subsidiaries (whose registered offices were at County Gates, Bournemouth, BH1 2NF) and Legal & General Insurance Limited and its subsidiaries (whose registered offices were 1 Coleman Street, London, EC2R 5AA). Legal & General Insurance Limited was subsequently renamed Fairmead Insurance Limited, effective January 3, 2020.

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



1. >99.99% owned by Allianz (UK) Limited
2. 100% owned by Allianz Holdings plc
3. 100% owned by Allianz Insurance plc
4. 100% owned by Liverpool Victoria General Insurance Group Limited
5. 100% owned by Liverpool Victoria Insurance Company
6. 100% owned by Highway Insurance Group Limited
7. 100% owned by Legal & General Insurance Limited

A. BUSINESS AND PERFORMANCE CONTINUED

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

The business transfers which formed part of the Group's original acquisition of LVGIG have now completed with Allianz's personal home and motor lines moving to LVGIG and LVGIG's commercial lines moving to Allianz.

In July 2019 the Lord Chancellor confirmed the new personal injury discount rate for England and Wales at -0.25%, an increase from the previous rate of -0.75%. The Government had previously indicated that it was likely the rate would be set between 0% and 1%. Following this indication, Allianz, along with many other peers in the market, revised the actuarial best estimate to 0% in December 2018 and therefore the adjustment to -0.25% only had a minimal impact to our 2019 result. In September 2019 the Scottish Government Actuary announced that the Scottish discount rate will remain at -0.75%.

Following the outcome of the general election it is highly likely that whiplash reforms will become effective in 2020. The term 'whiplash reforms' refers to a package of Government reforms to the way low-value personal injury claims arising from road traffic accidents are handled. These reforms will introduce tariff damages for injuries up to two years duration and increase the small claims limits for road traffic accidents from £1,000 to £5,000. It has been proposed that the increase in the small claims limit for other personal injury claims from £1,000 to £2,000 should be put on hold. Allianz's objective has always been to support and fairly compensate genuinely injured people quickly and fairly. These reforms facilitate that and aim to increase the efficiency of the legal system and reduce associated costs.

A. BUSINESS AND PERFORMANCE CONTINUED

A.2 UNDERWRITING PERFORMANCE

The table below summarises Allianz's premium volume and underwriting performance in 2019 and 2018, split by Solvency II line of business. The table shows the performance net of reinsurance including a whole account quota share.

	2019			2018		
	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio	Gross Written Premium (£m)	Net Earned Premium (£m)	Combined Operating Ratio
Motor vehicle liability	436	251	95%	519	305	83%
Other motor	164	104	103%	137	89	135%
Fire and other damage to property	491	261	113%	486	278	109%
General liability	235	130	73%	239	130	78%
Miscellaneous financial loss	613	360	95%	616	359	93%
Legal Expenses	52	12	122%	41	12	124%
Total	**1,991**	**1,118**	**97%**	**2,038**	**1,173**	**96%**

The Company continues to purchase an outwards whole account quota share reinsurance covering all lines of business. This is purchased from a fellow subsidiary of Allianz SE. The whole account quota share is set at 40% and has the benefit of lowering the capital requirement for the Company by reducing the percentage of the total claims costs that must be met locally. Allianz's management remains responsible for optimising the results of the business prior to this quota share.

Because the Company's performance is managed prior to the application of the whole account quota share, and to facilitate comparisons with the prior year, the following commentary on underwriting performance quotes numbers excluding quota share. The commentary has been written based on the Company's local lines of business as this is how its performance is managed. As part of Solvency II regulation separate Solvency II lines of business have been defined, where appropriate these are also referenced in brackets.

Allianz commercial lines (Solvency II lines of business; motor vehicle liability, other motor, fire and other damage to property and general liability) gross written premiums increased from £1,180m in 2018 to £1,289m in 2019. This was driven by rate increases and volume growth supported by the LVGIG business transfers. The underwriting profit was £19m, with improved performance in relation to prior years helping to mitigate large losses and claims inflation. The underwriting result has deteriorated from a £54m profit in 2018.

The commercial property account experienced increased large losses which were largely offset by low levels of natural catastrophe claims; however the account was adversely impacted by increased fire, theft and escape of water losses. Similarly, a number of larger claims on the Packages account (Solvency II lines of business; fire and other damage to property and general liability) saw the account return a loss.

Allianz personal lines gross written premiums reduced from £858m in 2018 to £701m in 2019. This reduction was largely driven by the withdrawal from some unprofitable schemes and the transfer of personal lines motor and home insurance to LVGIG.

Animal health business (Solvency II line of business; miscellaneous financial loss) continued to grow strongly, with a 6.4% increase in gross written premium. The overall personal underwriting result was a profit of £27m despite the impact of run-off losses in the household account. This compares to a profit of £19m reported last year, when the result was more significantly impacted by household losses.

A. BUSINESS AND PERFORMANCE CONTINUED

A.3 INVESTMENT PERFORMANCE

The tables below summarise the investment performance during 2019 of the funds directly invested by the Company and provides a comparison with the prior year.

								2019			2018		
(£m)	Market value 31/12/2017	Net additions /(disposals)	Net unrealised gains /(losses)	Market value 31/12/2018	Net additions /(disposals)	Net unrealised Gains /(losses)	Market value 31/12/2019	Net realised gains /write downs	Income	Expense	Net realised gains /write downs	Income	Expense
Fixed Income	**2,465**	**(198)**	**(62)**	**2,205**	**(166)**	**32**	**2,071**	**6**	**46**	**(3)**	**13**	**49**	**(3)**
Government	575	(14)	(21)	540	(64)	3	479	2	7	(3)	5	5	(3)
Securitised	458	(17)	(1)	440	(6)	(2)	432	1	8	–	4	10	–
Corporates	1,432	(167)	(40)	1,225	(96)	31	1,160	3	31	–	4	34	–
Deposits	**7**	**–**	**–**	**7**	**(1)**	**–**	**6**	**–**	**1**	**–**	**–**	**1**	**–**
Managed Funds	**152**	**(65)**	**(2)**	**85**	**12**	**5**	**102**	**1**	**4**	**–**	**(8)**	**2**	**–**
Loans	**130**	**(50)**	**(1)**	**79**	**131**	**(5)**	**205**	**–**	**2**	**–**	**–**	**2**	**–**
Total	**2,754**	**(313)**	**(65)**	**2,376**	**(24)**	**32**	**2,384**	**7**	**53**	**(3)**	**5**	**54**	**(3)**

The market values disclosed in the corresponding table within the 2018 SFCR did not agree to the publicly disclosed QRTs for the same period. The 2018 values in the table above have been corrected to agree through-out.

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

The investment strategy of the Company has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. In 2019, cash and short-term investments were maintained at low levels with returns in these classes remaining low.

Securitised bonds in the portfolio consist of entirely asset backed securities whilst covered bonds in the portfolio are classified under corporates.

The allocation to asset backed securities was overweight in order to enhance yield. Exposure to loans increased over the year driven primarily by an intercompany loan to Allianz Management Services Limited ("AMS"). The cost of the loan is £162m and is repayable over 10 years, up to and including September 30, 2029. The loan carries interest at the Bank of England base rate plus 0.25% and is guaranteed by Allianz SE. The market value of the loan at December 31, 2019 is £157m. Positive market conditions and the addition of an alternative credit fund increased the exposure to managed funds over the period.

Investment income in 2019 was £53m compared with £54m in 2018 as low yields continued to effect returns. Unrealised gains increased across the portfolio, particularly in corporates as spreads tightened. Investment expenses remained in line with the previous year.

A. BUSINESS AND PERFORMANCE CONTINUED

A.4 PERFORMANCE OF OTHER ACTIVITIES

In 2019, the company incurred £15m (2018: £16m) other expenses in management charges from a fellow group undertaking for administration and claims management services.

The Company has no material leasing arrangements.

Finance costs include £25m (2018: £5m) incurred in paying redress to policyholders in respect of mis-selling of PPI by the selling agent. This cost reflects the actual redress paid and the best estimate of the quantum of further claims notified by the deadline of August 29, 2018, based on uphold rates and the average values of mis-selling and unfair commission redress (the latter of which is paid directly by the agent). Formal legal proceedings have been issued to seek recovery of these costs from the agent. The £8m remaining liability has been reported in payables on the Solvency II balance at the value included under IFRS accounts. This is deemed to be market value.

During the year, the Company received a dividend of £82m from Pet Plan Limited ("Pet Plan"). Consideration for this dividend payment was not cash but was forgiveness of an intercompany loan and resulted in a significant reduction in the net asset value of Pet Plan. Management consequently assessed the investment in the subsidiary for impairment which resulted in a reduction of £17m to the carrying amount and the recognition of an equivalent impairment loss classified under finance costs.

A.5 OTHER INFORMATION

A restructuring charge of £14m (2018: £7m) was incurred in 2019 relating to organisational design and branch restructuring. An integration charge of £8m was incurred in 2019 relating to the transfer of commercial business from LVGIG and costs involved in setting up transitional services for LVGIG. No integration costs were incurred in 2018.

The valuations reported within this report are based on information up to December 31, 2019. Therefore, based on the Company's interpretation of Article 77 (2) of the Solvency II Directive, the valuations and technical provisions including the premium provision do not reflect the impact of COVID-19.

The coronavirus pandemic is currently affecting all aspects of our personal and professional lives, the health of the world's population, global economic performance and the financial markets. Despite all of these uncertainties, Allianz is very well prepared for the situation. This applies in the context of our operational resilience but also in the context of our capital strength. The majority of Allianz operations are now being fully supported by home working. Allianz has worked to keep its employees safe and taken steps so that key work can continue even if public life remains highly constrained.

The current pandemic could have wide ranging impacts and these have been considered in order to assist in planning and evaluating the impact on the business. Allianz continues to align its approach to the guidance of the UK Government as well as to Allianz Group guidance.

The solvency ratio as at December 31, 2019 is 159%. The impact of COVID-19 on Allianz's solvency position has been assessed, taking into consideration relevant stresses given the circumstances. After consideration of the relevant stresses at the time of writing, the SCR would not breach the regulatory requirements or Allianz's own risk appetite. Allianz is expected to continue to have funds available in excess of the regulatory requirements without needing to take contingency action.

The relevant stresses have taken into consideration the impact on the underwriting result arising from potential business interruption claims, as well as the impact on investments and the Company's pension fund. The impact on business interruption claims could be offset by lower than expected claim frequencies on motor, liability and pet. The impact on investments is mitigated due to Allianz's strategic asset allocation leading to the majority of our investments being held in gilts and corporate bonds. There is only a limited exposure to equities. The impact on the pension fund has also been modelled on a weekly basis as part of our overall solvency monitoring, as well as being subjected to further stress scenarios.

Contingency options have been identified to reduce the Company's exposure to financial and operational risks, should there be further market or operational shocks.

B. SYSTEM OF GOVERNANCE

B.1 GENERAL INFORMATION ON SYSTEM OF GOVERNANCE

This section is unaudited.

THE BOARD AND ITS COMMITTEES

The Company is managed together with the other subsidiaries of Allianz Holdings plc, the Boards of these two companies are identical. On December 31, 2019, the Board comprised a non-executive chairman, five non-executive directors and two executive directors. The Board is responsible for deciding the business strategy and for ultimate oversight of the conduct and performance of the Group. It is also responsible for external reporting.

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

The members of the Board as at December 31, 2019 are detailed below, as well as their board committee memberships. All committees are responsible for oversight of their subject matter for all companies in the Group. The only significant change to the Board occurred outside of the reporting period, with Steve Trelore (CEO of LVGIG) being appointed effective January 1, 2020, for this reason he is not shown on the table below.

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

		Management Board	Board Risk Committee	Audit Committee	Finance & Investment Committee[8]	Compensation Committee	Nomination Committee
R O Hudson*	Chairman		x	x			x
C W T Dinesen*			x	Chair		x	x
D J Larnder*			Chair	x			
R M Murison*			x	x		Chair	Chair
D A Torrance*			x	x			
J M Dye	Chief Executive Officer	Chair			Chair		
F K Dyson	Chief Financial Officer	x			x		
N C Peiris*			x	x			

* Non-executive director

B. SYSTEM OF GOVERNANCE CONTINUED

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

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

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

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

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

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

The members of the Management Board as at December 31, 2019 are:

- Jon Dye – Chief Executive Officer
- Fernley Dyson – Chief Financial Officer
- Neil Clutterbuck – Chief Underwriting Officer
- Nicola Johnson – Chief HR Officer
- Graham Gibson – Chief Claims Officer
- Simon McGinn – General Manager, Commercial and Personal
- Stephanie Smith – Chief Operating Officer
- Dr. Karina Schreiber – Chief Risk Officer (resigned effective December 31, 2019).

There have been two changes to the Management Board outside of the reporting period; these are the appointment of Steve Treloar (CEO of LVGIG) effective January 1, 2020 and the appointment of John Berry as interim Chief Risk Officer also effective January 1 2020.

The following four key functions required by Solvency II are each headed by direct reports of the CEO or the CFO.

- Risk Function: Dr. Karina Schreiber – Chief Risk Officer (resigned effective December 31, 2019)
- Compliance Function: Ann Alexander – Group Compliance Officer (retired effective December 31, 2019)
- Actuarial Function: Phil Singh – Chief Actuary
- Internal Audit Function: Andrew Gascoyne – Head of Internal Audit.

Following Ann Alexanders retirement Margo Young was appointed the Group Compliance Officer, effective January 1, 2020.

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

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

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

Solvency II legislation requires the System of Governance be subject to regular internal review. The Company conducts this review annually and it is intended to be a consolidated cross-functional assessment on elements of the System of Governance through all relevant sources for evaluation. Entity level control assessment testing forms part of the review, and is carried out by the Internal Audit department. There were no material findings in the 2019 System of Governance review, and the Governance and Control Committee assessed its system of governance as adequate in proportion to the nature, scale and complexity of the risks inherent in its business.

B. SYSTEM OF GOVERNANCE CONTINUED

Prescribed Responsibility	Allocation
Senior Managers Regime	SMF9 Chairman
Certification Regime	SMF9 Chairman
Conduct rules training and reporting	SMF1 Chief Executive
Responsibilities map	SMF4 Chief Risk Officer (until December 31, 2019)
Anti-financial crime policies and controls	SMF2 Chief Financial Officer (until December 31, 2019)
Obligations in Insurance for Fitness and Propriety	SMF9 Chairman
Leading development of the firm's culture by the governing body as a whole	SMF9 Chairman
Overseeing adoption of the firm's culture in the day-to-day management of the firm	SMF1 Chief Executive
Responsibility for production and integrity of firm's financial information and its regulatory reporting	SMF2 Chief Financial Officer
Management of the allocation and maintenance of the firm's a) capital and b) liquidity	SMF2 Chief Financial Officer
Responsibility for the performance of the firm's ORSA	SMF4 Chief Risk Officer
Induction, training and professional development of all members of the firm's governing body	SMF9 Chairman
Induction, training and professional development of all the firm's SMF managers and Key Function Holders	SMF1 Chief Executive
Oversight of the independence, autonomy and effectiveness of Whistleblowing policies and procedures	SMF10 Chair of Risk Committee
Development and implementation of remuneration policies and practices	SMF12 Chair of Remuneration Committee
Obligations in respect of outsourced operational functions and activities	SMF1 Chief Executive
Development and maintenance of the firm's business model by the governing body	SMF1 Chief Executive

B. SYSTEM OF GOVERNANCE CONTINUED

REMUNERATION PRINCIPLES

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

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

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

External non-executive directors receive fixed remuneration.

During 2019, the only material transactions with shareholders, persons who exercise significant influence on the undertaking, or with members of the Board were the payment of a dividend of £175m to Allianz Holdings plc and the payment of £26m of reinsurance premium to Allianz SE. Any dividend payment in 2020 relating to the 2019 financial year is yet to be agreed.

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

B.2 FIT & PROPER REQUIREMENTS

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

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

- Criminal proceedings or investigations against them or any firm over which they have held influence;
- Civil proceedings and bankruptcy orders or liquidation or similar proceedings against them or any firm over which they have held influence;
- Disciplinary and regulatory proceedings or findings against them;
- Compliance with procedures concerning personal account dealings in Allianz SE and other securities; and
- Potential or actual conflicts of interest.

B. SYSTEM OF GOVERNANCE CONTINUED

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

RISK MANAGEMENT SYSTEM

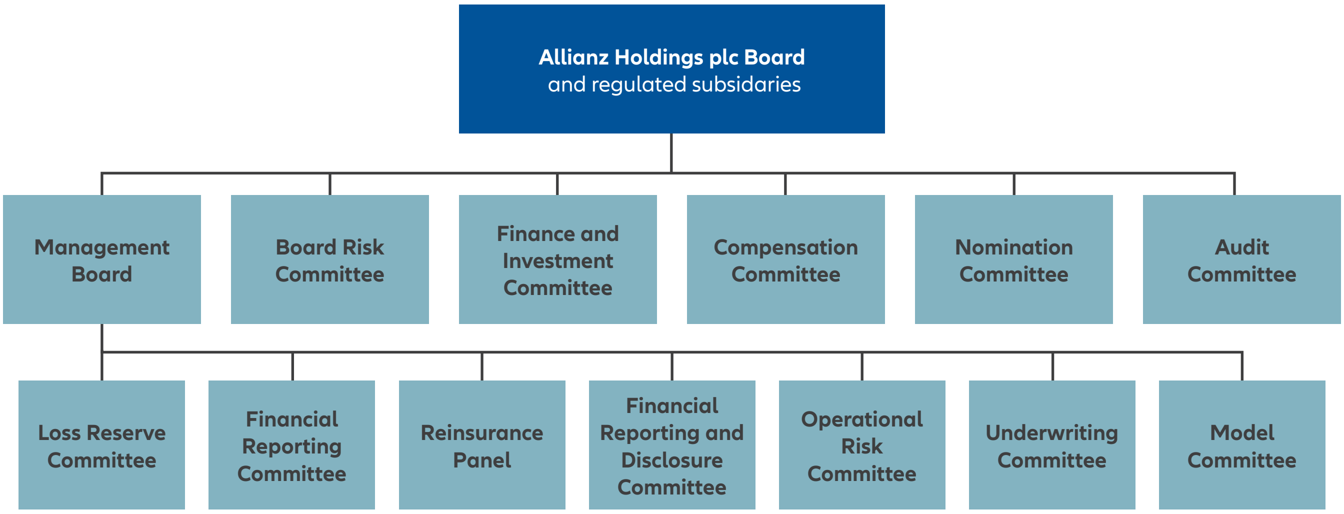
The design and operation of the Risk Management System is the responsibility of the CRO. The Risk Management System encompasses all levels of the Company's management. The components of the system, described below, are embedded in the operations of the organisation.

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

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

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

As already described, a comprehensive committee structure is in place to ensure that risks are considered at the appropriate level. The diagram below gives further details of those committees managed by the Management Board.



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

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

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

The role and responsibilities of the CRO, the Management Board, and its sub committees, are laid down in relevant terms of reference.

The CRO is supported by a full-time Risk function consisting of risk and actuarial professionals. It has responsibility for the calculation of risk capital and validation of the risk capital model, the development and monitoring of the implementation of risk policies, the identification and monitoring of risks, including conduct risks, and the management testing of the key controls that mitigate risk.

It has a reporting line independent of first-line functions, and independence is guaranteed by written policy and by the oversight of the Board Risk Committee.

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

B. SYSTEM OF GOVERNANCE CONTINUED

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

1. Quantified: Market, Credit, Insurance and Operational
2. Unquantified: Reputational, Liquidity and Strategic
3. Cross-risks: Aggregation and accumulation, Conduct, Group and Emerging

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

INTERNAL MODEL GOVERNANCE AND VALIDATION

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

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

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

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

ORSA PROCESS

The ORSA process forms a substantial part of the Risk Management System described above. The ORSA consists of a number of interlinked sub-processes, including but not limited to:

- Top risk assessments;
- Stress and scenario testing;
- Internal capital modelling;
- Corporate strategy and planning;
- Risk strategy and appetite setting; and
- Capital management process

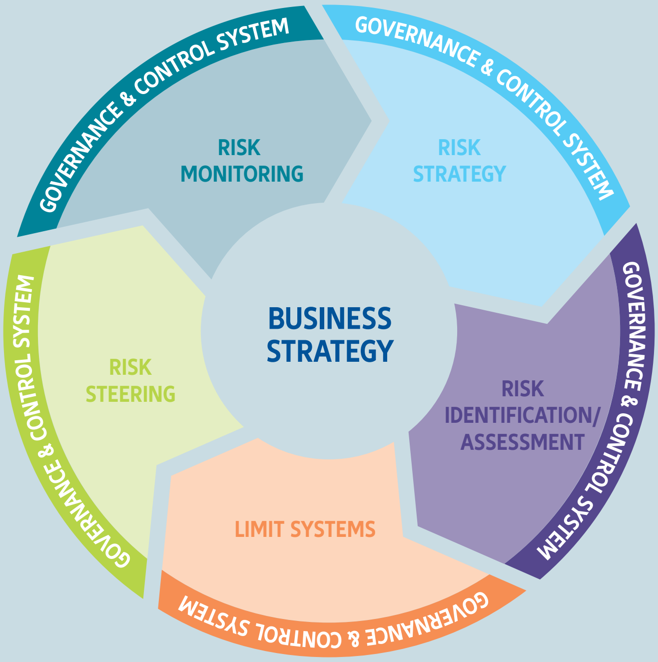
The Board is responsible for setting Allianz's business strategy and risk appetite. Business strategy is determined by the Board and its implementation in terms of types of business, business volumes, capital requirements, financial performance and other appropriate measures, is set out in the corporate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

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

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

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

B. SYSTEM OF GOVERNANCE CONTINUED



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

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

In 2019, a comprehensive analysis of the potential impact of different Brexit scenarios has been regularly performed.

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

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

- The setting of risk strategy and appetite by the Board, on the advice of the Board Risk Committee and CRO;
- The development of strategy and a corporate plan by the Management Board within the defined risk appetite;
- The approval of policies and standards in the management of risk by appropriate governance bodies and the monitoring of compliance with those policies and standards by the Risk function;
- A number of Risk evaluation processes, including:
  - The maintenance of a top risk register, including a record of the controls around those risks.
  - The regular analysis of the impact of specific stress scenarios.
  - The operation of the internal model.
  - The maintenance of a register of key operational risks.
- Regular internal reporting on risk exposure and control to governance bodies inside the organisation; and
- Regular external reporting to regulators and to the public, as required by Solvency II and UK regulation.

B. SYSTEM OF GOVERNANCE CONTINUED

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

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

B.4 INTERNAL CONTROL SYSTEM

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

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

COMPLIANCE FUNCTION

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

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

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

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

B.5 INTERNAL AUDIT FUNCTION

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

The primary responsibilities and activities of the function are to:

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

B. SYSTEM OF GOVERNANCE CONTINUED

B.6 ACTUARIAL FUNCTION

Solvency II requires that each company has an Actuarial function to:

- Coordinate the calculation and validation of technical items under IFRS and Solvency II, including technical provisions calculations;
- Ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;
- Assess the sufficiency and quality of the data used in the calculation of technical provisions;
- Compare best estimates against experience;
- Inform the Board of the reliability and adequacy of the calculation of technical provisions;
- Oversee the calculation of technical provisions;
- Express an opinion on the overall underwriting policy;
- Express an opinion on the adequacy of reinsurance arrangements;
- Contribute to the effective implementation of the risk-management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements;
- Prepare an annual report on the actuarial function (Actuarial Function Report); and
- Report the results of the reserve valuations to the Board and Group via the Reserve Committee.

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

The Actuarial function consists of the Chief Actuary who is supported by a team of actuarial professionals with a depth of experience. The Chief Actuary holds an appropriate Institute & Faculty of Actuaries Chief Actuary Practicing Certificate and is the approved SMF20 Chief Actuary Function Holder. The Actuarial function reports on compliance with the above requirements by producing an Actuarial Function Report.

B.7 OUTSOURCING

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

The Local Outsourcing Policy ("LOP") sets out a clear framework for the management of outsourcing (as defined by the Group Outsourcing Policy). Compliance with the policy is overseen by the local outsourcing function, who, with the procurement team, also provide expert advice on setting up, managing and terminating outsourcing and other contracts. Suppliers are risk assessed by Procurement at the point of initial engagement, and at intervals throughout the lifetime of the contract, drawing advice from safeguarding functions as and where required. Critical or important function suppliers are managed closely by the supplier relationship management team, who support the business in ensuring that the appropriate monitoring and oversight is in place for these suppliers.

Critical or important functions or services are defined by specific criteria set out in the LOP. These are reviewed at least annually by the Management Board on behalf of the Board, and the review process is monitored by the Board Risk Committee.

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

The Company does not outsource outside the Group any of the four key functions – Risk, Compliance, Actuarial and Internal Audit – as defined by Solvency II - apart from an element of the pensions actuarial work via a third party. The remaining key functions are all provided as Management Services and are outsourced to a fellow subsidiary of the Group.

B. SYSTEM OF GOVERNANCE CONTINUED

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

B.8 ANY OTHER INFORMATION

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

There has been no need for specific changes to the System of Governance as the result of the COVID-19 pandemic. This is because the System of Governance is designed to be robust to significant external events.

During the COVID-19 pandemic, there has been continued involvement and input from the Board, including from the non-executive directors. The non-executive directors have received weekly updates describing the financial and operational impacts on the Company. Feedback has been provided on these topics to executive management.

The Risk function is responsible, among other things, for assessing risks and monitoring risk capital. This also includes the ongoing assessment of risks resulting from pandemics such as COVID-19.

In order to assess current developments, the Risk function has analysed the current and potential future impacts of the current pandemic. Financial risks have been closely monitored by means of at least weekly assessment of the Company's solvency position, which includes assessment of the impacts on the pension fund.

Our ability to continue to meet our customers' needs has been supported by a move to home working. Operational risks associated with this move have been mitigated by the investments made by the Company in IT to support this home working. Further information on the monitoring of risks is provided within Section C.

C. RISK PROFILE

This section is unaudited.

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

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

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

During 2019, minor changes were made to the internal model in order to address validation findings, including an alignment of the IAS19 assumptions used in the model to those used for the balance sheet. There were no other material changes in the methods used to assess risks during 2019.

The Company insures only non-life insurance risks though it is also exposed to some life insurance risks because it settles certain claims as Periodic Payment Orders ("PPOs"). These make up a small proportion of the Company's overall claims. As a result of its asset management activities to support its primary business activities the Company is also exposed to market and credit risks. The Allianz Retirement and Death Benefits Fund ("ARDBF") has exposure to life insurance risks as well as further market and credit risks. AMS, a fellow Allianz Holding Group subsidiary, is the sponsoring employer of the ARDBF, however the Company allows for the risks associated with the ARDBF as part of its solvency capital requirement assessment because an IAS 19 pension deficit, should it arise, would be deducted from the Company's own funds.

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

C.1 UNDERWRITING RISK

Underwriting risk consists of:

- Premium risk and reserve risk for the insurance business;
- Longevity risk for the pension fund; and
- Business risk.

The capital held for underwriting risk before diversification within this category or with other risk categories is £590m.

The key underwriting risk concentration for the Company is geographical – almost all of its business is written in the UK so it is exposed to UK government decisions, such as the change in the Personal Injury Discount Rate. Nevertheless, its insurance portfolio is geographically dispersed across England, Scotland, Wales and Northern Ireland in order to help reduce concentration and potential impacts from a Natural Catastrophe risk perspective, and it displays significant diversity within its product set, as illustrated by the table in section A.2.

The diversity of the Company risk exposure has continued to change over 2019. There has been a reduction in personal lines exposure as a result of passing renewal rights to the Company's personal motor and household business to LVGIG. Conversely there has been an increase in commercial exposure as a result of receiving renewal rights to LVGIG's commercial lines business. The reduced diversification within the underwriting risk capital is deemed to be immaterial.

PREMIUM RISK

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

Premium risk is subdivided for the purposes of assessment into natural catastrophe risk, terror risk and non-catastrophe risk. The undiversified risk capital as at December 31, 2019 for each of these was £117m, £134m and £18m respectively. The calculation of premium risk capital is derived from actuarial models that are used to derive loss distributions and from external models for natural catastrophe risk.

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

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

C. RISK PROFILE CONTINUED

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

RESERVE RISK

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

The Company monitors the development of reserves for insurance claims on a line of business level quarterly through a reserving exercise assessing the unpaid claims reserves both gross and net of reinsurance. In addition, it conducts annual reserve uncertainty analyses based on similar methods to those used for premium risk calculations. Allianz SE performs regular independent reviews of these analyses and representatives participate in the local Reserve Committee meetings.

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

LIFE INSURANCE RISKS

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

The ARDBF is subject to a number of life risks. The only material risk is longevity, the risk that members live longer than expected and therefore the pension fund liabilities increase. The Company holds risk capital against this risk; the risk diversifies very well against other risks and so is of limited materiality in combination.

BUSINESS RISK

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

The Company has no material sensitivity to business risk.

C.2 MARKET RISK

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

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

The Company is directly exposed to movements in financial markets through its own investments. In addition, the Company is indirectly exposed to movements in financial markets through the investments of the ARDBF, as as described previously, any IAS 19 pension deficit would be deducted from the Company's own funds.

The risk capital before diversification within this category and with other risk categories allocated to market risks amounts to £558m. The main driver is credit spread risk.

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

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

Allianz only invests in assets it can properly identify, measure, monitor, manage, control, report and appropriately integrate in its solvency assessment. The table in section A.3 provides information on the investment portfolio as at December 31, 2019.

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

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

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

C. RISK PROFILE CONTINUED

EQUITY RISK

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

The Company's equity investments make up a small proportion of the overall investment portfolio and therefore exposure to equity risk is small. However, as part of the ongoing monitoring of the solvency position of the Company the sensitivity to equity risk is regularly reviewed.

INTEREST RATE RISK

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

CREDIT SPREAD RISK

Credit spread is the difference in yield between two assets of similar maturity but different credit quality.

The Company is directly exposed to credit spread risk through its investments in fixed income assets – such as bonds. Credit spread risk is mitigated by managing the credit quality of the fixed interest portfolio by monitoring the credit ratings and large exposures in the portfolio, in conjunction with stress testing to assess the sensitivity of credit spread risk to movements in spreads.

The ARDBF is exposed to credit spread risk through its investments in fixed income assets such as bonds – moving adversely relative to it's liabilities (which are valued under IAS19 using corporate bond yields). The Company allows for this as part of its SCR assessment.

INFLATION RISK

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

CURRENCY RISK

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

REAL ESTATE RISK

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

DERIVATIVES

The Company uses a derivative to hedge against fluctuations in share price within long-term incentive plans awarded to senior managers.

C.3 CREDIT RISK

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

The risk capital before diversification with other risk categories allocated to credit risk amounts to £152m.

The only material concentrations of credit risk is in respect of fellow Allianz SE Group entities. The Company's current reinsurance programme is placed with Allianz SE and Allianz Re Dublin for all risks, with the former providing catastrophe cover and the latter providing Risk XL cover for all other lines of business and whole-account quota-share cover.In respect of reinsurance, the financial strength of Allianz SE and the interdependency between Allianz Re Dublin and Allianz SE is such that an impact on Allianz would only be felt in the event of a major global shock impacting the ability of reinsurance to respond to a major localised shock, such as a 1:200 natural catastrophe in the UK.

C. RISK PROFILE CONTINUED

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

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

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

C.4 LIQUIDITY RISK

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

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

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

The Company monitors the liquidity position under stressed scenarios, including major claim events and extreme reductions in market liquidity, to ensure that should large amounts of liquidity be required at short notice adequate liquidity would be available. Even in the most extreme modelled situation, the Company liquidity intensity ratio remains sufficiently below the Allianz risk appetite of 80%.

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

At December 31, 2019 the amount of expected profit in future premiums was £177m.

C.5 OPERATIONAL RISK

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

The risk capital before diversification with other risk categories allocated to operational risk amounts to £71m.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness.

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

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

The key mitigants around operational risk are the development and maintenance of controls to address the risks, this is documented in a risk catalogue which is reviewed annually to ensure appropriate mitigation is in place for identified risks. First-line governance forums and the Operation Risk Committee undertake monitoring of operational risks, including reviewing operational losses and key control failings on a quarterly basis. Operational risks are assessed as per the Integrated Risk and Control System and an annual plan is produced with progress against this plan reported to the Operation Risk Committee.

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

C. RISK PROFILE CONTINUED

C.6 OTHER MATERIAL RISKS

STRATEGIC RISK

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

REPUTATIONAL RISK

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

CONDUCT RISK

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

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

C.7 ANY OTHER INFORMATION

RISK SENSITIVITY ANALYSIS

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

These stresses are used to identify the most material impacts to the Company and then feed into investment decisions and underwriting activities as well as areas of focus for monitoring.

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

As at December 31, 2019 the Company's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) prior to dividend payments was 159%. The following table shows the results of the sensitivity analysis for one-factor stresses, covering both market and non-market risks. The results include the impact on Own Funds, the subsequent impact on the SCR and the resulting combined impact on the Company's Solvency ratio. The impact on Solvency ratio is the absolute change in percentage points (%p).

The results in the table demonstrate the impact of a one-factor stress with all other variables being held constant, as December 31, 2019. While in reality there are interactions between the risks and movements in one variable would coincide with or cause movements in other variables, this analysis provides an insight into the relative sensitivity of the Solvency ratio to the different individual risks.

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

C. RISK PROFILE CONTINUED

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

	Impact on Own Funds (£m)	Impact on SCR (£m)	Impact on Solvency ratio
Market risk			
Interest Rates: 50bps increase	(13)	(15)	2%p
Interest Rates: 50bps decrease	18	17	-2%p
Credit Spreads: 50bps increase relative to swaps	(51)	(18)	-4%p
Credit Spreads: 50bps decrease relative to swaps	63	18	6%p
Inflation: 50bps increase	(13)	9	-5%p
Inflation: 50bps decrease	17	(12)	6%p
Equity: 30% decrease in equity markets	(34)	(12)	-3%p
Real estate: 10% decrease in property markets	(17)	(5)	-2%p
Non-market risk			
Premium risk: 1 in 10 year event	(64)	6	-12%p
Reserve risk: 1 in 10 year event	(68)	6	-13%p
Longevity risk: 1 in 10 year event	–	–	–
Credit risk: 1 in 10 year event	(26)	(3)	-4%p

The COVID-19 pandemic has the potential to have significant impacts on each of the main risk categories covered above (Underwriting, Market, Credit, Liquidity and Operational). Taking each of these in turn:

- Underwriting risk could be impacted by claims for business interruption, although this could be offset by lower than expected claim frequencies on other lines of business such as motor, liability and pet. The claim frequency impacts from COVID-19 are being actively monitored by the Actuarial function across all lines of business.
- Market risk will be impacted by the widening of corporate bond spreads and also the reduction in equity market valuations. Allianz's solvency position is being monitored weekly, using the latest market valuation data and taking into account the impacts on the pension fund. The solvency position is resilient to these market movements due to the strategic asset allocation containing only a low proportion of equity investments.
- Credit risk could be impacted by increased frequencies of downgrade and defaults. Credit risk is monitored and actively managed and mitigated by the Company's Investments department, which receives regular updates from our investment managers and the Allianz Group Credit Risk team.
- Liquidity risk could be impacted by the inability of customers to keep up premium payments, or reductions in the liquidity of our chosen investment classes. Our liquidity risk is managed through regular scenario analysis and is mitigated by our strategic asset allocation which focusses on liquid gilt and corporate bond investments. Allianz therefore has readily available funds to meet customer claims and to continue to meet the Company's financial obligations as they fall due, without needing to take contingency actions.
- Operational risk could increase due to the increase in home working, although this has been actively mitigated through IT investments and revisions to processes associated with home working. The Company has also assessed its distribution channels to identify operational risks which may manifest in broker processes, such as renewal processing.

Based on scenario analysis carried out by the Risk function using the latest information available at the end of March 2020 it is expected that Allianz will be resilient to these risks. This analysis has also fully considered the impact on the pension fund, which is included within the Company's internal risk capital model.

The statements on the risks associated with the COVID-19 pandemic are subject to the proviso that risk identification and assessment are of a provisional nature at the time of reporting (end of March 2020).

D. VALUATION FOR SOLVENCY PURPOSES

SCOPE OF REPORT AND INTRODUCTION

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

The recognition, measurement and valuation policies for IFRS reporting purposes applied by the Company are summarised in notes 1.4 and 2 within the Allianz Insurance plc Annual Report and Financial Statements. This report summarises any differences to those valuation policies for solvency purposes.

The table overleaf shows the IFRS balance sheet of the Company as at December 31, 2019 and the key reclassifications and valuation differences between that and the balance sheet used for solvency purposes.

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

	IFRS Balance Sheet £m	Reclassifications £m	Valuation Difference £m	Solvency II MVBS £m
Assets				
Goodwill	3	–	(3)	–
Deferred acquisition costs	107	–	(107)	–
Intangible assets	39	–	(39)	–
Deferred tax asset	9	(11)	23	21
Property, plant and equipment held for own use	16	–	–	16
Investments				
Holdings in related undertakings, including participations	270	–	148	418
Government bonds	477	2	–	479
Corporate bonds	1,573	(413)	–	1,160
Collateralised securities	–	432	–	432
Collective investment undertakings	102	–	–	102
Accrued interest	22	(22)	–	–
Derivatives	1	8	–	9
Deposits other than cash equivalents	6	–	–	6
Loans and mortgages	192	18	(5)	205
Reinsurance recoverables from:				
Non-life and health similar to non-life	1,164	21	(211)	974
Life and health similar to life, excluding health and index-linked and unit-linked	95	–	39	134
Insurance and Intermediaries receivables	798	–	(777)	21
Reinsurance receivables	10	–	–	10
Receivables (Trade, not insurance)	79	(20)	–	59
Cash and cash equivalents	7	–	–	7
TOTAL ASSETS	**4,970**	**15**	**(932)**	**4,053**
Liabilities				
Technical provisions				
Best Estimate – non-life	2,582	59	(1,095)	1,546
Risk Margin – non-life	–	–	63	63
Best Estimate – life	130	–	60	190
Risk Margin – life	–	–	47	47
Provisions other than technical provisions	5	5	–	10
Deposits from reinsurers	898	34	–	932
Insurance and intermediaries payables	69	(13)	–	56
Reinsurance payables	62	(59)	–	3
Deferred tax liabilities	11	(11)		–
Payables (trade, not insurance)	74	–	–	74
Other liabilities	203	–	–	203
TOTAL LIABILITIES	**4,034**	**15**	**(925)**	**3,124**
Excess of assets over liabilities	**936**	**–**	**(7)**	**929**

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.1 ASSETS

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

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

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

Loans have been included in the Solvency II balance sheet at their market value. The Company has two loans; an intercompany loan with AMS and an infrastructure loan.

The cost of the intercompany loan is £162m and is repayable over 10 years, up to and including September 30, 2029. The loan carries interest at the Bank of England base rate plus 0.25% and is guaranteed by Allianz SE. The loan is valued in the Solvency II balance sheet using a discounted cash flow model and the market value of the loan at December 31, 2019 is £157m.

The infrastructure loan is valued in the Solvency II balance sheet using a discounted cash flow model. The cost and the market value of the infrastructure loan is £30m.

Where there are quoted prices in active markets for identical assets, these assets are classified as "Level 1". Investments classified as Level 1 are reported in the Solvency II balance sheet at the value included under the IFRS accounts.

Where there are inputs other than quoted prices that are observable either directly or indirectly these assets are classified as "Level 2". According to Article 10 of the Delegated Regulation 2015/35, Level 2 investments are valued using quoted market prices in active markets for similar assets with adjustments to reflect factors specific to the asset, including the condition or location of the asset, the extent to which inputs relate to items that are comparable to the asset and the volume or level of activity in the markets within which the inputs are observed. The value used for the preparation of the IFRS accounts is considered a fair approximation of the market value according with Solvency II rules, therefore no adjustment has been made except for the reclassification of accrued interest.

Where inputs that are not based on observable market data are used, these assets are classified as "Level 3". Investments classified as Level 3 are valued using an income approach for both IFRS and Solvency II balance sheet and are covered in section D.4 Alternative Valuation Methods. The split of investment classifications is provided in the table below.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Government and government agency bonds	139	340	–	479
Corporate bonds	–	1,142	18	1,160
Collateralised	15	417	–	432
Collective investment undertakings	–	102	–	102
Total	**154**	**2,001**	**18**	**2,173**

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

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

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

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

DEFERRED TAXES

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

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

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

Deferred tax on temporary timing differences which are expected to unwind after April 1, 2020 have been recognised at 17%, the rate which was substantially enacted in law as at December 31, 2019. The 17% rate has since been repealed from law in the March Budget resulting in the tax rate for 2020 onwards remaining at 19%. This will significantly impact the deferred tax position for Solvency II purposes resulting in an increase in the deferred tax asset of £3m.

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

	Valuation differences before deferred tax £m	Tax rate applied	Deferred tax impact £m	Net differences between IFRS and SII £m
Goodwill	(3)	0%	–	(3)
Intangible assets	(39)	0%	–	(39)
Deferred acquisition costs – gross	(107)	17%	18	(89)
Holdings in related undertakings, including participations	148	0%	–	148
Loans and mortgages	(5)	17%	–	(5)
Non-life	(211)	17%	36	(175)
Life	39	17%	(7)	32
Insurance and intermediaries receivables	(777)	17%	133	(644)
Trade receivables	–	17%	–	–
Best Estimate – non-life	1,095	17%	(186)	909
Risk Margin – non-life	(63)	17%	11	(52)
Best Estimate – life	(60)	17%	10	(50)
Risk Margin – life	(47)	17%	8	(39)

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

D.2 TECHNICAL PROVISIONS

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

SII line of business	Gross (£m)				Net (£m)			
	Claims Provision	Premium Provision	Risk Margin	SII Technical Provision	Claims Provision	Premium Provision	Risk Margin	SII Technical Provision
Motor vehicle liability insurance	689	63	12	764	361	2	12	375
Other motor insurance	1	24	1	26	(1)	(1)	1	(1)
Fire and other damage to property insurance	242	12	6	260	139	(49)	6	96
Miscellaneous financial loss	53	(50)	1	4	31	(132)	1	(100)
Legal expenses insurance	(1)	(49)	2	(48)	11	(52)	2	(39)
General liability insurance	450	24	41	515	260	(11)	41	290
Non-proportional marine, aviation and transport reinsurance	86	1	1	88	14	(1)	1	14
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	190	–	47	237	57	–	47	104
Total	**1,710**	**25**	**111**	**1,846**	**872**	**(244)**	**111**	**739**

BASIS

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

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

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

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

METHODS AND ASSUMPTIONS

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

CLAIMS PROVISION

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

PREMIUM PROVISION

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

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

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

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

RISK MARGIN

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

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

This approach is based on the following assumptions:

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

The cost of capital rate used in the calculation of the risk margin is set by the European Insurance and Occupational Pensions Authority at 6%.

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

UNCERTAINTY

The Solvency II basis has inherent uncertainty around the discount benefit arising from future movements in the yield curve and payment patterns. Other than discounting, the assumptions that have the greatest effect on the movement of provisions are those that affect the expected level of claims. These can come from a number of sources, including, but not limited to:

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

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

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

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

Sensitivity	Change in net technical provisions (£m)	% change in net technical provisions
Increase future loss ratios by 1%p	6.1	0.8%
Decrease future loss ratios by 1%p	(6.1)	-0.8%
Increase risk yield by 0.5%p	(28.2)	-3.8%
Decrease risk yield by 0.5%p	34.2	4.6%
Delay payment time by 1 year	(9.6)	-1.3%
Advance payment time by 1 year	7.3	1.0%

MATCHING ADJUSTMENT, VOLATILITY ADJUSTMENT

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

REINSURANCE RECOVERABLES

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

Cash inflows:

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

Cash outflows:

- Future premiums for reinsurance contracts; and
- Counterparty default adjustment.

For the main lines of business the Company purchases excess of loss contracts with sufficiently high retentions for only relatively few large claims to be recoverable. Any difference in timing between expected claims settlement and related reinsurance recoveries is reflected in the timing of the reinsurance cash flows.

For the claims provision, reinsurance recoveries are calculated on a case by case basis. Incurred but not reported provisions for outstanding claims are estimated at both gross and net levels separately.

For the premium provision, future claims within the premium provision are calculated both gross and net of reinsurance and the reinsurance recoverable is calculated as the difference between them. Future net claims are based on a loss ratio method consistent with the gross claims projection. The net UPR is adjusted to ensure that contract boundaries are consistent between the gross liabilities and the reinsurance recoveries on those liabilities.

This involves removing any reinsurance exposure related to future new business and including additional reinsurance exposure for current business covered by the reinsurance treaties incepting on January 1, 2020. This is based on an assumed management action to renew the reinsurance programme at the next renewal date under terms and conditions similar to those which currently apply. Correspondingly, a share of the future reinsurance premiums for these contracts relating to current business is also allowed for within the technical provisions.

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

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

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

DIFFERENCE BETWEEN SOLVENCY II AND IFRS

The following table shows a breakdown of the differences between IFRS provisions (net of reinsurance and deferred acquisition costs) and Solvency II technical provisions by Solvency II line of business.

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

The most significant adjustment is in respect of future premiums and exposures, which mainly reflects the inclusion of future premiums within the technical provisions, rather than being held as debtors on the IFRS balance sheet. This is most material for the miscellaneous financial loss line which contains a significant amount of regular premium from animal health. In the case of the miscellaneous financial loss, other motor insurance and legal expenses insurance lines, this adjustment causes overall technical provisions to be negative.

Sundry adjustments include adjustments in respect of expenses and counterparty defaults, which are not material individually.

The discounting adjustment for the annuities line is positive because reserves for the PPOs contained within this line are already discounted under IFRS. The discount rate assumed under IFRS is higher than the risk-free rate prescribed under Solvency II as it reflects the expected yields over a long time period on the types of assets held by the Company. In addition, the inflation rate between IFRS and Solvency II differs and this is reflected in the discounting adjustment.

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

SII line of business	IFRS provisions (£m)	Adjustment in respect of future premiums and exposures (£m)	Sundry adjustments (£m)	Discounting adjustment (£m)	Risk margin (£m)	SII technical provisions (£m)
Motor vehicle liability insurance	479	(114)	3	(4)	12	376
Other motor insurance	43	(45)	-	-	1	(1)
Fire and other damage to property insurance	230	(139)	1	(1)	6	97
Miscellaneous financial loss	190	(291)	-	-	1	(100)
Legal expenses insurance	41	(85)	(1)	3	2	(40)
General liability insurance	314	(61)	1	(5)	41	290
Non-proportional marine, aviation and transport reinsurance	15	1	(2)	(1)	1	14
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	36	-	5	15	47	103
Total	**1,348**	**(734)**	**7**	**7**	**111**	**739**

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

MATERIAL CHANGES IN ASSUMPTIONS	Net (£m)			Gross (£m)		
	2019	2018	Change	2019	2018	Change
Best estimate	628	765	(137)	1,736	1,864	(128)
Risk Margin	111	100	11	111	100	11
SII Technical Provisions	**739**	**865**	**(126)**	**1,847**	**1,964**	**(117)**

The table above shows the change in the technical provisions from 2018 to 2019, both gross and net of reinsurance.

Overall, the net technical provisions have reduced by £126m over the year, driven by £115m increase in future premium, of which £78m is due to the reallocation of premium receivables between the overdue debtors line in the Solvency II balance sheet and the future premium within the technical provisions. This reallocation has an immaterial impact on Allianz Insurance own funds.

Less material refinements of methodology were also made over the year in regards to the split of receivables by line of business, treatment of the whole account quota share and future expenses assumptions.

One area of uncertainty has been the level of the Ogden discount rate, which is used to calculate lump sum awards for claimants. The announcement that the Ogden discount rate would change to -0.25% has led to the best estimate view of the Ogden discount rate being revised from 0% to -0.25%.

Assumptions are subject to a regular review cycle with the period between reviews chosen to reflect the materiality of the assumption.

SIMPLIFICATIONS

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

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

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

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

D.3 OTHER LIABILITIES

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

For all other classes of liability there is no difference between the IFRS valuation and the Solvency II balance sheet valuation. Full details on valuation methodologies can be found in the Allianz Insurance plc Annual Report and Financial Statements (notes to the accounts numbers 27 and 28).

D.4 ALTERNATIVE VALUATION METHODS

During 2017, an infrastructure bond was acquired and classified as Level 3. This was valued using an income approach for Solvency II purposes. This method involved discounting future cash flows (coupon and principal payments). Full details on the valuation methodology can be found in the Allianz Insurance plc Annual Report and Financial Statements (note to the accounts number 29).

D. VALUATION FOR SOLVENCY PURPOSES CONTINUED

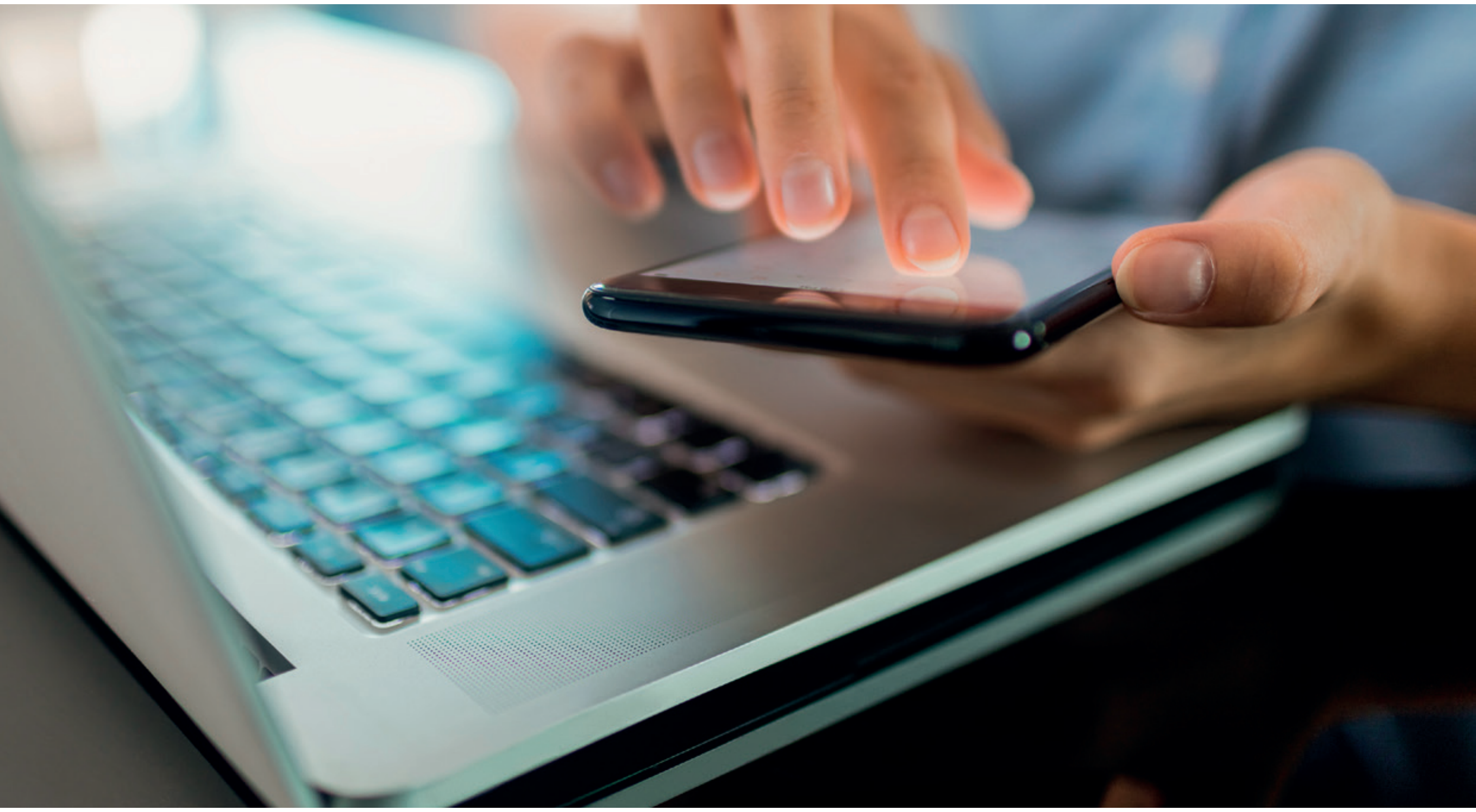
D.5 ANY OTHER INFORMATION

Please note that these additional comments on COVID-19 are unaudited.

The recent volatility in financial markets, in particular the increase in spreads on the corporate bond portfolio, and the impact on asset and liability values is being monitored with management plans in place to react as necessary. Investment valuation reports are obtained daily to reassess our exposure and we consider the existing strategic asset allocation is still appropriate. The valuations reported do not reflect the impact of COVID-19 based on the Company's interpretation of Article 77 (2).

The financial impact of potential claims is difficult to estimate at this stage although we anticipate an increase in business interruption claims which could be offset by fewer claims on motor, liability and pet products as a consequence of the government instruction for people to stay at home. Reinsurance arrangements in place provide further mitigation.

However, whilst there is still a significant degree of uncertainty, the Company expects to continue to meet its solvency and capital requirements as required by regulation. The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.



E. CAPITAL MANAGEMENT

E.1. OWN FUNDS

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

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

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

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

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

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

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

	2019 £m	2018 £m	Movement £m
Tier 1			
Ordinary shares	173	173	–
Share premium	5	5	–
Reconciliation reserve	730	844	(114)
Total tier 1	**908**	**1,022**	**(114)**
Tier 3			
Net deferred tax assets	21	27	(6)
Total tier 3	**21**	**27**	**(6)**
Total eligible own funds to meet the SCR	**929**	**1,049**	**(120)**
SCR (see below)	586	672	(86)
SCR coverage ratio*	**159%**	**156%**	**3%**
Total eligible own funds to meet the MCR	**908**	**1,022**	**(114)**
MCR	182	191	(8)
MCR coverage ratio	**498%**	**536%**	**38%**

*At December 31, 2019, there is no allowance for a foreseeable dividend.

E. CAPITAL MANAGEMENT CONTINUED

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

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

	£m
Profit after tax earned by the company in the year	1
Net unrealised gains after tax on the investment portfolio	38
Movement in technical provisions	16
Dividend payment	(175)
Total movement over year	**(120)**

As at December 31, 2018 there is no difference between the excess of assets over liabilities and Own Funds.

RECONCILIATION BETWEEN IFRS AND SOLVENCY II EXCESS OF ASSETS OVER LIABILITIES

The Solvency II excess of assets over liabilities amounts to £929m, whereas the IFRS excess of assets over liabilities amounts to £936m. The difference of £7m is largely attributable to six key drivers previously analysed in section D and summarised in the table opposite.

	£m
IFRS excess of assets over liabilities	**936**
Goodwill and intangible assets (IFRS balance sheet items that are not recognised in the Solvency II balance sheet)	(42)
Differences in the valuation of loans and mortgages	(5)
Risk margin (a Solvency II balance sheet item that is not recognised in IFRS)	(110)
Differences in recognitiion and valuation of technical provisions and reinsurance recoverabes (including associated receiveable/payable and DAC)	(21)
Inclusion of participations at Solvency II value	148
Deferred taxes on the above mentioned balance sheet valuation differences	23
Solvency II excess of assets over liabilities	**929**

E.2. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

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

The Company has received approval to use an internal model to determine its SCR. The SCR at December 31, 2019 amounts to £586m, and the MCR amounts to £182m.

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

A split of the SCR by the different risk categories modelled by the internal model is shown in the following table. The comparative figures for 2018 and the movement over the reporting period are also shown.

E. CAPITAL MANAGEMENT CONTINUED

The total diversified SCR for the Company reduced by £86m over the year from £672m to £586m.

The movement is predominately driven by an increase in the pension fund surplus which led to a reduction in SCR due to the increased surplus buffer, and the removal of a £42m management load following the model change to the discount rate and inflation rate assumptions used in the internal model and the IAS19 pension valuation.

The remaining movement in the SCR is driven by a number of model updates, notably the annual re-parameterisation of operational risk.

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

This sub-section is unaudited.

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

Category of risk	Capital (£m)		
	2019	2018	Movement
Underwriting risk	**590**	**598**	**(8)**
Premium risk	270	276	(6)
Longevity risk	117	114	3
Reserve risk	181	184	(3)
Business risk	22	24	(1)
Market risk	**558**	**541**	**17**
Equity risk	59	52	7
Interest rate risk	87	58	29
Credit spread risk	295	285	10
Inflation risk	14	36	(22)
Currency risk	3	2	1
Real estate risk	100	108	(8)
Credit risk	**152**	**140**	**12**
Operational risk	**71**	**91**	**(20)**
Sum of standalone risks	**1,372**	**1,371**	**1**
Diversification benefit	(786)	(740)	(45)
Management loads	–	42	(42)
SCR	**586**	**672**	**(86)**

E. CAPITAL MANAGEMENT CONTINUED

E.4 DIFFERENCES BETWEEN THE STANDARD FORMULA CALCULATION

This sub-section is unaudited.

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

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

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

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

E. CAPITAL MANAGEMENT CONTINUED

USE OF THE INTERNAL MODEL

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

Uses of the model are documented internally and include:

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

METHODOLOGICAL APPROACH OF THE INTERNAL MODEL

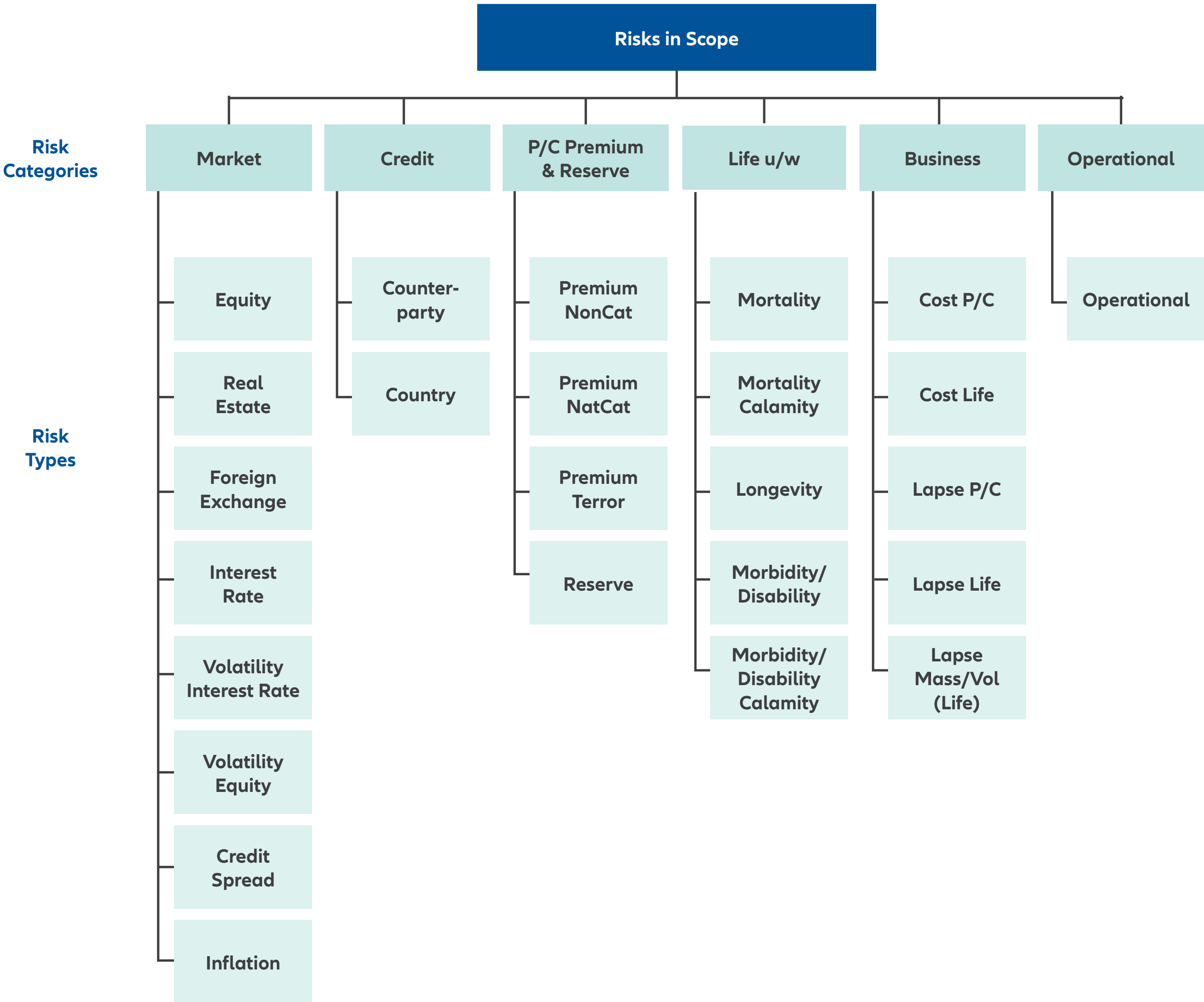
The internal risk capital model is based on a Value-at-Risk approach using a Monte Carlo simulation model.
The starting point of the risk calculation is the Solvency II balance sheet and the allocation of each item to the relevant risk categories. Risk capital for each category is defined as the change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

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

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

E. CAPITAL MANAGEMENT CONTINUED

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



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

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

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

E. CAPITAL MANAGEMENT CONTINUED

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

MODEL CHANGES

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

During 2019 minor changes were made to the internal model in order to address validation findings, including an alignment of the IAS 19 pension assumptions used in the model to those used for the balance sheet. There were no other material changes in the methods used to assess risks during 2019.

NATURE AND APPROPRIATENESS OF DATA

Various sources of data are used as input for the internal model and for the calibration of parameters. A control framework is in place to ensure that the data is accurate, complete and appropriate.

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

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

The Company has complied continuously with the MCR and the SCR.

E.6 ANY OTHER INFORMATION

Please note that these additional comments on COVID-19 are unaudited.

In view of the Solvency II solvency ratio of 159% as at December 31, 2019 and the stress tests performed, Allianz does not expect any breach of its Solvency Capital Requirement. This statement also applies in the context of the current COVID-19 pandemic. Based on the information available at the end of March and under current laws and regulation, we expect Allianz to continue to be sufficiently capitalised in compliance with the regulatory Solvency Capital Requirement. The risks associated with the further course of the current pandemic are assessed on the basis of specific analyses. Allianz is continuing to perform regular stress testing as described in Section C and has identified contingency options which can be taken if necessary.

The impact of COVID-19 is continuing to evolve at a fast pace, and therefore it is not practicable to quantify the potential financial impact on the Company at the time of writing.

DIRECTORS' RESPONSIBILITY STATEMENT

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

We are satisfied that:

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

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

By order of the Board

Fernley Dyson Director
Allianz Insurance plc
Registered Number: 84638

April 7, 2020

AUDITORS' REPORT

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

Report on the Audit of the relevant elements of the Solvency and Financial Condition report.

OPINION

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2019, ('**the Narrative Disclosures subject to audit**'); and
- Company templates S02.01.02, S12.01.02, S17.01.02, S23.01.01, S28.01.01 (**'the Templates subject to audit'**).

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

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

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

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

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, and as supplemented by supervisory approvals and determinations.

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

AUDITORS' REPORT CONTINUED

EMPHASIS OF MATTER – BASIS OF ACCOUNTING

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

OTHER INFORMATION

The Directors are responsible for the Other Information.

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE SOLVENCY AND FINANCIAL CONDITION REPORT

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based, as detailed below:

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

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

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

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

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

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

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

AUDITORS' REPORT CONTINUED

OTHER MATTER

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

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

7 April, 2020

APPENDIX

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

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

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

Balance sheet

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	21,326
Pension benefit surplus	R0050	
Property, plant & equipment held for own use	R0060	15,935
Investments (other than assets held for index-linked and unit-linked contracts)	R0070	2,606,691
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	417,673
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	2,071,851
Government Bonds	R0140	478,964
Corporate Bonds	R0150	1,160,444
Structured notes	R0160	
Collateralised securities	R0170	432,443
Collective Investments Undertakings	R0180	102,039
Derivatives	R0190	8,819
Deposits other than cash equivalents	R0200	6,308
Other investments	R0210	0
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	204,916
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	204,916
Reinsurance recoverables from:	R0270	1,107,763
Non-life and health similar to non-life	R0280	973,990
Non-life excluding health	R0290	973,990
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	133,773
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	133,773
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	20,988
Reinsurance receivables	R0370	10,009
Receivables (trade, not insurance)	R0380	58,672
Own shares (held directly)	R0390	
Amounts due in respect of own fund items or initial fund called up but not yet paid in	R0400	
Cash and cash equivalents	R0410	6,719
Any other assets, not elsewhere shown	R0420	54
Total assets	R0500	4,053,073

Liabilities		
Technical provisions - non-life	R0510	1,609,499
Technical provisions - non-life (excluding health)	R0520	1,609,499
TP calculated as a whole	R0530	
Best Estimate	R0540	1,546,080
Risk margin	R0550	63,419
Technical provisions - health (similar to non-life)	R0560	
TP calculated as a whole	R0570	
Best Estimate	R0580	
Risk margin	R0590	
Technical provisions - life (excluding index-linked and unit-linked)	R0600	237,446
Technical provisions - health (similar to life)	R0610	
TP calculated as a whole	R0620	
Best Estimate	R0630	
Risk margin	R0640	
Technical provisions - life (excluding health and index-linked and unit-linked)	R0650	237,446
TP calculated as a whole	R0660	
Best Estimate	R0670	190,216
Risk margin	R0680	47,229
Technical provisions - index-linked and unit-linked	R0690	
TP calculated as a whole	R0700	
Best Estimate	R0710	
Risk margin	R0720	
Contingent liabilities	R0740	
Provisions other than technical provisions	R0750	10,048
Pension benefit obligations	R0760	
Deposits from reinsurers	R0770	931,996
Deferred tax liabilities	R0780	0
Derivatives	R0790	32
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	55,676
Reinsurance payables	R0830	2,558
Payables (trade, not insurance)	R0840	73,885
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	202,559
Total liabilities	R0900	3,123,698
Excess of assets over liabilities	R1000	929,375

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Premiums, claims and expenses by line of business

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												Line of business for: accepted non-proportional reinsurance				Total
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110				435,314	163,974		490,883	234,720		52,494		613,360					1,990,744
Gross - Proportional reinsurance accepted	R0120																	
Gross - Non-proportional reinsurance accepted	R0130																	
Reinsurers' share	R0140				186,614	70,277		228,638	103,631		31,239		245,411			3		865,813
Net	R0200				248,700	93,697		262,245	131,089		21,254		367,949			-3		1,124,931
Premiums earned																		
Gross - Direct Business	R0210				438,569	180,306		488,110	231,818		38,649		603,184					1,980,636
Gross - Proportional reinsurance accepted	R0220																	
Gross - Non-proportional reinsurance accepted	R0230															460		460
Reinsurers' share	R0240				187,893	76,802		226,838	102,207		26,665		242,735			372		863,511
Net	R0300				250,676	103,505		261,272	129,611		11,985		360,449			89		1,117,586
Claims incurred																		
Gross - Direct Business	R0310				301,394	115,099		287,175	74,232		32,310		416,670					1,226,881
Gross - Proportional reinsurance accepted	R0320																	
Gross - Non-proportional reinsurance accepted	R0330															-3,659		-3,659
Reinsurers' share	R0340				137,004	46,040		117,493	29,598		24,095		167,093			-3,786		517,537
Net	R0400				164,390	69,060		169,682	44,634		8,215		249,577			126		705,685
Changes in other technical provisions																		
Gross - Direct Business	R0410																	0
Gross - Proportional reinsurance accepted	R0420																	
Gross - Non- proportional reinsurance accepted	R0430																	0
Reinsurers'share	R0440																	0
Net	R0500				0	0		0	0		0		0			0		0
Expenses incurred	R0550				73,834	37,554		126,872	50,963		6,475		92,251			-1,333		386,616
Other expenses	R1200																	
Total expenses	R1300																	386,616

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Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Health insurance		
		Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Life reinsurance obligations	Health reinsurance	Life reinsurance	Total	Insurance with profit participation
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
Premiums written										
Gross	R1410									
Reinsurers' share	R1420									
Net	R1500									
Premiums earned										
Gross	R1510									
Reinsurers' share	R1520									
Net	R1600									
Claims incurred										
Gross	R1610						668			668
Reinsurers' share	R1620						-130			-130
Net	R1700						797			797
Changes in other technical provisions										
Gross	R1710									
Reinsurers' share	R1720									
Net	R1800									
Expenses incurred	R1900									
Other expenses	R2500									
Total expenses	R2600									

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Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, incl. Unit-Linked)	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
Technical provisions calculated as a whole	R0010								0		0						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0020																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	R0030								190,216		190,216						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								133,773		133,773						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090								56,443		56,443						
Risk Margin	R0100								47,229		47,229						
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	R0110								0		0						
Best estimate	R0120								0		0						
Risk margin	R0130								0		0						
Technical provisions - total	R0200								237,446		237,446						

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Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	R0010				0	0		0	0		0		0			0		0
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	R0050																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	R0060				63,139	24,185		12,341	24,472		-48,759		-50,267			520		25,630
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140				60,488	25,598		60,383	35,010		3,814		82,094			1,774		269,161
Net Best Estimate of Premium Provisions	R0150				2,651	-1,413		-48,043	-10,538		-52,573		-132,361			-1,254		-243,531
Claims provisions																		
Gross	R0160				689,402	1,016		242,317	449,971		-1,255		52,724			86,275		1,520,450
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240				328,608	1,569		103,684	190,323		-12,579		21,220			72,006		704,830
Net Best Estimate of Claims Provisions	R0250				360,794	-553		138,633	259,649		11,324		31,504			14,269		815,621
Total Best estimate - gross	R0260				752,541	25,200		254,658	474,443		-50,014		2,457			86,795		1,546,080
Total Best estimate - net	R0270				363,445	-1,966		90,591	249,111		-41,249		-100,857			13,015		572,090
Risk margin	R0280				11,775	725		5,746	40,954		2,286		1,083			851		63,419
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	R0290				0	0		0	0		0		0			0		0
Best estimate	R0300				0	0		0	0		0		0			0		0
Risk margin	R0310				0	0		0	0		0		0			0		0
Technical provisions - total																		
Technical provisions - total	R0320				764,315	25,925		260,404	515,397		-47,729		3,541			87,646		1,609,499
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330				389,095	27,167		164,067	225,333		-8,765		103,314			73,780		973,990
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340				375,220	-1,242		96,337	290,064		-38,963		-99,774			13,866		635,509

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Non-life Insurance Claims Information

Accident year / Underwriting year	Z0020	1

Gross Claims Paid (non-cumulative)

		Year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											9,130
N-9	R0160	457,183	254,937	90,835	57,802	57,462	12,376	6,539	2,447	1,568	193	
N-8	R0170	480,440	238,693	79,948	71,719	40,302	16,348	4,895	2,895	1,342		
N-7	R0180	559,710	261,919	81,563	45,396	43,041	24,248	11,307	2,804			
N-6	R0190	577,316	263,961	63,165	55,792	42,877	15,898	6,304				
N-5	R0200	662,433	279,687	79,551	54,614	42,709	39,548					
N-4	R0210	753,812	357,873	90,544	53,581	43,888						
N-3	R0220	795,711	274,340	66,714	59,909							
N-2	R0230	755,539	276,391	71,922								
N-1	R0240	783,613	258,986									
N	R0250	741,098										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	9,130	4,241,408
	R0160	193	941,342
	R0170	1,342	936,582
	R0180	2,804	1,029,988
	R0190	6,304	1,025,314
	R0200	39,548	1,158,542
	R0210	43,888	1,299,698
	R0220	59,909	1,196,675
	R0230	71,922	1,103,852
	R0240	258,986	1,042,599
	R0250	741,098	741,098
Total	R0260	1,235,124	14,717,097

Gross undiscounted Best Estimate Claims Provisions

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											149,497
N-9	R0160	626,512	282,304	165,525	103,396	50,633	40,481	30,666	18,985	14,468	12,435	
N-8	R0170	582,823	284,876	193,853	121,727	57,567	33,006	24,511	17,865	16,251		
N-7	R0180	649,946	283,096	162,208	102,245	63,636	40,610	24,029	19,915			
N-6	R0190	553,477	282,016	162,014	87,171	54,061	31,225	26,114				
N-5	R0200	644,539	314,017	209,552	185,245	123,815	77,704					
N-4	R0210	724,520	306,739	202,119	126,088	74,953						
N-3	R0220	586,608	332,676	222,205	171,890							
N-2	R0230	609,113	292,275	187,002								
N-1	R0240	574,556	273,042									
N	R0250	534,097										

		Year end (discounted data)
		C0360
	R0100	146,707
	R0160	12,193
	R0170	15,941
	R0180	19,685
	R0190	25,731
	R0200	76,434
	R0210	73,810
	R0220	169,055
	R0230	183,708
	R0240	268,138
	R0250	527,534
Total	R0260	1,518,937

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Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35						
Ordinary share capital (gross of own shares)	R0010	172,759	172,759		0	
Share premium account related to ordinary share capital	R0030	5,244	5,244		0	
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	730,046	730,046			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	21,326				21,326
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180					
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	R0220					
Deductions						
Deductions for participations in financial and credit institutions	R0230					
Total basic own funds after deductions	R0290	929,375	908,049		0	21,326
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390					
Total ancillary own funds	R0400					
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	929,375	908,049		0	21,326
Total available own funds to meet the MCR	R0510	908,049	908,049		0	
Total eligible own funds to meet the SCR	R0540	929,375	908,049	0	0	21,326
Total eligible own funds to meet the MCR	R0550	908,049	908,049	0	0	
SCR	R0580	586,221				
MCR	R0600	182,390				
Ratio of Eligible own funds to SCR	R0620	1.59				
Ratio of Eligible own funds to MCR	R0640	4.98				

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Own funds

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	929,375
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	
Other basic own fund items	R0730	199,329
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	730,046
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	176,984
Total Expected profits included in future premiums (EPIFP)	R0790	176,984

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Solvency Capital Requirement (for undertakings on Full Internal Models)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
10370I	Interest rate vola risk	0
10390I	Interest rate risk	87,021
10399I	Diversification within interest rate risk	0
10410I	Equity risk	58,960
10420I	Equity vola risk	0
10499I	Diversification within equity risk	0
10600I	Real estate risk	100,513
10700I	Credit spread risk	295,593
10900I	FX risk	2,625
11010I	Inflation risk (insurance business)	50,197
11010P	Inflation risk (pension scheme)	2,369
19900I	Diversification within market risk	-250,308
20100I	Type 1 counterparty default risk	17,159
20200I	Type 2 counterparty default risk	1,051
20310I	Other counterparty default risk - investment credit risk	134,094
20390I	Other counterparty default risk - other	0
29900I	Diversification within counterparty default risk	0
30200P	Longevity risk	116,974
50150I	Premium non-cat risk	134,118
50210I	Reserve risk	181,075
50310I	Non-life catastrophe risk: natural (aka Premium nat-cat risk)	117,160
50330I	Non-life catastrophe risk: man-made (aka Premium Terror risk)	18,432
50399I	Diversification within non-life catastrophe risk	0
50400I	Lapse risk	12,093
50590I	Cost risk	10,206
50599I	Diversification within business risks	-2,523
59900I	Diversification within non-life underwriting risk	-149,213
70100I	Operational risk	71,098
80300I	Loss absorbing capicity of deferred taxes	0
80491I	Internal Model Capital add-on: Multi-usage of buffers	0
80492I	Internal Model Capital add-on: Replications	0
80493I	Internal Model Capital add-on: Ring fenced funds	0
80494I	Internal Model Capital add-on: Others	0
80495I	Regulatory Add-ons	0
80496I	Residuals	0

		C0100
Total undiversified components	R0110	1,008,694
Diversification	R0060	-422,473
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	0
Solvency capital requirement excluding capital add-on	R0200	586,221
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	586,221
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

		C0109
Approach based on average tax rate	R0590	

		C0130
Amount/estimate of LAC DT	R0640	0
Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	R0650	
Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	R0660	
Amount/estimate of LAC DT justified by carry back, current year	R0670	
Amount/estimate of LAC DT justified by carry back, future years	R0680	
Amount/estimate of Maximum LAC DT	R0690	

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	181,205

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
Medical expense insurance and proportional reinsurance	R0020	0	0
Income protection insurance and proportional reinsurance	R0030	0	0
Workers' compensation insurance and proportional reinsurance	R0040	0	0
Motor vehicle liability insurance and proportional reinsurance	R0050	364,373	249,213
Other motor insurance and proportional reinsurance	R0060	0	93,184
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	90,942	262,245
General liability insurance and proportional reinsurance	R0090	249,643	131,089
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	21,254
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	367,949
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	13,025	0
Non-proportional property reinsurance	R0170	0	0

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	1,185

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
Obligations with profit participation - guaranteed benefits	R0210	0	
Obligations with profit participation - future discretionary benefits	R0220	0	
Index-linked and unit-linked insurance obligations	R0230	0	
Other life (re)insurance and health (re)insurance obligations	R0240	56,443	
Total capital at risk for all life (re)insurance obligations	R0250		0

Overall MCR calculation

		C0070
Linear MCR	R0300	182,390
SCR	R0310	586,221
MCR cap	R0320	263,799
MCR floor	R0330	146,555
Combined MCR	R0340	182,390
Absolute floor of the MCR	R0350	3,187
Minimum Capital Requirement	R0400	182,390

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Allianz Insurance plc.
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