Allianz Insurance plc

Solvency and Financial Condition Report 2017

Allianz

Contents

Summary

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

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

Allianz Insurance plc is the main insurance operating entity of the Allianz group in the UK. It is the largest subsidiary of the Allianz Holdings plc group, and in 2017 accounted for over 95% of that group's income. It is managed together with the other companies in the group.

Allianz Holdings plc group is one of the top ten general insurance groups in the UK and offers a range of products in most general insurance markets. The Group in recent years has pursued a strategy of proactively managing the insurance cycle to maximise the return for shareholders whilst carefully managing its capital base. Its business objectives are driven by the overarching strategic levers of the Group Renewal Agenda which focuses on five important themes: true customer-centricity, technical excellence, digital by default, growth engines and inclusive meritocracy.

On the 28 December 2017 Allianz Holdings plc group acquired a 49% share in a joint venture with Liverpool Victoria General Insurance Group. In 2018, as part of the strategic partnership, Allianz Insurance plc's Private Motor and Household business will transition into the venture while LV's existing Commercial portfolio will transfer to Allianz Insurance plc.

Further information about Allianz's operations in the UK can be found on the Allianz UK website[5]. That website also contains the 2017 Allianz Holdings plc Report and Accounts, which includes a strategic view of the business and also some technical information required for this SFCR.

Globally, Allianz SE is a financial services provider with 88 million clients in more than 70 countries. It had revenue in 2017 of €126.1bn and made an operating profit of €11.1bn. At the same time as this SFCR for Allianz Insurance plc is published, Allianz SE will be publishing its own SFCR for the whole Allianz group. More information about the Allianz group and its operations around the world can be found on the Allianz group website. [6]

Section A looks at the business and performance of Allianz Insurance plc during 2017. It starts with a section describing the legal structure of Allianz Insurance plc and its place in the Allianz group before covering the two main sources of Allianz's profit – its underwriting of insurance and its investment of the assets it holds in order to pay future claims.

In 2017 gross written premiums increased to £2,108m and the company achieved a combined operating ratio of 98%. In reviewing the 2017 underwriting performance section A.2 identifies the prior year changes that continue to influence Allianz's business. These include the movement in the Ogden discount rate and the rating action that has been required to compensate for this, and the expected shrinkage of personal lines following remedial action in 2016 and 2017 driven by tough market conditions. Strong performances in the Animal Health and Commercial markets and the lack of a severe weather event are also highlighted as key factors in 2017's performance.

Investment performance during the year was solid returning income of £63m. This compared to investment income of £74m in 2016 with the decline being predominantly attributable to the early repayment of a high yielding loan from Allianz SE. Section A.3 provides further detail of these activities.

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

Section B looks at the System of Governance. This is the set of rules and processes by which the company is managed. This section describes the ways in which Allianz Insurance plc ensures that its business runs prudently and within the Solvency II regulations.

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

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

- Assessment and remuneration policies, to ensure that managers have the skills and capability required to run the company and that they are paid appropriately;

[1] Directive 2009/138/EC, as amended by Directive 2014/51/EU, articles 51 – 56.
[2] Commission delegated regulation (EU) 2015/35, articles 290 303, Implementing Regulation (EU) 2015/2452
[3] See in particular Annex XX, Commission delegated regulation (EU) 2015/35
[4] Article 292, Commission delegated regulation (EU) 2015/35
[5] https://www.allianz.co.uk/about-allianz-insurance.html
[6] www.allianz.com

Summary

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

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

Section C reviews the risks which Allianz Insurance plc faces. These are:

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

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

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

Section D reviews the balance sheet of Allianz Insurance plc. The balance sheet is the main mechanism by which the solvency of the company – the amount of funds it has available to protect it and its policyholders against a shock – is assessed. This section describes the methods used to value the items on that balance sheet in accordance with the SII directive, and explains any significant valuation difference to the valuation applied for the preparation of the 2017 Statutory Accounts.

In section D.2 Technical Provisions are considered. "Technical Provisions" represent the current amount required to transfer insurance obligations immediately to another insurance entity. They include the funds the company has put aside specifically to pay future claims, and so they represent the most important part of the balance sheet. They are also the most uncertain to predict in terms of sufficiency, as it is difficult to assess the funds required accurately.

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

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

As at 31 December 2017 Allianz's MCR amounts to £198m and is covered by £944m of eligible Own Funds (Tier 1 only). As at 31 December 2017 Allianz's SCR amounts to £741m and is covered by £964m of eligible Own Funds (£944m Tier 1 and £20m Tier 3). Allianz's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) is therefore 130%. These figures include a deduction to Own Funds of £175m for a foreseeable dividend which is expected to be paid to Allianz SE in early 2018. They also include a deduction to Own Funds of £93m for the deficit of the Allianz Retirement and Death Benefit Fund valued according to Solvency II Directive net of the associated deferred tax.

Allianz has received approval to use an Internal Model to calculate its SCR, rather than falling back on the default Standard Formula. In early 2017 Allianz was granted regulatory approval for a number of changes to its Internal Model, the impacts of which are outlined in this section. In addition section E.4 describes how that Internal Model differs from the Standard Formula.

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

A. Business and Performance

This section is unaudited.

A.1 Business

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

It is supervised by the Prudential Regulation Authority (PRA), Bank of England, 20 Moorgate, London EC2R 6DA, in respect of financial and prudential matters, and by the Financial Conduct Authority (FCA), 25 The North Colonnade, London E14 5HS, in respect of conduct matters.

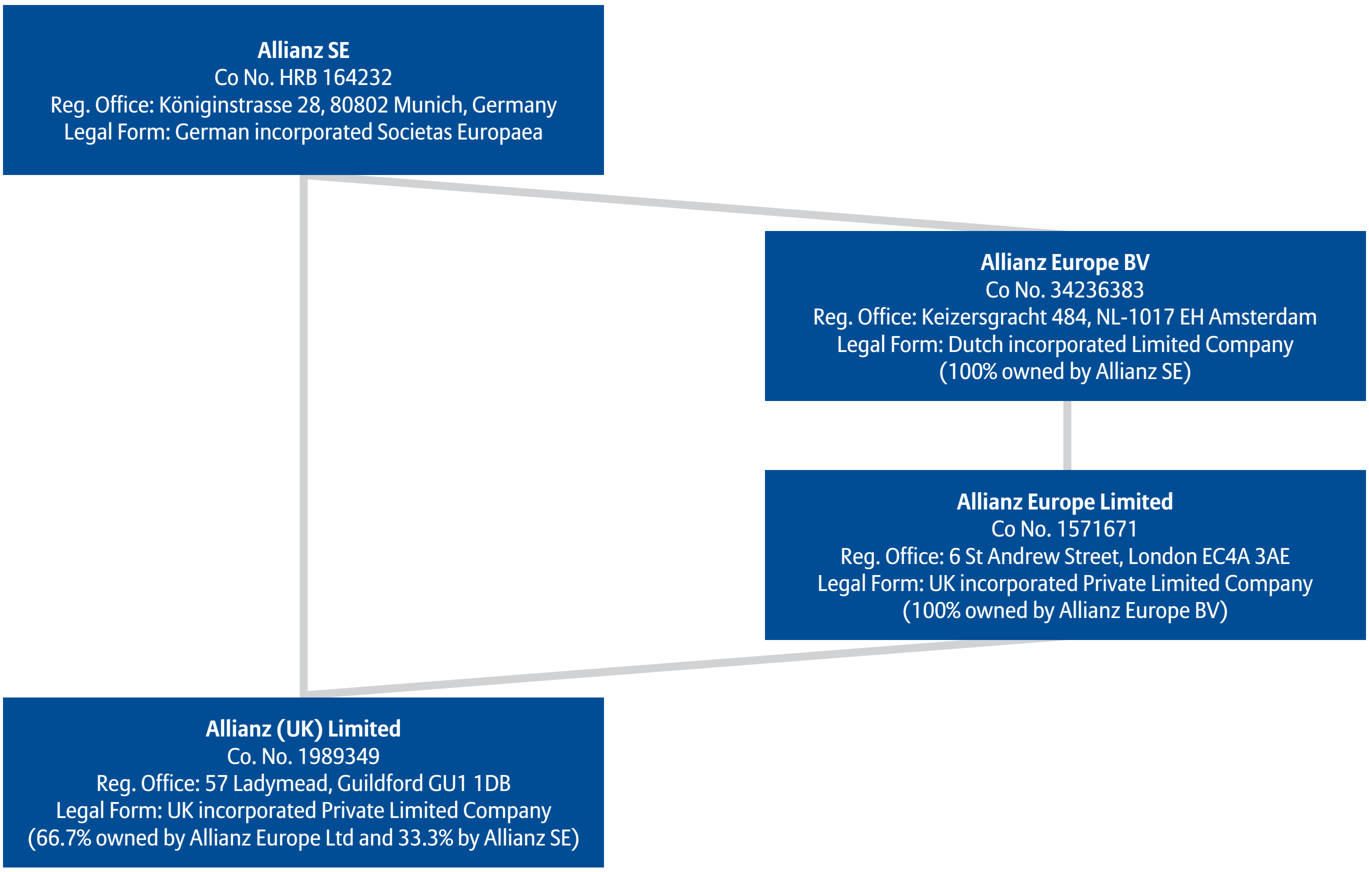
Allianz Insurance plc is a wholly owned subsidiary of Allianz SE, of Königinstraße 28, 80802 München, Germany.

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

Allianz's external auditor is KPMG LLP, 15 Canada Square, London E14 5GL.

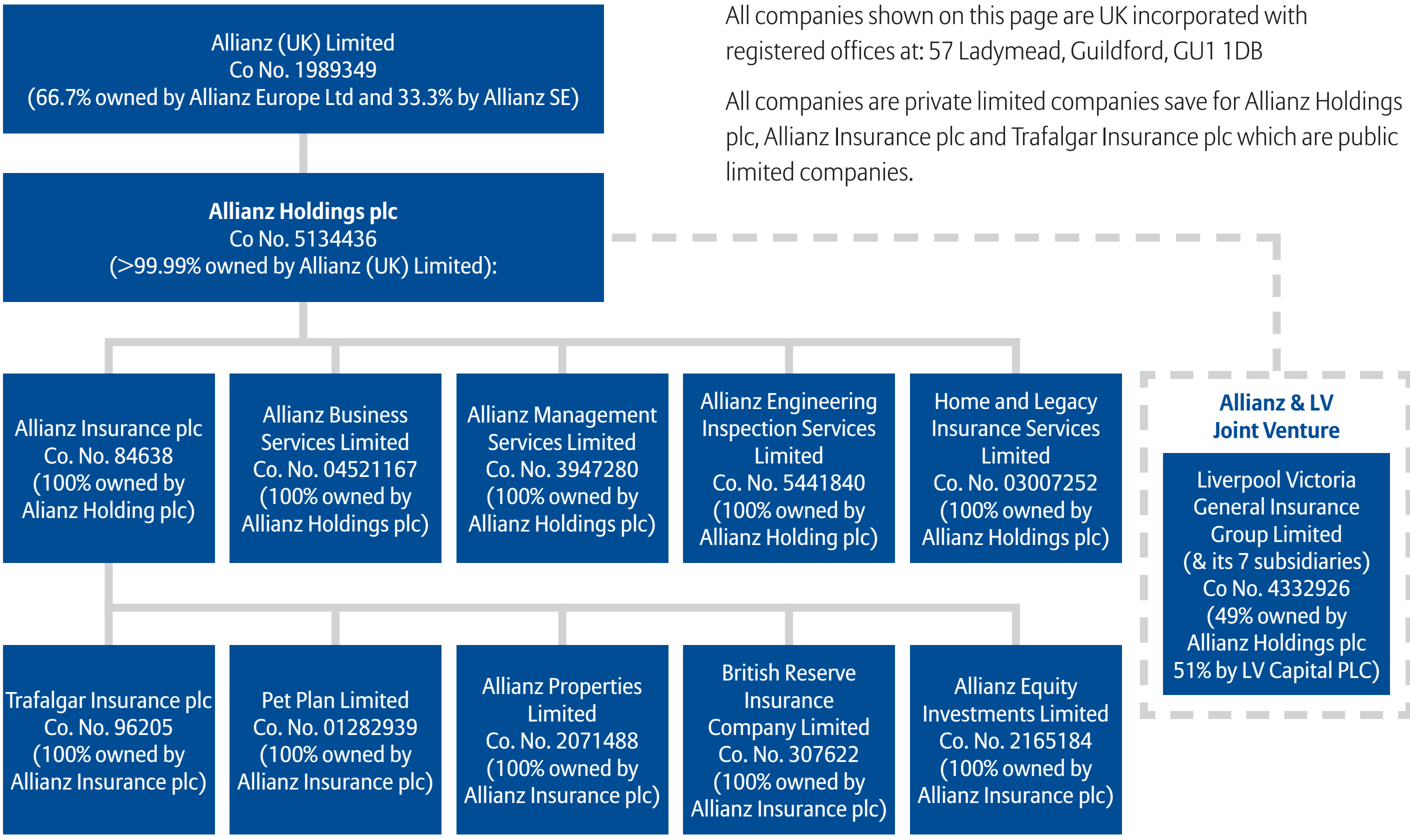
The structure charts below describe the position of Allianz Insurance plc within the Allianz group, including details of the holders of qualifying holdings in Allianz Insurance plc, and also the material related undertakings of Allianz Insurance plc.

Allianz (UK) Limited and its parent companies



A. Business and Performance

Allianz (UK) Limited and its material subsidiaries



All companies shown on this page are UK incorporated with registered offices at: 57 Ladymead, Guildford, GU1 1DB

All companies are private limited companies save for Allianz Holdings plc, Allianz Insurance plc and Trafalgar Insurance plc which are public limited companies.

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

On 27 February 2017, the UK Government's Lord Chancellor announced a new discount rate to be used to calculate future pecuniary losses in personal injury claims (the 'Ogden rate'). The real discount rate used in this calculation in the UK has changed from 2.5% to minus 0.75% resulting in an impact to technical provisions. This change, although it occurred during 2017, was an adjusting event after the reporting period, and the impact relating to 2016 and prior years was incorporated within the 2016 figures. The impact on 2017 has been incorporated within the figures presented in this report.

A. Business and Performance

A.2 Underwriting Performance

The table below summarises Allianz's premium volume and underwriting performance in 2017 and compares it to that of 2016.

	2017			2016		
	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	513	294	93%	501	311	102%
Other motor	181	103	118%	173	107	123%
Fire and other damage to property	556	299	100%	567	303	97%
General liability	225	125	97%	218	122	97%
Miscellaneous financial loss	599	347	93%	566	326	94%
Legal expenses	34	17	119%	41	24	95%
Accepted reinsurance	0	0	N/A	0	0	N/A
Total	**2,108**	**1,185**	**98%**	**2,066**	**1,194**	**99%**

In 2017 gross written premiums were £2,108m, a 2.0% increase over the prior year, with Commercial Lines aided by rating action in response to the Ogden changes and Personal Lines shrinking as a result of the remedial action taken on the broker motor and home portfolios due to tough market conditions.

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

The Ogden rate change continued to have an impact on both motor and liability lines of business with a £22m charge on the 2017 result, this compares to the £58m accounted for in 2016. The underlying profit is driven by the strength of our Commercial business, continuing profitable growth in Petplan and the absence of a major weather event.

Allianz's Commercial profits increased in 2017 compared to 2016 with benign weather conditions and improved performance in relation to prior years helping to mitigate large losses and Ogden related claims inflation. Rate increases were generally below claims inflation resulting in another year of a weak rating environment. Further rate strength is needed across all Commercial lines of business.

Performance in the Personal accounts was mixed, with Animal Health continuing to perform strongly and the Motor accounts returning a loss due to unacceptable loss ratios. Personal Home also made losses with claims experience remaining difficult and extreme competitiveness within the market continuing to persist.

Commission rates to intermediaries rose marginally in 2017 with consolidation continuing to be a feature of the broker market.

A. Business and Performance

A.3 Investment Performance

The tables below summarises the investment performance during 2017 of the funds directly invested by Allianz Insurance plc and provides a comparison with the prior year.

(£m)	Market Value 31/12/2015	Net additions /(disposals)	Net Unrealised Gains /(losses)	Market Value 31/12/2016	Net additions / (disposals)	Net Unrealised Gains /(losses)	Market Value 31/12/2017	2017			2016		
								Net Realised Gains / write downs	Income	Expense	Net Realised Gains / write downs	Income	Expense
Fixed Income	**2,168**	**(16)**	**55**	**2,207**	**275**	**(17)**	**2,465**	**15**	**54**	**(4)**	**9**	**54**	**(5)**
Government	559	13	(15)	557	6	12	**575**	2	6	(4)	2	8	
Securitized	434	(37)	6	403	58	(3)	**458**	2	10		0	8	
Corporates	1,175	8	64	1,247	211	(26)	**1,432**	11	38		7	38	
Deposits	**6**	**1**	**0**	**7**	**(1)**	**0**	**6**	**0**	**1**	**0**	**0**	**0**	**(0)**
Managed Funds	**0**	**0**	**0**	**0**	**150**	**2**	**152**	**0**	**3**	**0**	**0**	**0**	**0**
Loans	**399**	**1**	**(4)**	**396**	**(212)**	**(54)**	**130**	**27**	**5**	**0**	**(3)**	**20**	**(0)**
Total	**2,573**	**(14)**	**51**	**2,610**	**213**	**(70)**	**2,753**	**42**	**63**	**(4)**	**6**	**74**	**(5)**

In the above table, the column "Net realised gains/write downs" indicates the gains and losses recognised directly in equity. The table shows the investments held directly by Allianz Insurance plc. Investments in Equity and Real Estate, small as a proportion of total assets, are held by the subsidiary companies Allianz Equity Investments Ltd and Allianz Properties Ltd 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 Allianz Insurance plc has continued to concentrate on minimising risk to the core insurance operations from which the investment cash flows are derived. Cash and other very short-term investments were maintained at low levels as returns in these classes continued to be low. The allocation to high quality corporate and securitised bonds remained overweight to enhance returns. £150m was also added during the period with respect to two managed funds to further diversify the portfolio.

Investment Income in 2017 was £63m compared with £74m in 2016. The decline in investment income was mainly due to the early repayment of a £340m high yielding loan to Allianz SE as well as lower market yields. Realised gains amounted to £42m compared to £6m in 2016. The realised gains included £27m compensation for the loans early repayment. Realised gains, investment income and investment expenses for 2017 and the 2016 are provided in the table above.

A.4 Performance of Other Activities

In 2017, the company incurred £16m (2016 £16m) other expenses in management charges from a fellow group undertaking for administration and claims management services.

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

A.5 Other Information

During the year, as a result of the reorganisation of both the claims and operational teams, a restructuring charge of £4.5m was incurred. Restructuring charges in 2016 amounted to £9m. The claims reorganisation involved the consolidation of claims handling centres and the operational teams' restructure reflected changes in the business model.

B. System of Governance

B.1 General Information on System of Governance

This section is unaudited.

The Board and its Committees

Allianz Insurance plc is managed together with the other subsidiaries of Allianz Holdings plc, and the Boards of these two companies are identical. On 31 December 2017 the Board comprised a non-executive Chairman, our non-executive directors and two executive directors. The Chairman was an Allianz SE executive. The Board is responsible for deciding the business strategy and for ultimate oversight of the conduct and performance of Allianz Insurance plc and the other subsidiaries of Allianz Holdings plc. It is also responsible for external reporting.

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

The members of the Board are detailed below as well as their Board committee memberships. All committees are responsible for oversight of their subject matter for all companies in the Allianz Holdings plc group, including Allianz Insurance plc.

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

		Management Board	Board Risk Committee	Audit Committee	Finance Committee	Compensation Committee	Nominations Committee
Axel Theis*	**Chairman**		x	x	x	x	
Christian Dinesen			x	Chair			x
Rick Hudson			Chair	x			x
Rosanne Murison			x	x		Chair	Chair
Andrew Torrance			x	x			
Jon Dye	**Chief Executive Officer**	Chair			Chair		
Mark Churchlow	**Chief Financial Officer**	x	x		x		

* Resigned from Board effective 31 December 2017. Rick Hudson has been appointed acting Chairman with effect from 01 January 2018, subject to regulatory approval.

B. System of Governance

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.

The Audit Committee monitors the integrity of the financial statements, financial reporting developments, financial controls and the system of internal control.

The Finance Committee is responsible for the approval and monitoring of the implementation of investment strategy and the approval of Mergers and Acquisitions and other non-routine transactions.

The Compensation Committee is responsible for compensation strategy, and the structure and the amount of compensation for the directors and senior executives of the company.

The Nominations 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.

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, monitor and to make material operational decisions.

The members of the Management Board are:

- Jon Dye – Chief Executive Officer
- Mark Churchlow – Chief Financial Officer
- Jacob Abboud – Chief Information Officer
- Neil Clutterbuck – Chief Underwriting Officer
- Philip Gennoy – Chief HR Officer
- Graham Gibson – Chief Claims Officer
- Simon McGinn – General Manager, Commercial and Personal
- Stephanie Smith – Chief Operating Officer
- Kevin Wenzel – Chief Actuary (until 31 December 2017)
- Dr. Karina Schreiber – Chief Risk Officer (from 23 October 2017)

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

- Risk Function: Dr. Karina Schreiber – Chief Risk Officer (replacing Stephen Wilcox)
- Compliance Function: Ann Alexander – Group Compliance Officer
- Actuarial Function: Kevin Wenzel – Chief Actuary (until 31 December 2017, replaced by Phil Singh on 01 January 2018, subject to regulatory approval)
- Internal Audit Function: Andrew Gascoyne – Head of Internal Audit

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

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

The PRA has set prescribed responsibilities which must be allocated to specific individuals in insurance companies. The following table sets out which role within Allianz is responsible for the execution of each specific responsibility.

B. System of Governance

No	Prescribed Responsibility	Allocation
1	Responsibility for ensuring that the firm has complied with its obligation in Insurance - Fitness and Propriety 2.1 to ensure that every person who performs a key function (including every person in respect of whom an application under s59 of FSMA is made) is a fit and proper person	Chairman
2	Responsibility for leading the development of the firm's culture by the governing body as a whole	Chairman
3	Responsibility for overseeing the adoption of the firm's culture in the day-to-day management of the firm	Chief Executive
4	Responsibility for the production and integrity of the firm's financial information and its regulatory reporting	Chief Financial Officer
5	Responsibility for management of the allocation and maintenance of the firm's: (a) capital; and (b) liquidity	Chief Financial Officer
6	Responsibility for the development and maintenance of the firm's business model by the governing body	Chief Executive
7	Responsibility for performance of the firm's ORSA	Chief Risk Officer
8	Responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the firm's governing body	Chairman
9	Responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all of the firm's key function holders (other than members of the firm's governing body)	Chief Executive
10	Responsibility for the oversight of the independence, autonomy and effectiveness of the firm's policies and procedures on whistleblowing including the procedures for protection of staff who raise concerns from detrimental treatment	Chair of Risk Committee
11	Responsibility for overseeing the development and implementation of the firm's remuneration policies and practices	Chair of Compensation Committee

B. System of Governance

The preceding roles and responsibilities are supported by a small number of individually identified Key Function Holders and Key Function Performers.

There were no material changes in the system of governance during the year.

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 that the remuneration framework is consistent 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.

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. It is the responsibility of managers to ensure that personal targets in place are objective and understood by the participants.

External non-executive directors receive fixed remuneration.

The company provides a defined contribution pension scheme which is open to all employees. In previous years employees were offered a defined benefit pension plan that provided benefits linked to salary. This was closed to any further accrual of benefits in 2015.

During 2017 the only material transactions with shareholders, persons who exercise significant influence on the undertaking, or with members of the Board were the repayment of a loan of £340m that had been made by Allianz Insurance plc to Allianz SE on February 22nd 2017, together with the payment of £33m of reinsurance premium to Allianz SE and the receipt of £2m of reinsurance recoveries.

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

B.2 Fit & Proper Requirements

The company requires that all directors and other senior managers possess integrity, repute, specific skills, knowledge and the experience necessary to execute their respective roles. This requirement has been aligned to satisfy the requirements of the PRA and/or FCA for all managers identified as Key Function Holders and/or Key Function Performers within the UK regulatory Senior Insurance Managers' regime.

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

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

B.3 Risk Management System including Own Risk & Solvency Assessment

Risk Management System

The design and operation of the Risk Management System is the responsibility of the Chief Risk Officer. The Risk Management System encompasses all levels of the company's management. The components of the System, described below, are embedded in the operations of the organisation. The System is built around the Three Lines of Defence model.

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

B. System of Governance

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

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

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

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

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

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

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

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

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

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 quantified, unquantified and overarching 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 Insurance plc has received approval from the PRA as a member of the College of Supervisors of the Allianz group to use the Allianz group internal model to calculate its Solvency Capital Requirement ("SCR"). A full governance framework is in place including defined roles and responsibilities based on requirements laid down by Allianz 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 of validation and makes recommendations to the Board Risk Committee.

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

ORSA Process

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

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

B. System of Governance

The ORSA covers the overall solvency needs from a forward-looking perspective taking into account Allianz's risk profile, approved risk tolerance limits and the business strategy and the significance with which Allianz's risk profile deviates from the assumptions underlying the Allianz internal capital model. The ORSA is an integral part of the development and monitoring of the Allianz business strategy and is taken into account on an ongoing basis in Allianz 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.

This full, detailed report is produced annually coincident with the production of the corporate plan, and is updated quarterly and following any event that materially changes the risk profile of the organisation.

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

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

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

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

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

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

Dividends are planned through the company's annual planning mechanisms, taking into account the Board's requirement to hold an appropriate buffer 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 over Financial Reporting (ICOFR). Under ICOFR processes relevant for financial reporting are tested by first-line management and discussed with the Risk function. Internal Audit test the Entity Level Controls. Senior managers across the organisation, culminating in the Chief Financial Officer and the Chief Executive Officer, are held accountable for the effective design and performance of processes within their span of control. The ICOFR process, including the reporting of deficiencies and their remediation, is monitored by the Audit Committee.

B. System of Governance

Compliance Function

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

- to support and monitor compliance with applicable law, regulations and administrative provisions to protect Allianz 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 and Internal Audit, Risk, and Actuarial, or external resources.

The Compliance function comprises a full-time team of compliance professionals led by the Group Compliance officer. It has a reporting line independent from first-line functions; independence is ensured by written policy and by the oversight of the Board Risk Committee. The Compliance function produces an annual plan in consultation with the Risk and Audit functions for approval by the Management Board and the Board. Delivery of this plan, findings from monitoring exercises and remediation of those findings are overseen by the Management Board and the Operational Risk Committee on behalf of the Board Risk Committee.

B.5 Actuarial Function

Up until the end of 2017 Actuarial function consisted of the Chief Actuary and an experienced qualified actuary. From the beginning of 2018 the function consists of only the Chief Actuary. Members of the function always hold an appropriate Chief Actuary Practicing Certificate and are employees of Allianz. The Actuarial function leads a full-time team of qualified and student actuaries. The primary responsibilities and activities of the function are to:

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

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

B.6 Internal Audit Function

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

The primary responsibilities and activities of the function are to:

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

B. System of Governance

B.7 Outsourcing

Allianz has a local outsourcing policy that aligns with the key principles of the corresponding document at the Allianz 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 policy sets out a clear framework for the management of outsourcing, based on best practice defined by the local Procurement team. Compliance with the policy is overseen by the Procurement team, who also provide expert advice on setting up, managing and terminating outsourcing and other contracts.

The most material outsourcing arrangements are defined as Critical or Important Functions or Services (CIFS) in our local Outsourcing policy. 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 operational functions or activities that are outsourced, and the jurisdiction in which the service providers are located.

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

B. 8 Any other Information

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

Activity outsourced	Fellow member of the Allianz 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	Germany
Loss adjusting services	N	United Kingdom
Provision of document preparation, printing and distribution	N	United Kingdom
Application development and maintenance, customer and business services	Y	India
Information technology infrastructure provision	Y	Germany
Management Services, including provision of staff	Y	United Kingdom

C. Risk Profile

This section is unaudited.

This section provides information on Allianz's overall risk profile followed by a description of each risk category in detail.

Risk is measured and steered using a number of qualitative and quantitative tools. The main quantitative tool is the approved internal model, under which Allianz 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. Allianz 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 2017 Allianz introduced several changes to the internal model, which are described in the relevant following subsections. There have been no other material changes in the methods used to assess risks.

Allianz insures only non-life insurance risks. As a result of its asset management activities to support its primary business activities it is also exposed to market and credit risks. As a result of its exposure to a legacy defined benefit pension fund Allianz has exposure to life insurance risks. It is also exposed to life insurance risks because it settles certain claims as PPOs (Periodic Payment Orders).

In order to adequately understand its risk exposures, Allianz extensively uses stress testing and sensitivity analysis for all material risks and events. Further information on sensitivity analysis is provided in section C.7.

Allianz does not use Special Purpose Vehicles to transfer risk. Allianz 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 £680m.

The key underwriting risk concentration for Allianz is geographical – most of its business is written in Great Britain, so it does not have international geographical diversity and is exposed to UK government decisions, such as the change in the Ogden discount rate. Nevertheless, its insurance portfolio is geographically dispersed within the country, and it displays significant diversity within its product set, as illustrated by the table in section A.2.

The diversity of future risk exposure in 2018 will be affected by the joint venture with LV=. During 2018 Allianz's Personal Motor and Home portfolios will transfer into the joint venture, while LV='s Commercial lines business will transfer into Allianz Insurance plc. The anticipated impact on diversification within the underwriting risk capital is expected to be small.

Premium risk

Allianz 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. Allianz faces the risk that underwriting profitability is less than expected because there are more claims than expected, or claims are higher in value than expected on average.

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

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

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

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

A key change to the risk exposure during 2017 was the change in the Ogden discount rate, which, for Motor and Liability business written but not yet exposed, increased the likelihood of claims being higher in value than expected in the pricing basis. In addition, the runoff of Allianz's Direct Motor and Home books reduced the exposure in these lines of business compared to 2016.

C. Risk Profile

Reserve risk

Allianz 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.

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

The main change to reserve risk exposure during 2017 was the change in the Ogden discount rate. Section D.2 (Technical Provisions) covers reserve risk in more detail.

Life insurance risks

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

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

Business risk

The business risks for Allianz 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 Allianz to absorb its fixed costs.

Allianz has no material sensitivity to business risk.

C.2 Market risk

The guiding principle for Allianz'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).

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

Allianz is exposed to movements in financial markets both through the investments of the insurance company and through the investments of the pension fund.

The risk capital before diversification within this category and with other risk categories allocated to market risks amounts to £657m. The main drivers are credit spread risk and inflation risk.

Allianz 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 Investment, Finance and Board Risk Committees.

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. Compliance with the SAA is monitored by the Risk function and by the Board Risk Committee with support from the Investment Committee.

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.

During 2017 Q1 a significant loan that Allianz had made to Allianz SE was redeemed early. This loan had previously represented 13.5% of the SAA and, in line with the revised SAA, was reinvested in a range of fixed income assets, including local and global corporate and government bonds, as well as securitised investments. Other than this, there have been no material changes in exposures to market risk. Allianz has no material concentration of market risks, as illustrated by the table in section A.3.

Allianz 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

Equity risk

Equity investments are held to diversify the portfolios and take advantage of expected long-term returns. The key risk from equity holdings is a decrease in share prices. The defined benefit pension fund does not have any equity holdings in its investment portfolio; equity risk only arises from the equity investments held by the insurance company and is not material.

Interest rate risk

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

As at 2017 Q4 a change to the internal model was introduced to include negative interest rates within its modelling, improving the quantitative assessment of interest rate risk.

Credit spread risk

Allianz's internal risk framework fully acknowledges the risk of declining market values for the fixed income assets – such as bonds – due to the widening of credit spreads. Credit spread is the difference in yield between two assets of similar maturity but different credit quality. Credit spread risk is mitigated by managing the credit quality of the fixed interest portfolio.

As at 2017 Q1 a model change was implemented that means the internal model now values pension liabilities using a discount rate based on International Accounting Standard 19 (IAS19) rather than the risk-free rate that was previously used, thereby bringing consistency between the pension deficit valuation deducted from Own Funds and the internal model. As a result the internal model now assesses the credit spread risk in respect of these liabilities as well as for the fixed income assets.

An additional model change to improve the credit spread risk modelling was also introduced in 2017 Q1. This involved increasing the granularity of the credit spread modelling as well as enhancing the representation of potential credit spread stresses that could impact the balance sheet.

Inflation risk

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

Currency risk

Currency risk is not a material risk as almost all Allianz's insurance business is written in Sterling and there are limited historical liabilities in other currencies. It is mitigated by ensuring that where such exposures do exist they are matched by appropriate assets. Allianz 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

Other than to hedge the currency risk within long-term incentive plans awarded to senior managers, Allianz did not use derivatives to seek or to hedge risk during 2017. However, in 2018 Allianz is planning to partially hedge the downside risk on its equity portfolio through the use of a derivative.

C. Risk Profile

C.3 Credit risk

Allianz'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 Allianz's portfolio due to changes in the credit quality of its counterparts ("migration risk") or the inability or unwillingness of the counterparty to fulfill contractual obligations ("default risk").

The risk capital before diversification with other risk categories allocated to credit risk amounts to £116m.

The only material concentration of credit risk is in respect of Allianz SE and its subsidiaries. Allianz's current reinsurance programme is placed with Allianz SE and Allianz Re Dublin dac 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. Allianz previously had additional credit risk exposure in the form of a significant loan that had been made to Allianz SE, but this was redeemed early in 2017 Q1, thereby reducing this concentration of risk compared to 2016.

In respect of reinsurance, the financial strength of Allianz SE and the interdependency between Allianz Re Dublin dac and Allianz SE is such that an impact on UK customers would only be felt in the event of a major global shock impacting the ability of reinsurance to respond to a major localised shock, such as an extremely major natural catastrophe in the UK.

Allianz is exposed to off-balance-sheet credit risk in respect of 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.

Allianz 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, Allianz closely monitors liquidity risk on a quarterly basis.

The nature of Allianz'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.

Allianz 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, Allianz retains access to very significant liquidity.

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.

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.

Allianz'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 business continuity; 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.

C. Risk Profile

The key mitigants around operational risk are the development and maintenance of operational risk and control registers with the support of the Risk function, and the detailed monitoring of operational risk by first-line governance forums and by the Operational Risk Committee on behalf of the Board 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.6 Other material risks

Strategic risk

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

Reputational risk

Reputational risk is the risk of an unexpected negative change in the company's value as a result of a decline in the reputation of the company in the eyes of its customers, regulators or staff. Reputational risks are mitigated by the implementation of policies on external and internal communication, and by active management of the relationships between Allianz and its regulators. They are evaluated and analysed in discussion 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. Allianz endeavours to execute its business activities appropriately, seeking to ensure that there is no risk of significant detriment to customers, Allianz itself or corporate partners as a result of inappropriate execution. Allianz 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.

Pension risk

Allianz has exposure to pension risk via a legacy defined benefit pension scheme. Full details of the pension scheme and its valuation can be found in note 16 to the Report and Accounts of Allianz Holdings plc[7] (pages 59–62).

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

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

C. Risk Profile

C.7 Any other information

Risk Sensitivity Analysis

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

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

As at 31 December 2017 Allianz's Solvency ratio (that is, the percentage coverage of the SCR by Own Funds) prior to dividend payments was 154%. 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 Allianz's Solvency ratio. The impact on Solvency ratio is the absolute change in percentage points (%p).

The inflation stresses in the table use a simplified approach in allowing for the impact of the caps and floors on pension liabilities and, although in reality there are a variety of inflationary pressures on insurance liabilities, it is assumed that all insurance liabilities are similarly affected by inflation, moving in line with the Retail Price Index (RPI).

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

The results are reasonable given the strategy and business of Allianz Insurance plc.

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 Allianz'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 of Own Funds (£m)	Impact on SCR (£m)	Impact on Solvency ratio
Market risk			
Interest Rates: 50bps increase	20	−18	7%p
Interest Rates: 50bps decrease	−23	21	−7%p
Credit Spreads: 50bps increase relative to swaps	−66	−10	−7%p
Credit Spreads: 50bps decrease relative to swaps	74	12	8%p
Inflation: 50bps increase	−38	21	−9%p
Inflation: 50bps decrease	40	−18	9%p
Equity: 30% decrease in equity markets	−33	−9	−3%p
Real estate: 10% decrease in property markets	−23	−5	−2%p
Non-market risk			
Premium risk: 1 in 10 year event	−65	13	−11%p
Reserve risk: 1 in 10 year event	−73	10	−12%p
Longevity risk: 1 in 10 year event	−35	33	−11%p
Credit risk: 1 in 10 year event	−25	1	−4%p

D. Valuation for solvency purposes

Scope of report and introduction

The scope of this section of the report is to represent the excess of assets over liabilities of Allianz Insurance plc.

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

The recognition, measurement and valuation policies for IFRS reporting purposes applied by the Allianz Holdings plc group, of which Allianz Insurance plc is a member, are summarised in notes 1.4 and 2 to the Annual Report[8] of that group (pages 44 – 52). Allianz Insurance plc adopts the same recognition, measurement and valuation policies for IFRS purposes as the other members of the Allianz Holdings plc group. This report summarises any differences to those valuation policies for solvency purposes.

The table overleaf shows the IFRS balance sheet of Allianz Insurance plc as at 31 December 2017, and the key reclassifications and valuation differences between that and the balance sheet used for solvency purposes. With effect from 2017 the deficit of the Allianz Retirement and Death Benefit Fund ceased to be included within the Allianz Insurance plc Market Value Balance Sheet ("MVBS" – the Balance Sheet used under Solvency II) and instead is recognised as a seperate deduction to Own Funds. The pension deficit is reported in the financial statements of the sponsoring employer in accordance with IAS 19 (Allianz Management Services Limited, a fellow Allianz UK group subsidiary) but for solvency purposes the deficit (net of deferred tax) is included within the Own Funds of Allianz Insurance plc.

During the reporting period, a new financial investment was acquired and classified as Level 3. This was valued using an income approach for Solvency II purposes.

There were no other changes made to the recognition and valuation bases used or to the bases used for making estimations during the reporting period.

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

D. Valuation for solvency purposes

	IFRS Balance Sheet	Reclassifications	Valuation Difference	Solvency II MVBS
	£000's	**£000's**	**£000's**	**£000's**
Assets				
Goodwill	3	–	(3)	–
Deferred acquisition costs	127		(127)	–
Intangible assets	52	–	(52)	–
Deferred tax asset	–	–	20	20
Property, plant and equipment held for own use	16	–	–	16
Investments				
Holdings in related undertakings, including participations	287	–	193	480
Government Bonds	555	20		575
Corporate Bonds	1,422	10		1,432
Collateralised securities	458			458
Collective Inestment undertakings	151			151
Accrued Interest	30	(30)	–	–
Derivatives		10	–	10
Deposits other than cash equivalents	7			7
Loans and mortgages	80	50	–	130
Reinsurance recoverables				
Non-life and health similar to non-life	1,234	(50)	(156)	1,028
Life and health similar to life, excluding health and index-linked and unit-linked	86	–	33	119
Insurance and intermediaries receivables	778	(1)	(690)	87
Trade receivables	266	(52)	14	228
Cash and cash equivalents	(13)		–	(13)
TOTAL ASSETS	**5,539**	**(43)**	**(768)**	**4,728**
Liabilities				–
Technical provisions				
Best Estimate – non-life	2,710	15	(951)	1,774
Risk Margin – non-life	–	–	65	65
Best Estimate – life	120		57	177
Risk Margin – life			35	35
Provisions other than technical provisions	3	8	–	11
Deposits from reinsurers	923	9		932
Deferred tax liability	5		(5)	–
Insurance and intermediaries payables	93	(15)		78
Reinsurance payables	67	(59)		8
Trade payables	63		–	63
Other liabilities	354	(1)		353
TOTAL LIABILITIES	**4,338**	**(43)**	**(799)**	**3,496**
Excess of assets over liabilities	**1,201**	**–**	**31**	**1,232**

D. Valuation for solvency purposes

D.1 Assets

Participations in insurance companies are valued at the value of their Solvency II Own Funds. Participations in other undertakings are valued using the adjusted equity method, and therefore at their IFRS Net Asset Value, adjusted for goodwill and intangible assets. Goodwill is valued at zero as well as Intangible assets and DAC.

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

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

Investments classified as Level 1 are reported in the MVBS at the value included under the IFRS accounts. According to Article 10 of the Delegated Regulation 2015/35, Level 2 investments are valued using quoted market prices in active markets for similar assets with adjustments to reflect factors specific to the asset, including the condition or location of the asset, the extent to which inputs relate to items that are comparable to the asset and the volume or level of activity in the markets within which the inputs are observed. The value used for the preparation of the IFRS accounts is considered a fair approximation of the market value according with Solvency II rules, therefore no adjustment has been made except for the reclassification of the accrued interests presented in the caption "Other assets" under IFRS." Investments classified as Level 3 are valued using an income approach for both IFRS and MVBS and are covered in section D.4 Alternative Valuation Methods. The split of Investment classifications is provided in the table below.

	Level 1	Level 2	Level 3	Total
Government and government agency bonds	391	184	0	575
Corporate bonds	24	1,852	14	1,890
Managed funds	151	0	0	151
Total	**566**	**2,036**	**14**	**2,616**

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

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 IFRS accounts of Allianz Holdings plc referred to above in the introduction to this section.

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

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

	Valuation Differences Before Deferred Tax	Tax Rate Applied	Deferred Tax Impact	Net Differences between IFRS and SII
Goodwill	(3)	0%	–	(3)
Intangible assets	(52)	0%	–	(52)
Deferred acquisition costs	(127)	17%	22	(105)
Holdings in related undertakings, including participations	193	0%	–	193
Non-life	(156)	17%	27	(129)
Life	33	17%	(6)	27
Insurance and intermediaries receivables	(690)	17%	118	(572)
Trade receivables	13	17%	(2)	11
Best Estimate – non-life	951	17%	(161)	790
Risk Margin – non-life	(65)	17%	11	(54)
Best Estimate – life	(57)	17%	10	(47)
Risk Margin – life	(35)	17%	6	(29)
Other liabilities	1	17%	0	1
Total	**6**		**25**	**31**

D. Valuation for solvency purposes

D.2 Technical Provisions

SII line of business	IFRS provisions	Adjustment in respect of future premiums and exposures	Sundry adjustments	Discounting adjustment	Risk margin	SII technical provisions
Motor vehicle liability insurance	532	(75)	1	(14)	16	**460**
Other motor insurance	43	(28)	0	(0)	0	**15**
Fire and other damage to property insurance	209	139	0	(3)	5	**73**
Miscellaneous financial loss	177	(249)	0	(1)	1	**(72)**
Legal expenses insurance	28	(50)	0	0	4	**(19)**
General liability insurance	342	(30)	1	(13)	37	**337**
Non-proportional marine, aviation and transport reinsurance	17	3	(3)	(1)	1	**16**
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	33	3	6	15	35	**93**
Total	**1,382**	**(567)**	**7**	**(18)**	**100**	**904**

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

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

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

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

Basis

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

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

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

Methods and assumptions

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

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

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

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

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

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

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

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

This approach is based on the following assumptions:

- The current ratios of reserve risk capital to net reserves by line of business will increase over the runoff.
- The runoff 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 runoff 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 (EIOPA) at 6%.

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

SII line of business	**Gross**			**Net**		
	Claims Provision	**Premium Provision**	**Risk Margin**	**Claims Provision**	**Premium Provision**	**Risk Margin**
Motor vehicle liability insurance	750	124	16	400	44	16
Other motor insurance	5	38	0	3	12	0
Fire and other damage to property insurance	207	14	5	123	(56)	5
Miscellaneous financial loss	60	(35)	1	36	(109)	1
Legal expenses insurance	(3)	(24)	4	8	(31)	4
General liability insurance	497	43	37	295	5	37
Non-proportional marine, aviation and transport reinsurance	96	3	1	16	(0)	1
Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	177	0	35	58	0	35
Total	**1,789**	**162**	**100**	**939**	**(135)**	**100**

D. Valuation for solvency purposes

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

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

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

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

Sensitivity	% change in net technical provisions
Increase future loss ratios by 1pp	0.7%
Decrease future loss ratios by 1pp	–0.7%
Increase risk yield by 0.5pp	–2.7%
Decrease risk yield by 0.5pp	3.2%
Delay payment time by 1 Year	–2.2%

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

Reinsurance recoverables

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

Cash in-flows:

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

Cash out-flows:

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

For the main classes of business Allianz Insurance plc purchases excess of loss contracts with sufficiently high retentions for only relatively few large claims to be recoverable. Incurred but not reported provisions for outstanding claims are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. Any difference in timing between expected claims settlement and related reinsurance recoveries is reflected in the timing of the reinsurance cash flows.

For the premium provision, future claims within the premium provision are calculated both gross and net of reinsurance and the reinsurance recoverable is calculated as the difference between them. Future net claims are based on a loss ratio method consistent with the gross claims projection. The net UPR is adjusted to ensure that contract boundaries are consistent between the gross liabilities and the reinsurance recoveries on those liabilities. This involves removing any reinsurance exposure related to future new business and including additional reinsurance exposure for current business covered by the reinsurance treaties incepting on 1 January 2018. This is based on an assumed management action to renew the annual excess of loss reinsurance treaties on 1 January. Correspondingly, a share of the future reinsurance premiums for these contracts relating to current business is also allowed for within the technical provisions.

Reinsurance future premiums are included within the technical provisions based on the payment terms of the individual reinsurance contracts. Allowance is made for the expected future cash flows arising from the whole account quota share arrangement with Allianz Re, based on the payment terms of the treaty.

D. Valuation for solvency purposes

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.

Material changes in assumptions

The table below shows the change in the technical provisions from 2016 to 2017, both gross and net of reinsurance. Overall, the net technical provisions have reduced by £31m over the year.

	Net		
	2017	**2016**	**Change**
Best estimate	804	783	21
Risk Margin	100	152	(52)
SII Technical Provisions	**904**	**935**	**(31)**
	Gross		
	2017	**2016**	**Change**
Best estimate	1,951	1,932	19
Risk Margin	100	152	(52)
SII Technical Provisions	**2,051**	**2,084**	**(33)**

The most material change has been in relation to an assumption of a management action relating to the previously mentioned whole account quota share with Allianz Re. Whereas previously it was assumed that a management action would be taken to cancel this contract at the end of the financial year, this has now been removed meaning the contract is assumed to remain in place throughout the run off of the liabilities. The impact of this change has been to reduce the net technical provisions by £25m, consisting of a £50m reduction in the risk margin offset by a £25m increase in the best estimate liabilities.

Simplifications

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

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

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

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

D.3 Other liabilities

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

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

For all other classes of liability there is no difference between the IFRS valuation and the MVBS valuation. Full details on valuation methodologies can be found in the Report and Accounts for Allianz Holdings plc. As noted above, Allianz Insurance plc has adopted those same valuation methodologies.

D.4 Alternative Valuation Methods

During the year, 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).

D.5 Any other information

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

E. Capital Management

E.1. Own Funds

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

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

Allianz Insurance 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 Allianz Insurance plc 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 Allianz for managing its Own Funds.

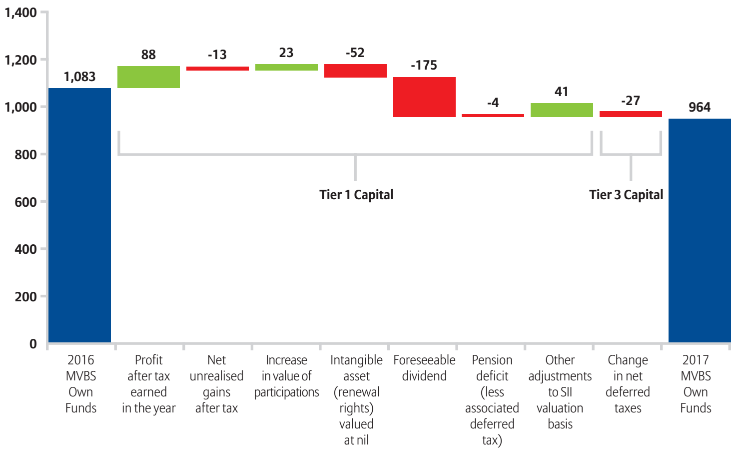
The table below shows the breakdown of the Own Funds by Tier, and the SCR coverage. The SCR figures are unaudited.

	2017	2016	Movement
	£m	**£m**	**£m**
Tier 1			
Ordinary shares	173	173	0
Share premium	5	5	0
Reconciliation reserve	766	858	(92)
Total Tier 1	**944**	**1,036**	**(92)**
Tier 3			
Net deferred tax assets	20	47	(27)
Total Tier 3	**20**	**47**	**(27)**
Total eligible own funds to meet the SCR	**964**	**1,083**	**(119)**
SCR (see below)	741	829	(88)
SCR Coverage ratio	**130%**	**131%**	**-1%**
Total eligible own funds to meet the MCR	**944**	**1,036**	**(92)**
MCR	198	207	(9)
MCR Coverage ratio	**476%**	**500%**	**-24%**

E. Capital Management

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 Allianz Insurance plc are subject to transitional measures for their inclusion in Tier 1. Allianz Insurance plc 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 significant changes in Own Funds over the reporting period are illustrated in the figure below. The changes in Tier 1 capital over the reporting period are all within the reconciliation reserve.

Movement in Own Funds over the Year (£m)



As at 31 December 2017 there is a difference of £268m between the excess of assets over liabilities of £1,232m and Own Funds of £964m. The pension fund deficit which is valued in accordance with IAS 19 (reported in the financial statements of the sponsoring employer, Allianz Management Services Limited, a fellow Allianz UK group subsidiary), less associated deferred tax, accounts for £93m of this difference. This is included in the 'Foreseeable dividend, distribution and charges' line of Own Funds. The remaining difference is due to the £175m foreseeable dividend that will be paid to Allianz SE in early 2018. A strong SCR coverage ratio of 130% is maintained.

Reconciliation between IFRS and MVBS excess of assets over liabilities

The MVBS excess of assets over liabilities amounts to £1,232m, whereas the IFRS excess of assets over liabilities amounts to £1,201m. The difference of £31m is largely attributable to five key drivers, which are illustrated in the table below.

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

	£m
IFRS excess assets over liabilities	**1,201**
Goodwill and intangible assets (IFRS balance sheet items that are not recognised in the MVBS)	(55)
Risk margin (an MVBS balance sheet item that is not recognised in IFRS)	(100)
Differences in recognition and valuation of technical provisions and reinsurance recoverables (including associated receivables/payables and DAC)	(32)
Inclusion of participations at Solvency II value	193
Deferred taxes on the above mentioned balance sheet differences	25
MVBS excess assets over liabilities	**1,232**

E. Capital Management

E.2. Solvency Capital Requirement & Minimum Capital Requirement

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

Allianz Insurance plc has received approval to use the Allianz group internal model to determine its SCR. The SCR at 31 December 2017 amounts to £741m, and the MCR amounts to £198m.

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 2016 and the movement over the reporting period are also shown.

Category of risk	Capital		
	2017	2016	Movement
Underwriting risk	**680**	**723**	**(43)**
Premium risk	268	267	2
Longevity risk	199	237	(39)
Reserve risk	191	197	(6)
Business risk	22	23	0
Market risk	**657**	**938**	**(281)**
Equity risk	49	57	(7)
Interest rate risk	115	173	(59)
Credit spread risk	259	268	(8)
Inflation risk	135	352	(217)
Currency risk	2	1	2
Real estate risk	96	87	9
Credit risk	**116**	**109**	**6**
Operational risk	**98**	**87**	**10**
Sum of standalone risks	**1,551**	**1,858**	**(307)**
Diversification benefit	(908)	(1,124)	216
Management loads	98	95	3
SCR	**741**	**829**	**(88)**

The total diversified SCR for Allianz Insurance plc reduced by £88m over the year from £829m to £741m, due to a reduction in market risk and underwriting risk. This movement is predominantly driven by major model changes introduced to the internal model during 2017, which had a reducing impact on the diversified SCR of approximately £118m.

As described in section C.2, one of the model changes implemented means that the internal model now values pension liabilities using a discount rate based on IAS19 rather than the risk-free rate that was previously used. This change significantly reduced the base value of the pension liabilities in the internal model, leading to a closer match with the pension assets and a reduction in risk capital for inflation risk, interest rate risk and longevity risk. A second model change to improve and increase the granularity of the credit spread risk modelling led to a reduction in capital for credit spread risk. Several other model changes were also implemented, for example the introduction of negative interest rates, but these had an immaterial impact on the SCR compared to the IAS19 and credit spread model changes.

The remaining and opposite movement of £30m in the diversified SCR is driven by a combination of model updates, that is, the annual re-parameterisation of individual risk types, and changes in the portfolio or positions of assets and liabilities. Both longevity risk and operational risk capital increased following their annual modelling update. Credit spread risk and credit risk capital increased following the early redemption of a significant loan made to Allianz SE and its reinvestment in a range of other fixed income assets.

Allianz applies two management loads to the total diversified SCR to allow for some shortcomings in the internal model. Following the introduction of the major model changes in 2017, one of the management loads was removed as a result of the improvement in credit spread modelling. However, an alternative management load is now held in respect of the interaction between risks for the insurance company and the pension scheme. In last year's 2016 SFCR the management loads were allocated to their respective risk types in the breakdown of the SCR, whereas in the table opposite the management loads have been reported separately.

E.3 Use of various options in the Standard Formula calculation

This sub-section is unaudited.

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

E. Capital Management

E.4 Differences between the Standard Formula and any internal model used

This sub-section is unaudited.

The scope of the internal model is the whole of the business of Allianz. It also covers the risks inherent in the Allianz Retirement and Death Benefits scheme, a defined benefit pension scheme which is sponsored by Allianz Management Services Ltd, an Allianz sister company.

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

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

Risk Module	Methodologies used by Allianz 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

Use of the internal model

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

Uses of the model are documented internally and include:

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

Methodological approach of the internal model

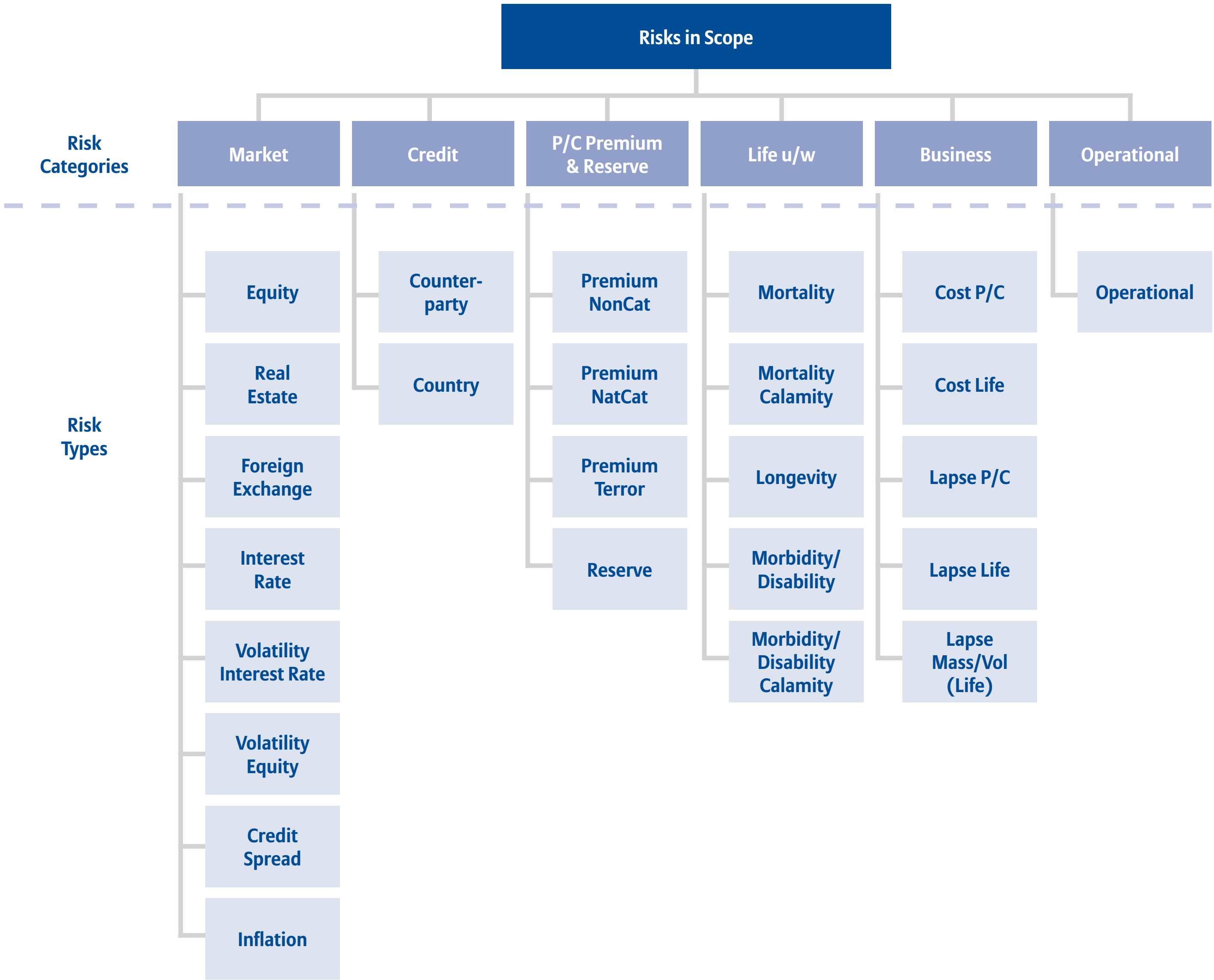
The internal risk capital model is based on a Value-at-Risk approach using a Monte Carlo simulation model. The starting point of the risk calculation is the market value balance sheet and the allocation of each item to the relevant risk categories. Risk capital for each category is defined as the change in economic value over the projected time period based on the underlying distribution assumptions for each risk factor. Where possible, the distributions are calibrated to market data or Allianz'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 to other risk types or categories but also on an aggregated level taking diversification into account.

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

E. Capital Management



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

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

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

E. Capital Management

For the aggregation of risks, the Allianz internal model uses a copula to derive an overall distribution of risk for the whole of Allianz Insurance, 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.

Major model changes

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

During 2016, Allianz made an application to make a number of major changes to its internal model. These covered modules concerning credit spread risk, pension risk and natural catastrophe risk.

Regulatory approval for the changes was granted during early 2017 and took effect in 2017 Q1.

Nature and appropriateness of data

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

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

E.5 Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

Allianz has complied continuously with the Minimum Capital Requirement and the Solvency Capital Requirement.

E.6 Any other information

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

Statement of Directors' responsibilities

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

We are satisfied that:

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

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

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

1 May 2018

Auditor's 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 Chapter of the PRA Rulebook applicable to Solvency II firms

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

Opinion

Except as stated below, we have audited the following documents prepared by Allianz Insurance plc as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Allianz Insurance plc as at 31 December 2017, ('**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 are, or derive from, the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21, S.25.02.21, 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**').

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Allianz Insurance plc as at 31 December 2017 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, as modified by relevant supervisory modifications, 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 Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures 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 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.

Emphasis of matter – defined benefit pension scheme deficit

We draw attention to section E.1 Own Funds of the Solvency and Financial Condition Report. The defined benefit pension deficit of £93m (net of deferred tax) ,which has not been recognised on the company's IFRS balance sheet, has been recognised in 'Foreseeable dividends, distribution, and charges' line (C0060/R0720) in the Own Funds QRT. Our opinion is not modified in respect of this matter.

Auditor‘s report

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 if:

- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors have not disclosed in the SFCR 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 SFCR is authorised for issue.

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, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations and modifications granted by the PRA under The Solvency 2 Regulations 2015 and section 138A of FSMA respectively.

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

Auditor's Responsibilities 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 Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Auditor's report

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 Chapter of the PRA Rulebook we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Allianz Insurance plc statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

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

This report of the external auditor is made solely to the Company's Directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the Directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's Directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the Company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the Company's Directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company through its governing body, for our audit, for this report, or for the opinions we have formed.

Salim Tharani for and on behalf of
KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

1 May 2018

- The maintenance and integrity of Allianz Insurance plc's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Appendix – relevant elements of the Solvency and Financial Condition Report that are not subject to audit

Solo internal model

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
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measures on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- 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 template S.28.01.01
  - Row R0310: SCR
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

S.02.01.02

Balance sheet

		Solvency II value
		C0010
Assets		
Intangible assets	R0030	
Deferred tax assets	R0040	20,327
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	3,112,509
Property (other than for own use)	R0080	
Holdings in related undertakings, including participations	R0090	480,074
Equities	R0100	
Equities - listed	R0110	
Equities - unlisted	R0120	
Bonds	R0130	2,464,502
Government Bonds	R0140	574,801
Corporate Bonds	R0150	1,431,676
Structured notes	R0160	
Collateralised securities	R0170	458,025
Collective Investments Undertakings	R0180	151,537
Derivatives	R0190	9,774
Deposits other than cash equivalents	R0200	6,623
Other investments	R0210	
Assets held for index-linked and unit-linked contracts	R0220	
Loans and mortgages	R0230	130,204
Loans on policies	R0240	
Loans and mortgages to individuals	R0250	
Other loans and mortgages	R0260	130,204
Reinsurance recoverables from:	R0270	1,146,773
Non-life and health similar to non-life	R0280	1,027,620
Non-life excluding health	R0290	1,027,620
Health similar to non-life	R0300	
Life and health similar to life, excluding health and index-linked and unit-linked	R0310	119,153
Health similar to life	R0320	
Life excluding health and index-linked and unit-linked	R0330	119,153
Life index-linked and unit-linked	R0340	
Deposits to cedants	R0350	
Insurance and intermediaries receivables	R0360	86,481
Reinsurance receivables	R0370	489
Receivables (trade, not insurance)	R0380	227,515
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	-12,711
Any other assets, not elsewhere shown	R0420	
Total assets	R0500	4,727,522
Liabilities		
Technical provisions - non-life	R0510	1,838,579
Technical provisions - non-life (excluding health)	R0520	1,838,579
TP calculated as a whole	R0530	
Best Estimate	R0540	1,773,680
Risk margin	R0550	64,898
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	212,015
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	212,015
TP calculated as a whole	R0660	
Best Estimate	R0670	177,102
Risk margin	R0680	34,912
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	10,573
Pension benefit obligations	R0760	0
Deposits from reinsurers	R0770	931,902
Deferred tax liabilities	R0780	0
Derivatives	R0790	
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	77,517
Reinsurance payables	R0830	7,765
Payables (trade, not insurance)	R0840	62,955
Subordinated liabilities	R0850	
Subordinated liabilities not in BOF	R0860	
Subordinated liabilities in BOF	R0870	
Any other liabilities, not elsewhere shown	R0880	353,800
Total liabilities	R0900	3,495,106
Excess of assets over liabilities	R1000	1,232,416

S.05.01.02 - 01

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				
		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	Total
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
Premiums written																		
Gross - Direct Business	R0110				513,284	180,999		556,019	224,651		34,270		598,734					2,107,959
Gross - Proportional reinsurance accepted	R0120																	
Gross - Non-proportional reinsurance accepted	R0130															18		18
Reinsurers' share	R0140				214,311	75,671		260,127	97,569		22,035		241,663			15		911,390
Net	R0200				298,974	105,328		295,892	127,083		12,235		357,071			2		1,196,586
Premiums earned																		
Gross - Direct Business	R0210				504,144	177,215		560,361	221,474		48,597		582,235					2,094,028
Gross - Proportional reinsurance accepted	R0220																	
Gross - Non-proportional reinsurance accepted	R0230															1,323		1,323
Reinsurers' share	R0240				210,527	74,108		261,227	96,711		31,169		235,400			1,218		910,360
Net	R0300				293,617	103,107		299,134	124,763		17,429		346,835			105		1,184,990
Claims incurred																		
Gross - Direct Business	R0310				310,169	151,133		270,770	129,446		39,764		384,142					1,285,424
Gross - Proportional reinsurance accepted	R0320																	
Gross - Non-proportional reinsurance accepted	R0330															2,125		2,125
Reinsurers' share	R0340				122,250	60,453		111,327	55,263		25,662		154,490			1,007		530,451
Net	R0400				187,919	90,680		159,443	74,184		14,102		229,652			1,118		757,099
Changes in other technical provisions																		
Gross - Direct Business	R0410																	
Gross - Proportional reinsurance accepted	R0420																	
Gross - Non- proportional reinsurance accepted	R0430																	
Reinsurers'share	R0440																	
Net	R0500																	
Expenses incurred	R0550				85,657	31,746		139,590	46,908		6,702		94,290			5,240		410,133
Other expenses	R1200																	
Total expenses	R1300																	410,133

S.05.01.02 - 02

Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	Life reinsurance	C0280	C0300
Premiums written										
Gross	R1410									
Reinsurers' share	R1420									
Net	R1500									
Premiums earned										
Gross	R1510									
Reinsurers' share	R1520									
Net	R1600									
Claims incurred										
Gross	R1610						736			736
Reinsurers' share	R1620						848			848
Net	R1700						-112			-112
Changes in other technical provisions										
Gross	R1710									
Reinsurers' share	R1720									
Net	R1800									
Expenses incurred	R1900									
Other expenses	R2500									
Total expenses	R2600									

S.12.01.02 - 01

Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	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)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		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								177,102		177,102						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0080								119,153		119,153						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	R0090								57,950		57,950						
Risk Margin	R0100								34,912		34,912						
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								212,015		212,015						

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance									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				123,782	38,052		14,366	42,778		-24,290		-35,374			2,553		161,868
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0140				79,722	25,825		70,030	38,086		6,473		73,983			2,955		297,072
Net Best Estimate of Premium Provisions	R0150				44,060	12,227		-55,663	4,692		-30,762		-109,356			-402		-135,204
Claims provisions																		
Gross	R0160				750,362	5,234		206,961	496,645		-2,857		59,776			95,691		1,611,812
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	R0240				350,577	2,413		83,928	201,609		-11,120		23,394			79,746		730,548
Net Best Estimate of Claims Provisions	R0250				399,785	2,821		123,032	295,036		8,263		36,382			15,944		881,264
Total Best estimate - gross	R0260				874,144	43,286		221,327	539,423		-27,146		24,402			98,244		1,773,680
Total Best estimate - net	R0270				443,846	15,048		67,369	299,728		-22,499		-72,974			15,542		746,060
Risk margin	R0280				16,464	228		5,324	37,377		3,846		785			874		64,898
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				890,609	43,514		226,651	576,800		-23,300		25,188			99,118		1,838,579
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	R0330				430,299	28,238		153,958	239,695		-4,647		97,376			82,702		1,027,620
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	R0340				460,310	15,276		72,692	337,105		-18,653		-72,188			16,416		810,959

S.19.01.21 - 01 **Accident**

Non-life Insurance Claims Information

Accident year / Underwriting year	Z0020	1

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

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110
Prior	R0100											8,758
N-9	R0160	414,685	243,969	62,712	48,573	35,221	20,170	19,800	11,852	1,680	3,305	
N-8	R0170	418,336	214,864	69,445	57,686	37,271	39,980	9,962	1,567	1,796		
N-7	R0180	457,183	254,937	90,835	57,802	57,462	16,525	6,539	2,448			
N-6	R0190	480,440	238,693	79,948	71,719	45,271	16,348	4,894				
N-5	R0200	559,710	261,919	81,563	54,596	43,041	24,248					
N-4	R0210	577,316	263,961	72,940	55,792	42,877						
N-3	R0220	662,433	284,495	79,551	54,614							
N-2	R0230	753,812	357,873	90,544								
N-1	R0240	795,711	274,340									
N	R0250	755,539										

		In Current year	Sum of years (cumulative)
		C0170	C0180
	R0100	8,758	8,758
	R0160	3,305	861,966
	R0170	1,796	850,906
	R0180	2,448	943,730
	R0190	4,894	937,313
	R0200	24,248	1,025,078
	R0210	42,877	1,012,887
	R0220	54,614	1,081,093
	R0230	90,544	1,202,229
	R0240	274,340	1,070,052
	R0250	755,539	755,539
Total	R0260	1,263,363	9,749,551

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

		Development year										
		0	1	2	3	4	5	6	7	8	9	10 & +
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300
Prior	R0100											143,913
N-9	R0160	800,997	338,751	209,837	138,285	66,572	46,952	28,135	12,624	8,429	13,371	
N-8	R0170	730,158	357,749	231,124	119,815	77,752	32,652	32,473	12,609	13,583		
N-7	R0180	724,219	361,280	177,238	110,106	54,114	40,481	30,666	18,985			
N-6	R0190	718,884	311,911	214,384	135,112	57,567	33,006	24,511				
N-5	R0200	674,679	298,193	172,170	102,245	63,636	40,610					
N-4	R0210	579,546	299,518	162,014	87,171	54,061						
N-3	R0220	673,834	314,017	209,552	185,245							
N-2	R0230	724,520	306,739	202,119								
N-1	R0240	586,608	332,676									
N	R0250	609,113										

		Year end (discounted data)
		C0360
	R0100	143,913
	R0160	13,110
	R0170	13,333
	R0180	18,530
	R0190	23,895
	R0200	39,671
	R0210	52,931
	R0220	181,249
	R0230	198,434
	R0240	324,860
	R0250	601,887
Total	R0260	1,611,812

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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	766,032	766,032			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	20,327				20,327
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	964,362	944,035		0	20,327
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	964,362	944,035		0	20,327
Total available own funds to meet the MCR	R0510	944,035	944,035		0	
Total eligible own funds to meet the SCR	R0540	964,362	944,035	0	0	20,327
Total eligible own funds to meet the MCR	R0550	944,035	944,035	0	0	
SCR	R0580	740,589				
MCR	R0600	198,175				
Ratio of Eligible own funds to SCR	R0620	1.30				
Ratio of Eligible own funds to MCR	R0640	4.76				

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Own funds

		C0060
Reconciliation reserve		
Excess of assets over liabilities	R0700	1,232,416
Own shares (held directly and indirectly)	R0710	
Foreseeable dividends, distributions and charges	R0720	268,054
Other basic own fund items	R0730	198,330
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740	
Reconciliation reserve	R0760	766,032
Expected profits		
Expected profits included in future premiums (EPIFP) - Life business	R0770	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780	30,220
Total Expected profits included in future premiums (EPIFP)	R0790	30,220

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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	114,776
10399I	Diversification within interest rate risk	0
10410I	Equity risk	49,415
10420I	Equity vola risk	0
10499I	Diversification within equity risk	0
10600I	Real estate risk	95,998
10700I	Credit spread risk	259,417
10900I	FX risk	2,461
11010I	Inflation risk (insurance business)	96,015
11010P	Inflation risk (pension scheme)	51,655
19900I	Diversification within market risk	-334,042
20100I	Type 1 counterparty default risk	21,935
20200I	Type 2 counterparty default risk	1,290
20310I	Other counterparty default risk - investment credit risk	119,879
20390I	Other counterparty default risk - other	0
29900I	Diversification within counterparty default risk	-27,343
30200P	Longevity risk	198,633
50150I	Premium non-cat risk	147,064
50210I	Reserve risk	190,998
50310I	Non-life catastrophe risk: natural (aka Premium nat-cat risk)	101,125
50330I	Non-life catastrophe risk: man-made (aka Premium Terror risk)	19,997
50399I	Diversification within non-life catastrophe risk	0
50400I	Lapse risk	9,754
50590I	Cost risk	12,712
50599I	Diversification within business risks	-2,853
59900I	Diversification within non-life underwriting risk	-148,866
70100I	Operational risk	97,718
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	98,000
80495I	Regulatory Add-ons	0
80496I	Residuals	0

Calculation of Solvency Capital Requirement		C0100
Total undiversified components	R0110	1,175,739
Diversification	R0060	-435,150
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional)	R0160	
Solvency capital requirement excluding capital add-on	R0200	740,589
Capital add-ons already set	R0210	0
Solvency capital requirement	R0220	740,589
Other information on SCR		
Amount/estimate of the overall loss-absorbing capacity of technical provisions	R0300	0
Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	R0310	0
Total amount of Notional Solvency Capital Requirements for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Art. 4 of Directive 2003/41/EC (transitional))	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	

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

Linear formula component for non-life insurance and reinsurance obligations

		C0010
MCRNL Result	R0010	196,958

		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	446,490	292,017
Other motor insurance and proportional reinsurance	R0060	15,164	112,285
Marine, aviation and transport insurance and proportional reinsurance	R0070	0	0
Fire and other damage to property insurance and proportional reinsurance	R0080	68,282	323,574
General liability insurance and proportional reinsurance	R0090	301,221	99,401
Credit and suretyship insurance and proportional reinsurance	R0100	0	0
Legal expenses insurance and proportional reinsurance	R0110	0	12,235
Assistance and proportional reinsurance	R0120	0	0
Miscellaneous financial loss insurance and proportional reinsurance	R0130	0	357,070
Non-proportional health reinsurance	R0140	0	0
Non-proportional casualty reinsurance	R0150	0	0
Non-proportional marine, aviation and transport reinsurance	R0160	15,559	2
Non-proportional property reinsurance	R0170		

Linear formula component for life insurance and reinsurance obligations

		C0040
MCRL Result	R0200	1,217

		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	57,950	
Total capital at risk for all life (re)insurance obligations	R0250		0

Overall MCR calculation

		C0070
Linear MCR	R0300	198,175
SCR	R0310	740,589
MCR cap	R0320	333,265
MCR floor	R0330	185,147
Combined MCR	R0340	198,175
Absolute floor of the MCR	R0350	3,251
Minimum Capital Requirement	R0400	198,175

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