Ageas Insurance Limited

Annual Report
For the year ended 31 December 2019

Company Registration Number: 354568

Ageas Insurance Limited

Company registration number 354568

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Ageas Insurance Limited

Company registration number 354568

Directors and Advisers

Directors

Gregor Ball	
Antonio Cano	
Jozef De Mey	
Jeremy Haynes	(appointed 22 March 2019)
Malcolm McCaig	
Anthony Middle	(appointed 23 April 2019)
Jonathan Price	(appointed 10 May 2019)
Tara Waite	(appointed 11 March 2019)
Andrew Watson	
Mark Winlow	

Secretary

Claire Marsh	(appointed 1 November 2019)
Rosemary Smith	(resigned 1 November 2019)

Head Office and Registered Address

Ageas House
Hampshire Corporate Park
Templars Way
Eastleigh
SO53 3YA

Independent Auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

Bankers

HSBC
Rms Dept Level 2 2nd Floor
62-76 Park Street
London
SE1 9DZ

Registered Number

354568
Registered in England and Wales

Ageas Insurance Limited

Company registration number 354568

Strategic Report

Business Review

Activities

The principal activity of Ageas Insurance Limited ('the Company') is the provision of general insurance in the United Kingdom, with a small proportion written in Ireland and the Channel Islands. The core products that are sold by the Company are:

- Motor related insurance;
- Property related insurance;
- General liability insurance; and
- Travel and special risks insurance.

The Company adopts a multi-channel distribution model focusing on broker, direct and partnership channels, supported by technical excellence.

Covid-19

During December 2019 the Chinese city of Wuhan was affected by an outbreak of the virus Covid-19, publicly also referred to as the Coronavirus. By 31 December 2019 only a limited number of cases of the Covid-19 virus were reported to the World Health Organisation. Via infected travellers, the virus subsequently spread in early 2020 to a number of other countries, including the UK, and has in the meantime been officially declared a pandemic. Ageas is of the position that the escalation of the severity of the virus in early 2020 did not provide additional information about uncertainties that existed at the reporting date of 31 December 2019. Therefore, Ageas considers the virus Covid-19 as a non-adjusting event.

Governments around the world have taken measures to control the spread of the virus which has included restricting non-essential movements, border controls and public gatherings. These actions have resulted in significant economic disruption to businesses with leisure, travel and hospitality sectors particularly adversely affected. As a result financial markets have been volatile and highly uncertain with many central banks taking measures to help stabilise markets. The Bank of England has cut interest rates to their lowest level at 0.1%. During March 2020 equity markets have seen large falls and corporate credit spreads have widened significantly.

Ageas invoked its business continuity plans in March as measures in the UK were announced by the Government. These included daily meetings of the UK Crisis Management team to ensure strong coordination and monitoring of the company's response to the event, enabling key functions to home work to ensure core activities were maintained and increased liquidity and credit risk monitoring. Increased oversight of third party suppliers has also been implemented.

The impact of insurance claims related to Covid-19 on the Company is expected to be low to moderate due to its diversified portfolio. Regarding the impact on our commercial activities and operations, both directly and indirectly due to the overall reduced economic activity we cannot reasonably estimate the impact at this time, but robust plans are in place to ensure that customers will continue to be served. Regarding the impact from the high volatility and negative sentiment on the financial markets, the situation is very volatile and no accurate impact assessment can be reasonably made as to the medium to long term impact at this time.

Ageas Insurance Limited

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Strategic Report (continued)

Financial Performance during the year

The Company continued to grow its direct brand in the year and stabilised its top line.

Gross Written Premiums ('GWP') totalled £1,206.6m (2018: £1,228.4m) decreasing by 1.8% compared to 2018. Motor GWP was lower than prior year following continued focus on pricing discipline in a highly competitive Motor market. Household premiums increased as a result of the introduction of new schemes. Whilst the Broker channel continues to be the predominant route to market, direct sales through aggregator platforms are increasing in line with the strategic intent.

The profit after tax for the year was £40.7m (2018: profit of £49.2m). The Company benefitted from the change in the personal injury discount rate ('Ogden rate') from minus 0.75% to minus 0.25% in 2019, resulting in the realisation of a one-off benefit of £29.0m before tax. Underwriting performance in the year was impacted by increased claims inflation across the Motor market as well as a small increase in the number of large losses. Household performed strongly in the year following benign weather experienced and underwriting actions taken during the year.

The Company announced a number of organisational changes in the year to close its operations at Port Solent, during 2019, and its operations at Stoke, by June 2020, as well as plans to outsource its infrastructure and operations team within IT to a third-party supplier. As a result, the Company impaired its property, plant and equipment by £1.9m and recognised a restructuring provision of £6.8m.

The Company entered into a new reinsurance arrangement with its ultimate parent company, ageas SA/NV, during the year in order to reduce entity earnings volatility, improve solvency and enhance downside protection. The new reinsurance arrangement cedes 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. The Company benefitted by £13.8m before tax and excluding investment income in respect of the premiums, claims and expenses reinsured out under the arrangement during 2019. See note 36 for further details.

The Combined Operating Ratio ('COR') for 2019, after taking into account the new reinsurance arrangement with group, was 97.8% (2018: 99.1%). The Motor book was affected by a small increase in the number of large losses and a higher level of claims inflation, offset by a strong operating result within Household.

Other Comprehensive Income ('OCI') reflects the change in fair value of financial assets and movements in the defined benefit pension scheme obligation. The change in fair value of financial assets saw a net positive transfer to equity after tax of £18.3m (2018: negative £28.0m) due to a decrease in market yields across the curve. Remeasurements of the net defined benefit pension scheme have led to a net positive contribution of £3.2m to equity, (2018: positive £21.3m) following a higher than forecast investment performance offset by a decrease in the discount rate used to estimate expected future liability cash flows.

The solvency ratio at 31 December 2019 was 165% of the solvency capital requirement ('SCR') (2018: 158%). The solvency ratio benefitted from entering into a new reinsurance arrangement with its ultimate parent company, ageas SA/NV, which resulted in a reduction in non-life and market risk.

Strategic Report (continued)

Key Financial Performance Indicators

The Board considers that the key indicators that will communicate the financial performance and strength of the Company are:

- Gross written premiums
- Profit before taxation
- Combined operating ratio
- Return on equity

	2019 £m	2018 £m	Change %
Gross written premiums	1,206.6	1,228.4	(1.8)%

The written premium drives the size of the business, and reflects actions to ensure that business is underwritten at the appropriate rates for the risks undertaken.

	2019 £m	2018 £m	Change %
Profit before taxation	50.6	61.6	(17.9)%

The Company aims to deliver sustainable growth in profits over the insurance cycle by risk selection at appropriate rates, rigorous expense control and the delivery of superior customer service to its policyholders and intermediaries.

	2019 %	2018 %	Change
Combined operating ratio	97.8%	99.1%	1.3%

The combined operating ratio is a measure of the Company's efficiency. It is calculated, after taking into account the new reinsurance arrangement with group, as the total of incurred claims, commissions, expenses, other operating income and reinsurance, as a percentage of net earned premiums.

	2019 %	2018 %	Change
Return on equity after tax	8.3%	10.9%	(2.6)%

Return on equity is measured by taking the profit after tax over average shareholders' equity.

Year End Position

Shareholders' equity

Shareholders' equity has increased in the year by £39.6m to £510.9m, from an opening position of £471.3m. The underlying business generated a profit after tax in the year of £40.7m (2018: £49.2m). In addition, the fair value of investments within the fair value reserve increased by £18.3m (2018: decrease of £28.0m) and there was an increase to retained earnings of £3.2m (2018: increase of £21.3m) as a result of the remeasurement of the defined benefit pension scheme. These were offset by the payment of a dividend of £22.6m (2018: £nil).

Assets

Total assets have increased by £41.4m in the year to £3,083.5m (2018: decrease of £135.1m). This is mainly due to an increase in reinsurance assets of £555.5m, offset by a decrease in financial assets (including cash) of £510.0m. These have been impacted by the Company entering into a new reinsurance arrangement with ageas SA/NV, its ultimate holding company, on 1 January 2019. Further details can be found in note 36.

Liabilities

Total liabilities have increased by £1.8m in the year to £2,572.6m (2018: decrease of £177.6m). Insurance payables have increased by £57.5m following additional reinsurance deferred commission recognised as part of the new reinsurance arrangement with ageas SA/NV (see note 36) and financial liabilities have increased by £5.3m following the implementation of IFRS 16 (see note 2). Offsetting these is a reduction in insurance contract provisions of £51.7m and a reduction of £14.5m in reinsurance payables.

Cash liquidity

Inclusive of investment in financial assets, cash resources available to the Company have decreased by £510.0m (2018: decrease of £8.6m) in the year as a result of the derecognition of financial assets following the entering into a reinsurance arrangement with ageas SA/NV (see note 36). All available for sale financial assets are liquid and can be converted to cash in a normal market at short notice. Financial assets valued at fair value through profit or loss can be converted to cash subject to the fund manager's terms and conditions on notice. Investments in infrastructure debt (loans and receivables) are illiquid and can only be liquidated through selling on a secondary market. Further details on financial assets can be found in note 21 and on cash and cash equivalents in note 23.

Non-Financial Information

The following section outlines the key non-financial matters of the Company.

Environmental matters
The Company is committed to a sustainable and responsible approach to its impact on the environment through a number of initiatives which include, but are not limited to:

- recycling rates,
- CO2 emission reporting; and
- energy usage.

Employees
For an overview of employee numbers and how the Company engages with its employees, see the Report of the Directors on pages 10 and 11.

Non-Financial Information (continued)

Human rights
The respect for human rights, as described in the Universal Declaration of Human Rights of the United Nations of 1948, is a condition for maintaining a sustainable society. The Company applies the relevant human rights principles in relationships with employees and suppliers and acknowledges responsibility for promoting the application of human rights whenever the Company, as a private enterprise, is in a position to make a meaningful contribution to this cause.

Social matters
The Company instils a culture which is inclusive and supports diversity, which is essential to the long-term success of the business and better enables the Company to respond to customer and wider stakeholder needs. This is reflected in the Company's diversity strategy and policy, which applies to the Company as a whole. Further details are given in the Report of the Directors on page 12.

Anti-corruption and anti-bribery
The Company's reputation as a market leading insurer is important to the directors and is maintained and enhanced by proper business conduct. The Company operates a policy of zero-tolerance to any form of bribery or corruption whether through direct or indirect contact with third parties. The appropriate policy defines this stance in accordance with the Bribery Act 2010 and Financial Conduct Authority ('FCA') requirements in order to avoid any acceptance or offering of bribes or sales inducements.

The Company has procedures in place to ensure ongoing compliance with the policies referenced above. Adherence to the policies and applicable legislation and guidance is monitored by Ageas UK's Compliance department.

Non-Financial Key Performance Indicators

The Board considers that the key performance indicators that will communicate the non-financial performance of the Company are:

- customer numbers,
- complaints data,
- net promotion scores,
- employee engagement, and
- employee retention.

Section 172(1) statement

The Ageas UK directors have always been aware of and attentive to all of their duties and responsibilities, including those as set out under section 172 of the Companies Act 2006, when setting and embedding Ageas UK's culture and values in line with its purpose to 'make life easy for all customers by making insurance personal.' The Ageas UK Boards (including the Board of Ageas Insurance Limited) recognise that the long term success of the Company is only possible through engagement with, and having regard to, the interests of key stakeholders, which for Ageas UK includes customers, employees, shareholders, suppliers and the community at large.

The Ageas UK Boards' role is to perpetuate the long term, sustainable success of the Ageas UK business; providing strategic leadership within a framework of prudent and effective controls, setting the strategy, ensuring the direction and performance of the business is aligned to Ageas Group objectives, and that obligations to all stakeholders are understood and met. A range of mechanisms have been established to support directors in the discharge of their duties and further detail has been incorporated within the Corporate Governance and Stakeholder Engagement statements set out in this report. Furthermore, throughout 2020 the Ageas UK Boards will continue to review and challenge how Ageas UK can improve engagement with its stakeholders.

Corporate Governance Statement

Ageas UK considers a strong culture of corporate governance and ethical behaviour is fundamental to the way it does business, and therefore a governance framework that complies with the Wates Corporate Governance Principles for Large Private Companies (Wates Principles) has been adopted by the Ageas UK Boards. An Ageas UK Governance Manual has been established which incorporates these principles, together with those as set out within the PRA Rulebook, the FCA Handbook and the UK Corporate Governance code (where relevant), which explains how these principles are reflected in the organisation and operations of the Ageas UK businesses. The corporate governance framework is reviewed at least annually by the Ageas UK Boards to confirm that governance arrangements remain effective.

The Company complies with the Wates Principles as follows:

Principle one: Purpose and Leadership

The purpose of Ageas UK is to 'make life easy for all customers by making insurance personal'. The Ageas UK Boards develop and promote this purpose, and ensure that its values, strategy and culture align with it. This purpose, as well as the Ageas Group wide values of 'Care, Dare, Deliver and Share', form the basis of the Ageas Connect UK 2020 strategy set by the Ageas UK Boards and are embedded into Ageas UK's way of working. The purpose and values underpin Ageas UK's strategic priorities of 'Grow', 'Modernise', 'One Business' and 'Winning Team'. Details have been cascaded to employees by the UK Executive Team at a series of bi-annual employee briefings, with functional and individual priorities and objectives aligned to the values and strategy, and recognition schemes reflecting the values and these strategic priorities.

The Ageas UK Boards set the tone from the top, and have articulated the desired culture within the Ageas UK values and behaviours framework and the Connect UK strategy, and act in a manner consistent with this framework, including building positive relationships with all stakeholders. Formal responsibility for leading the development of culture, and for overseeing the adoption of Ageas UK's culture on a day to day basis has been apportioned by the Ageas UK Boards to the Chair and CEO.

Principle two: Board Composition

Ageas UK is committed to attracting and retaining Boards of Directors whose composition reflects a diversity of backgrounds, skills, knowledge, abilities and experience necessary for the Boards to be effective, including the appointment of Independent Non-Executive Directors (INEDs) with the capacity and capabilities to make a valuable contribution, and provide independent and informed challenge. The objective is that the Boards as a whole have the appropriate range of competencies and experiences, with sufficiently independent and informed challenge provided to the Executive Directors both from an external perspective (via INEDs) and from an Ageas Group perspective (via Ageas Group Executive and Non-Executive Directors). Appointments are based on merit, and also consider diversity and the mix of skills required. A copy of the Ageas UK Boards' diversity and inclusion statement is available on the Ageas UK website (www.ageas.co.uk). The current composition of the Ageas Insurance Limited Board is set out on page 1.

There is a clear division of responsibilities between the Chair of the Boards and the CEO, whereby the Chair is responsible for the leadership of the Boards, and the CEO is responsible for the day to day leadership of the business operations. The Chair is an INED, and has a pivotal role in setting the Boards' cultural tone, facilitating positive behaviours, and creating the conditions for the overall effectiveness of the Boards and individual directors.

A formal review and assessment of the performance of the Board and its directors is undertaken on a regular basis. During 2019 the Chairman led a Board effectiveness review, facilitated by an independent external company. The results of the review were presented to the Ageas UK Boards and an action plan to address the identified areas of improvement was produced and tracked by the Boards.

Principle three: Director Responsibilities

The decision making framework within Ageas UK is defined by the Ageas UK Boards using high-level parameters agreed with Ageas Group. It reflects the principle of delegated authority based on competence and appropriate mechanisms and triggers for escalation. The framework is a tiered approach with ultimate authority in the UK resting with the Ageas UK Boards. Guiding principles have been established by the Ageas UK Boards within the Ageas UK Governance Manual, and roles and responsibilities are clearly articulated in the Boards' Terms of Reference. The Boards delegate authority to certain key governance committees and the scope and responsibilities of each committee are set out in separate Terms of Reference which are agreed by the Boards.

The corporate governance framework also operates effectively through individuals fulfilling their responsibilities. These are outlined within specific job descriptions, role profiles and the Ageas UK Management Responsibilities Map. Accountabilities are further recorded within policies and processes where relevant.

Principle four: Opportunity and Risk

The role of the Ageas UK Boards is to perpetuate the long term, sustainable success of the Ageas UK business. Ageas UK strategy is set by the Boards, balancing entrepreneurship with sound control and risk management.

The Ageas UK Boards are supported by the Board Risk Committee, which is comprised of INEDs and a Group Executive Director. This Committee assists the Boards in fulfilling their responsibilities for the oversight of the adequacy and effectiveness of risk governance and the capital allocation models, and in particular the risk profile relative to the risk appetite determined by the Ageas UK Boards. The Committee reports to the Ageas UK Boards on its activities, and the principal risks and uncertainties have been documented within the strategic report.

Ageas UK is organised within a "three lines of defence" model of operation consistent with that established across the Ageas Group. Management and staff within each Ageas UK function have the primary responsibility for owning and managing risks (first line of defence). Oversight of the effective operation of the internal control framework is supported by the Risk Management and Compliance functions (second line of defence). The third line of defence is provided via independent verification and challenge of the adequacy and effectiveness of the internal risk and control management framework by the Internal Audit Function. Both the Audit Committee and the Board Risk Committee oversee the adequacy and effectiveness or internal controls, receiving reports from the Risk Management, Compliance and Internal Audit Functions and track actions.

Principle five: Remuneration

The Ageas UK Boards have established a Remuneration Committee, comprised of INEDs, Group Executive and Non-Executive Directors, to consider and ensure that the framework and arrangements that govern the remuneration of the executive and senior management are appropriate, transparent and aligned with Ageas UK's long term business strategy, risk appetite and values. In 2019, the Board revised the Terms of Reference of the Remuneration Committee to make clear that the pay and employment conditions of all Ageas UK employees is taken into account when reviewing the structure of the Executive remuneration package. Employees of work level 6 and above are invited to participate in the Ageas Group Share Linked Incentive Plan.

Principle six: Stakeholder Relationships and Engagement

The Ageas UK Boards have a responsibility to set and maintain a culture, values and standards that have customers at the heart of how the Company's business is conducted and to ensure that the Company's obligations to its shareholders and other stakeholders, including customers, employees, suppliers and the community at large, are understood and met.

A range of mechanisms have been established to support directors in the discharge of their duties and obligations to key stakeholders are understood and met, and further detail, including the Company's approach to diversity and inclusion, has been included within the Stakeholder Engagement statements on pages 10 to 12.

Strategic direction

The strategic purpose of the Company is aligned to that of the Ageas UK group, which is to make life easier for all customers by making insurance personal. This is supported by focusing on four key areas:

- *Winning and retaining customers*
  Ageas remains committed to the three distribution channels of Broker, Partnerships and Direct. The Company continues to target above average customer service.

- *Understanding and accurately pricing underwriting risk*
  Supporting this is a core product range of Motor, Household and SME Commercial with significantly reduced product variation.

- *Being low cost*
  Ageas recognises that being low cost is a hygiene factor and the Company looks to improve its cost base through a continuous programme of simplification.

- *Having the capacity and capability to grow*
  Management will invest in key areas that will support the growth of the business such as technical excellence.

Principal risks and uncertainties

The Company has identified the following principal risks and uncertainties:

- insurance,
- regulation,
- market,
- credit,
- liquidity,
- operational,
- Brexit,
- Covid-19,
- pension, and
- capital management.

A review of these principal risks and uncertainties and the way in which they are managed is detailed in note 4 to the financial statements.

The Company will be exposed to limited risk from the United Kingdom's departure from the European Union. For further details see note 4.

This report was approved by the Board of Directors on 3 April 2020 and signed by order of the board by:

Jonathan Price
Chief Financial Officer

Ageas Insurance Limited

Company registration number 354568

Report of the Directors

The directors submit their report, together with the audited financial statements for the year ended 31 December 2019.

Results

The results of the Company are contained in the financial statements on pages 13 to 76. The 2019 profit before tax was £50.6m (2018: £61.6m).

Business review

The business review is set out in the Strategic Report on pages 2 to 9.

Dividends

The Company paid a dividend of £22.6m during the year (2018: £nil).

Use of financial instruments

Further information on the Company's risk management process and the policies for mitigating certain risks are set out in note 4. Details of the financial instruments used for these purposes are disclosed in note 21.

Directors

The Members of the Board are shown on page 1. All directors served throughout the year and to the date of this report except as highlighted on page 1.

Employees

The average number of persons employed in the United Kingdom by the Company during the year was 2,093 (2018: 2,878). The full time equivalent number of employees adjusted for part time staff was 1,964 (2018: 2,729). Their annual aggregate remuneration was £116.9m (2018: £114.5m). An analysis is shown in note 32.

Stakeholder Engagement Statements

Ageas UK Shareholder, ageas SA/NV

Given ageas SA/NV's 100% ownership of the Company, the promotion of the long term success of Ageas UK, including the development of a clear UK purpose and strategy, is fully aligned to and supportive of Ageas SA/NV's strategy, Connect21. Ageas SA/NV is represented on the Ageas UK Boards by one Ageas Group Executive and one Non-Executive Director.

During 2019 the Ageas Insurance Board, having considered that the Company would have the appropriate resources to continue to meet debts as they fall due, resolved that an interim dividend of £22.6m be declared, to be paid to Ageas (UK) Limited. In March 2019 the Ageas UK Boards also agreed to enter into a Loss Portfolio Transfer (LPT) and Quota Share (QS) reinsurance arrangement of 30% with Ageas Group provided via the Ageas Group Reinsurance platform, with an effective date of 1 January 2019. In December 2019 the Boards agreed the increase of the LPT and QS reinsurance arrangements with Ageas Group from 30% to 40%, with an effective date of 1 January 2020.

Customers and Suppliers

Customers are at the heart of how Ageas UK's business is conducted, supported by its purpose which is set by the Boards and articulated within the Ageas UK strategy. The Ageas direct brand strategy has been underpinned by the theme "Easy As" reflecting our purpose to offer customers a simple, straightforward, no-nonsense customer experience.

Customers and Suppliers (continued)

In 2019, customer interests have been considered in a wide range of activities overseen by the Ageas UK Boards, and customer experience reports and focus sessions have been provided by the Chief Customer Officer, an appointed director of the Ageas UK Boards, to support oversight. Within Sales and Service Operations the customer journey was improved and simplified based on customer feedback. Digital solutions have been progressed to enhance the customer end to end experience, including the integration of artificial intelligence into the claims process. A real time 'voice of the customer' programme was introduced providing immediate feedback and giving new measures with positive results. These efforts were recognised through a number of industry awards including "Best Contact Centre" in the UK Customer Experience Awards and "Most Effective Improvement programme" in the European Contact Centre Awards. A Customer Care training programme was launched to ensure that vulnerable customers who may require additional help can be identified and that the appropriate resources are automatically made available to them. A Fair Pricing Framework that seeks to deliver fair customer outcomes through pricing to our customers in line with our risk appetite, has also been a key consideration of the Ageas UK Boards during 2019.

Ageas UK uses a wide variety of suppliers. Like most large businesses it engages with suppliers to support the provision of core business activities (e.g. IT), the supply of commodities, maintenance service contracts or facilities management services, such as catering and cleaning providers. As an insurer it also engages with suppliers of goods and repair services when customers' property has been lost or damaged, and medical and assistance services when customers have suffered accident or injury. Ageas UK is committed to high standards of business conduct and has policies and procedures in place to define the way in which Ageas wants to do business and the standards of conduct required. Where Ageas appoints a third party to undertake any business activities, Ageas expects they are carried out in line with Ageas' standards and risk appetite.

Employee engagement

The Company keeps employees up to date on strategy and performance through a variety of channels including formal leadership events, employee briefings, the Employee Forum and a digital employee communication tool. Regular meetings with the Employee Forum have continued on a quarterly basis, and are supported by the HR Director and members of the UK Executive team, facilitating the escalation and cascade of key messages from and to the Executive team and the Ageas UK Boards. The Ageas UK Boards have agreed that the Chair of the Remuneration Committee, an INED, will attend the Employee Forum on an annual basis and meet twice yearly with the Chair of the Forum, without the Executive present, in order to enhance the engagement between the Employee Forum and the Ageas UK Boards.

During a challenging year, steps were taken to simplify the business while continuing to invest in technology to increase efficiency. The infrastructure that supports the Ageas UK business needed to reflect the emerging customer environment with customers increasingly choosing to transact online, so Ageas UK's property portfolio and staffing requirements were reviewed. The difficult decision to close the Port Solent and Stoke-on-Trent sites was taken by the Ageas UK Boards, and in doing so the requirement to do the right thing by Ageas employees was reinforced. Additionally, a material outsourcing relationship was entered into to support IT Infrastructure and Operations services, with most employees in the IT Infrastructure and Operations team transferring to that third party provider. The Employee Forum was engaged in discussions and helped to support the process. The Port Solent site was closed, with most employees transferring to the Eastleigh office. In the process of announcing the closure of our office in Stoke, an agreement with an insurance partner was secured to take on the site and they have offered employment to the majority of the Ageas UK employees based at that site. The Ageas UK Boards regularly received reports to monitor these changes, including the transition of the IT infrastructure and operational services to the third party provider.

During 2019 a new digital employee engagement tool was rolled out across the business. The key themes emanating from the tool are brought to the attention of the Ageas UK Boards and resulting actions are tracked. Based on employee feedback a full review of employee benefits was undertaken in the year, with the result that paid maternity and paternity leave was increased, the decision was taken to ensure that all salaries are above the Rowntree Foundation Real Living Wage, and a minimum redundancy payment was introduced.

Ageas UK has established and promotes a culture where employees have the confidence and ability to raise their concerns. Directors and managers have a responsibility to ensure that mechanisms are in place to encourage such concerns to be raised and any wrongdoing dealt with, and the Chair of the Audit Committee has responsibility for the maintenance of the independence, autonomy and effectiveness of Ageas UK whistleblowing policies and procedures, with a report to the Ageas UK Audit Committee in 2019 stating his view that the systems and controls in place were satisfactory.

Diversity and inclusion

The Company is committed to a culture which is inclusive and supports diversity. Recruitment, promotion, career development, selection for training and all other aspects of employee management of all employees are free from discrimination, including on the grounds of gender, ethnicity, disability, age, sexual orientation, marital status and other protected characteristics. The Ageas UK Boards have set the policies and standards within which the Company will operate, and the Boards' approach to diversity and inclusion is monitored regularly. During 2019 as part of the Diversity and Inclusion strategy, Ageas UK was the official sponsor of the Bournemouth Pride Event, Bourne Free.

In line with legislation relating to discrimination in employment, including the employment of people with disabilities, Ageas UK policies and standards include further detail of our requirements. Employees with disabilities are treated fairly and can compete on equal terms for career progression. Ageas UK is committed to continuing the employment of, and for arranging training for, employees who have become disabled while employed by Ageas.

Community

In terms of the wider society, we continue to support the important work of the Road Safety Foundation to measure, map and track the safety performance of Britain's main roads. We are also proudly taking an industry lead in key initiatives that have an important environmental and economic impact such as the new "green parts" initiative to make the repair of vehicles more sustainable.

The difficult decision made by the Ageas UK Boards to close Ageas UK sites in Stoke and Port Solent involved consideration of customer interests and the wider impact on communities, including engagement with local authorities and members of parliament to ensure a transparent and collaborative approach to finding solutions.

The Company supports local initiatives such as Bourne Free, the Bournemouth Pride event celebrating diversity, as well as a "Charity of the Year" as nominated by the employees, which for 2019 was Hospice UK and for 2020 is Rays of Sunshine.

Donations

No political donations (2018: £nil) were made during the year. The Company made charitable donations of £7,021 in the year (2018: £10,115).

Disclosure of information to auditor

Each of the persons who are directors at the date of approval of this report confirm that, so far as each director is aware, there is no relevant audit information of which the Company's auditor are unaware; and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

Independent Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

This report was approved by the Board of Directors on 3 April 2020 and signed by order of the board by:

Jonathan Price
Chief Financial Officer

Ageas Insurance Limited

Company registration number: 354568

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Gross written premiums	5	1,206.6	1,228.4
Change in the gross provision for unearned premiums	5, 36	15.1	53.2
Gross insurance premium revenue		1,221.7	1,281.6
Written premiums ceded to reinsurers	5	(969.4)	(110.4)
Reinsurers' share of change in the provision for unearned premiums	5, 36	182.3	(2.9)
Net insurance premium revenue		434.6	1,168.3
Commission income	6. 36	125.0	0.8
Investment income	7	41.1	50.9
Other operating income	8	5.5	5.7
Net income		606.2	1,225.7
Claims and benefits incurred	9	(765.1)	(715.8)
Reinsurers' share of claims and benefits incurred	10, 36	622.4	(23.5)
Net policyholder claims and benefits incurred		(142.7)	(739.3)
Acquisition costs	11, 19	(317.8)	(340.5)
Administration costs	12	(88.1)	(77.8)
Operating profit before finance costs		57.6	68.1
Finance costs	13	(7.0)	(6.5)
Profit before tax		50.6	61.6
Income taxes	14	(9.9)	(12.4)
Profit for the year		40.7	49.2
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit pension obligation	34	3.8	26.3
Related tax	14	(0.6)	(5.0)
		3.2	21.3
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value	21	26.2	(33.5)
Available-for-sale financial assets - reclassified to profit or loss	7	(4.2)	(1.1)
Related tax	14	(3.7)	6.6
		18.3	(28.0)
Other comprehensive income/(loss), net of tax		21.5	(6.7)
Total comprehensive income		62.2	42.5

The notes on pages 17 to 76 form an integral part of these financial statements.

Ageas Insurance Limited

Company registration number: 354568

Statement of financial position

As at 31 December 2019

	Note	2019 £m	2018 £m
Assets			
Investments in group undertakings	15	-	-
Investment property	16	19.9	20.2
Property, plant and equipment	17	43.3	41.1
Intangible assets	18	2.5	-
Employee benefits	34	24.9	20.1
Deferred acquisition costs	19	160.0	167.3
Deferred tax assets	20	24.7	34.4
Financial assets	21	1,461.9	1,890.5
Reinsurance assets	24	870.1	314.6
Insurance and other receivables	22	403.3	399.6
Cash and cash equivalents	23	72.9	154.3
Total assets		3,083.5	3,042.1
Shareholders' equity			
Share capital	31	277.8	277.8
Share premium		3.9	3.9
Retained earnings		201.0	182.0
Fair value reserve		28.2	7.6
Total shareholders' equity		510.9	471.3
Liabilities			
Insurance contract provisions	24	2,237.8	2,289.5
Financial liabilities:			
- Loans and borrowings from group companies	25	139.1	139.0
- Other	26	5.9	0.7
Other provisions	27	23.5	18.1
Current tax liability	28	1.6	1.8
Reinsurance payables	29	5.1	19.6
Insurance payables, other payables and deferred income	30	159.6	102.1
Total liabilities		2,572.6	2,570.8
Total equity and liabilities		3,083.5	3,042.1

The notes on pages 17 to 76 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 3 April 2020 and were signed on its behalf by:

Jonathan Price
Chief Financial Officer

Ageas Insurance Limited

Company registration number: 354568

Statement of changes in equity

For the year ended 31 December 2019

				Other reserves		
		Share capital	Share premium	Retained earnings	Fair value reserve	Total
	Note	£m	£m	£m	£m	£m
Balance at 1 January 2018	31	277.8	3.9	108.6	38.5	428.8
Profit for the year		-	-	49.2	-	49.2
Other comprehensive expense	34, 21	-	-	21.3	(28.0)	(6.7)
Total comprehensive income		-	-	70.5	(28.0)	42.5
Other movements		-	-	2.9	(2.9)	-
Balance at 31 December 2018		277.8	3.9	182.0	7.6	471.3
Balance at 1 January 2019	31	277.8	3.9	182.0	7.6	471.3
Profit for the year		-	-	40.7	-	40.7
Other comprehensive income	34, 21	-	-	3.2	18.3	21.5
Total comprehensive income		-	-	43.9	18.3	62.2
Dividend paid	31	-	-	(22.6)	-	(22.6)
Other movements		-	-	(2.3)	2.3	-
Balance at 31 December 2019		277.8	3.9	201.0	28.2	510.9

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised. Taxation is provided on the net change at the prevailing rates when the changes are booked.

Further to the above, retained earnings of £201.0m include the defined benefit pension scheme remeasurements.

The notes on pages 17 to 76 form an integral part of these financial statements.

Ageas Insurance Limited

Company registration number: 354568

Statement of cash flows

For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit before tax		50.6	61.6
Adjustments for:			
Investment income	7	(41.1)	(50.9)
Finance costs	13	7.0	6.5
Defined benefit pension expense	34	0.4	1.8
Depreciation of investment property	12, 16	0.3	0.3
Depreciation of property, plant and equipment	12, 17	4.8	4.3
Amortisation of intangible assets	12, 18	0.3	-
Impairment of property, plant and equipment	17	2.1	-
Profit on disposal of property, plant and equipment	17	0.4	-
Change in deferred acquisition costs	19	7.3	20.2
Operating profit before working capital changes		32.1	43.8
Decrease/(increase) in financial assets	21	444.0	(47.4)
(Increase)/decrease in reinsurance assets	24	(555.5)	60.1
(increase)/decrease in insurance and other receivables	22	(3.7)	59.3
(Increase)/decrease in insurance contract provisions, insurance payables, other payables and deferred income	24, 30	5.8	(187.9)
(Decrease)/increase in reinsurance payables	29	(14.5)	11.5
Decrease in financial liabilities		(0.8)	(1.0)
Increase in provisions	27	5.4	2.2
Cash flows used in operations		(87.2)	(59.4)
Defined benefit contributions paid	34	(1.4)	(1.6)
Interest received		47.7	63.9
Income tax paid		(4.6)	(3.0)
Net cash flows used in operating activities		(45.5)	(0.1)
Cash flows used in investing activities			
Purchase of intangible assets	18	(2.6)	-
Purchase of property, plant and equipment	17	(4.1)	(2.7)
Net cash used in investing activities		(6.7)	(2.7)
Cash flows used in financing activities			
Dividends paid		(22.6)	-
Interest paid		(6.6)	(5.5)
Net cash used in financing activities		(29.2)	(5.5)
Net change in cash and cash equivalents		(81.4)	(8.3)
Cash and cash equivalents at 1 January		154.3	162.6
Cash and cash equivalents at 31 December		72.9	154.3
Cash available to the Company		71.4	152.8
Cash not available to the Company - held in trust		1.5	1.5
	23	72.9	154.3

The notes on pages 17 to 76 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

Ageas Insurance Limited is a private company, limited by shares, domiciled and incorporated in England and Wales. The Company is primarily involved in personal and commercial lines insurance.

(a) Statement of compliance

The financial statements were approved for issue by the Board of Directors on 3 April 2020.

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

The financial statements have also been prepared in accordance with those parts of the Companies Act 2006 ('CA 2006'.

In accordance with IFRS 8, the Company is not required to present segmental information as the equity of the Company is not publicly traded.

(b) Basis of preparation

The Company has elected not to prepare consolidated financial statements. The financial statements as prepared are separate financial statements and the exemption from consolidation, in accordance with the CA 2006 s400(2), has been used. Consolidated financial statements including the results of the Company are prepared by the ultimate holding company ageas SA/NV, a company incorporated in Belgium, and copies can be obtained from the Company Secretary, Ageas Insurance Limited, Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

The financial performance and position of the Company, its cash flows, liquidity position and borrowings are set out in the primary statements on pages 13 to 16, and in the subsequent notes on pages 17 to 76. Further analysis of the objectives and policies for mitigating risk can be found within note 4.

Having considered the position of the Company as above, the approved budget for the next twelve months and reviewing the potential risks to the Company (including considering the results of sensitivity analysis undertaken in respect of the potential impacts of Covid-19), the directors have concluded that the Company has sufficient resources to continue in operation for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

The Company presents its statement of financial position in order of liquidity in accordance with IAS 1 Presentation of Financial Statements. For each asset and liability line item in the statement of financial position that details amounts expected to be recovered or settled within twelve months, or more than twelve months after the statement of financial position date, a classification at the statement of financial position date is included within the notes. The disclosures in the notes for these classifications are distinguished as follows:

- amounts expected to be settled in less than one year are referred to as current; and
- amounts expected to be settled in more than one year are referred to as non-current.

(i) Basis of measurement
The financial statements have been prepared on the historical cost basis with the exception of financial instruments classified as available-for-sale and fair value through profit or loss, which are stated at their fair value.

(ii) Functional and presentation currency
The financial statements are presented in millions of Pounds Sterling, which is the Company's functional currency. All financial information presented in millions of Pounds Sterling has been rounded to one decimal place.

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

(iii) Use of estimates and judgements
The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These form the basis of judgements concerning carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by the directors in the application of IFRS that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the following year, are discussed in notes 3 and 4.

All new standards and interpretations released by the International Accounting Standards Board (IASB) have been considered. The following new and amended standards that came into effect in the year have been adopted by the Company during the period as appropriate:

- IFRS 16: Leases
- IAS 19 amendments: plan amendments, curtailments, and settlements

The impact of the adoption of IFRS 16 is described in note 2.

In addition, the following is a list of standards that are in issue but are not effective in 2019, together with the effective date of application to the Company:

- IFRS 3 amendments: Definition of a business – January 2020
- IAS 1 and IAS 8 amendments: Definition of material – January 2020
- Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 17: Insurance contracts – January 2023. A cross functional project continues to assess the impact of this new standard.

The standards effective from 2020 have been reviewed and are not expected to have a material impact on the Company. The implications of the remaining standards are under review.

In addition, disclosures relating to the deferral of IFRS 9: Financial Instruments ('IFRS 9') can be found below. The Company meets the eligibility criteria for the temporary exemption from IFRS 9 and intends to defer the application of IFRS 9 until the effective date of IFRS 17: Insurance Contracts, which is expected to be effective for reporting periods beginning on or after 1 January 2023.

IFRS 9: Financial Instruments
The Company is required to disclose information to enable users of financial statements to understand how the Company qualifies for the temporary exemption from IFRS 9 and compare entities that apply the temporary exemption from IFRS 9 with entities that do not.

The Company qualifies for the temporary exemption from applying IFRS 9 on the basis that its activities are predominantly connected with insurance.

1 Accounting policies (continued)

(b) Basis of preparation (continued)

IFRS 9: Financial Instruments (continued)

The following table discloses the fair value at the end of the reporting year and the amount of change in the fair value during that period for specific groups of financial assets, analysed between financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amounts outstanding, and all other financial assets:

	Available-for-sale financial assets £m	Loans and receivables £m	Financial assets designated as fair value through profit or loss £m	Cash and cash equivalents £m	Total £m
As at 31 December 2018:					
Solely payments of principal and interest	1,752.4	16.9	-	154.3	1,923.6
All other financial assets	-	-	121.2	-	121.2
Total	1,752.4	16.9	121.2	154.3	2,044.8
Change in fair value in the year:					
Solely payments of principal and interest	(397.5)	(0.6)	-	(81.4)	(479.5)
All other financial assets	-	-	(30.5)	-	(30.5)
Total	(397.5)	(0.6)	(30.5)	(81.4)	(510.0)
As at 31 December 2019:					
Solely payments of principal and interest	1,354.9	16.3	-	72.9	1,444.1
All other financial assets	-	-	90.7	-	90.7
Total	1,354.9	16.3	90.7	72.9	1,534.8

Notes to the financial statements

1 Accounting policies (continued)

(b) Basis of preparation (continued)

IFRS 9: Financial Instruments (continued)

The following table highlights the credit risk exposure, including significant credit risk concentrations, inherent in financial assets which meet the SPPI test:

	Gross carrying amount applying IAS 39	Loss allowance is measured: At an amount equal to 12-month expected credit losses ('ECL')	Loss allowance is measured: At an amount equal to lifetime ECL: Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets	Loss allowance is measured: At an amount equal to lifetime ECL: Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired)	Loss allowance is measured: At an amount equal to lifetime ECL: Trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with IFRS 9 (paragraph 5.5.15)	Purchased or originated credit-impaired financial assets
	£m	£m	£m	£m	£m	£m
AAA	190.9	190.9	-	-	-	-
AA	412.7	412.7	-	-	-	-
A	471.2	471.2	-	-	-	-
BBB	273.3	273.3	-	-	-	-
Total investment grade	1,348.1	1,348.1	-	-	-	-
Below investment grade	-	-	-	-	-	-
Unrated	96.0	96.0	-	-	-	-
Total	1,444.1	1,444.1	-	-	-	-

(c) Classification of insurance contracts

Contracts under which the Company accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the other party are classified as insurance contracts. These contracts remain insurance contracts until all rights and obligations are extinguished or expire. Insurance contracts may also transfer some financial risk.

(d) Recognition and measurement of premium revenue

(i) Premiums

Gross written premiums comprise the premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are disclosed gross of commission payable to intermediaries and exclude taxes. Written premiums include adjustments to premiums written in prior accounting periods and estimates for "pipeline" premiums. An estimate is made at the statement of financial position date to recognise retrospective adjustments to premiums or commissions. Pipeline premiums are brought into account, based upon the pattern of booking of renewals and new business. The earned portion of premiums received is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognised as a deduction from net insurance revenue in accordance with the contractual arrangements with reinsurers.

Notes to the financial statements

1 Accounting policies (continued)

(d) Recognition and measurement of premium reserve (continued)

(ii) Unearned premiums provision
The provision for unearned premiums comprises the proportion of gross written premiums which is estimated to be earned in the following or subsequent financial years, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. For schemes this is calculated using the monthly pro rata method.

(e) Reinsurance

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums ceded and benefits reimbursed are presented in the statement of profit or loss and other comprehensive income and statement of financial position on a gross basis.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance), are accounted for as financial instruments.

Reinsurance assets include balances due from reinsurance companies for reinsurance claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy.

Amounts recoverable under reinsurance contracts are assessed for impairment at each statement of financial position date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

(f) Commission income

Commissions received or receivable which do not require the Company to render further service are recognised as revenue by the Company once the performance obligations have been fulfilled. Reinsurance commissions are deferred and amortised on a pro rata basis over the contract term.

(g) Investment income

Investment income comprises interest income, dividend income, investment property income, net realised gains on available-for-sale financial assets and gains earned in the year on fair value through profit or loss financial assets. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the statement of profit or loss and other comprehensive income on the date that the Company's right to receive payment is established.

Notes to the financial statements

1 Accounting policies (continued)

(h) Claims

Claims incurred consist of claims and claims handling expenses paid during the financial year, together with the movement in the provision for outstanding claims.

Outstanding claims comprise provisions for the Company's estimate of the ultimate cost of settling all claims incurred but unpaid at the statement of financial position date whether reported or not, and related internal and external claims handling expenses. Outstanding claims are assessed by reviewing individual claims and making allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Claims liabilities are not discounted except for those relating to periodic payment orders ('PPOs'). Anticipated reinsurance recoveries and estimates of salvage and subrogation recoveries are presented separately as assets. Reinsurance and other recoveries are assessed in a manner similar to the assessment of claims outstanding.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided. Adjustments to the amounts of outstanding claims established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

(i) Liability adequacy test (Unexpired risk provision)

Provision is made for unexpired risks arising from business where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the statement of financial position date exceeds the unearned premiums provision in relation to such policies after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately after performing Liability Adequacy Tests by reference to classes of business which are managed together, after taking into account the relevant investment return.

(j) Acquisition costs

Commission payable to agents and internally generated acquisition costs, which are incurred for acquiring new and renewal insurance business that is primarily related to the production of that business, are deferred.

Such deferred acquisition costs are finite and are amortised by reference to the period over which the related premiums are earned which is generally one year or less.

(k) Operating expenses

Operating expenses are allocated to one of three types. Those relating to claims handling are included in claims incurred, those that are acquisition related are included within acquisition costs whilst all others are categorised as administration costs. During 2018 payments made under operating leases were recognised in the statement of profit or loss and other comprehensive income on a straight line basis over the term of the lease. In 2019 payments made for leases which are short-term in nature or low value are recognised in the statement of profit and loss. Operating expenses including depreciation on right of use assets are expensed in the period.

(l) Employee benefits

(i) Defined contribution pension plans

A defined contribution pension plan is a post-employment benefit plan under which a company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of profit or loss and other comprehensive income when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

1 Accounting policies (continued)

(l) Employee benefits (continued)

(ii) Defined benefit pension plans

A defined benefit pension plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years, discounting that benefit to determine its present value, and deducting the fair value of any plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability/asset, which comprises actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are immediately recognised in other comprehensive income. The Company determines the net interest expense/(income) on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset at that time, taking into account any changes in the net defined benefit liability/asset during the period from contributions and benefit payments. Net interest expense and other expenses related to the defined benefit pension scheme are recognised in the statement of profit or loss and other comprehensive income.

Where the calculation results in a potential asset for the Company, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. Consideration is also given to any applicable minimum funding requirements.

(m) Finance costs

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and are expensed in the statement of profit or loss and other comprehensive income in the period to which they relate.

(n) Income tax

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

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The following temporary differences are not provided for:

- goodwill not deductible for tax purposes,
- the initial recognition of assets or liabilities that affects neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. From 1 April 2017 the main rate of UK corporation tax rate was 19%. The Finance Act 2016 was substantively enacted on 6 September 2016 and further reduces the corporation tax rate to 17% (effective 1 April 2020). The deferred tax asset recognised as at 31 December 2019 has been calculated based on these rates.

Notes to the financial statements

1 Accounting policies (continued)

(n) Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is only recognised to the extent that it is probable that future profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are not discounted.

(o) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to the presentational currency (pounds sterling) at the foreign exchange rate ruling at that date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to pounds sterling at foreign exchange rates ruling at the dates the fair value was determined.

Foreign exchange differences arising on translation are recognised in the statement of profit or loss and other comprehensive income. The foreign exchange differences arise from both the translation of opening claims reserves and financial instruments from their functional currency.

(p) Investment in group undertakings

Investments in group undertakings are stated at the lower of cost or net realisable value. Details of transactions with group companies are included in note 36, Related party transactions.

(q) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment are stated at cost (or deemed cost) less accumulated depreciation (see below) and impairment losses (see accounting policy (w)). Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs related to the acquisition of qualifying assets are recognised as part of the cost of those assets in the statement of financial position.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial year in which they are incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

1 Accounting policies (continued)

(q) Property, plant and equipment (continued)

(ii) Leased assets
Until 31 December 2018, leases under whose terms the Company assumed substantially all the risks and rewards of ownership were classified as finance leases. Upon initial recognition the leased asset was measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Other leases were classified as operating leases and were not recognised in the Company's statement of financial position.

Following the implementation of IFRS 16 Leases on 1 January 2019, leases under which the Company is a lessee are recognised as a right-of use asset and measured at the amount equal to the present value of the minimum lease payments, adjusted by the amount of any prepaid or accrued lease payments relating to that lease, plus any dilapidation provision required. Low value and short-term leases are not recognised in the Company's statement of financial position. See note 2 for further details on the adoption of IFRS 16 Leases.

(iii) Depreciation
Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

The estimated useful lives of assets are as follows:

Buildings	Fifty years
Equipment and motor vehicles	Two to ten years
IT equipment	Two to five years
Right-of-use assets	Lease term

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset and is recognised in the statement of profit or loss and other comprehensive income.

(r) Intangible assets

An intangible asset is defined as an identifiable non-monetary asset without physical substance. Intangible assets are stated at cost less any accumulated amortisation and any accumulated impairment losses (see accounting policy (w)). Cost is defined as its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and any directly attributable cost of preparing the asset for its intended use.

Amortisation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each intangible asset.

The estimated useful lives are as follows:

Software	Three years
Licences	Three years

(s) Investment property

(i) Owned assets
Investment properties are recognised, using the cost model, at cost (or deemed cost) less accumulated depreciation and impairment losses (see accounting policy (w)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

Notes to the financial statements

1 Accounting policies (continued)

(s) Investment property (continued)

(ii) Depreciation
Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of investment property.

The estimated useful lives of buildings are fifty years. Land is not depreciated.

(t) Financial assets

(i) Available-for-sale financial investments
The Company has a number of debt securities which are held as available-for-sale. Available-for-sale financial investments are recognised initially at fair value without any deduction for transaction costs the Company may incur on disposal. Purchases of available-for-sale financial investments are recognised on the trade date, which is when the Company commits to purchase the instrument.

The fair value of quoted investments is their quoted bid price at the statement of financial position date.

Realised gains and losses are included in the statement of profit or loss and other comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised in other comprehensive income, except for foreign exchange gains and losses on monetary items such as debt securities, which are recognised in profit or loss. When available-for-sale financial investments are sold or impaired, the cumulative gains or losses previously recognised through other comprehensive income are recognised in profit or loss. Where these investments are interest-bearing, interest is calculated using the effective interest method and is recognised in the statement of profit or loss and other comprehensive income.

(ii) Loans and receivables

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. The Company classifies cash, short term deposits, insurance and other receivables, including amounts due from related companies and infrastructure debt as loans and receivables. The directors have determined that their carrying amounts reasonably approximate their fair values as they are mostly short term in nature or are repriced frequently.

Loans and receivables are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Fair value through profit or loss

The Company invests in financial assets which are designated as fair value through profit or loss. Directly attributable transaction costs are recognised in profit or loss as incurred. After initial recognition financial assets at fair value through profit or loss are measured at fair value and any changes therein, including any interest or dividend income, are recognised in profit or loss. Any sales or purchases are accounted for at the trade date.

IAS 39 permits entities to designate, at the time of acquisition or issuance, any financial asset or financial liability to be measured at fair value, with value changes recognised in profit or loss. This option is available even if the financial asset or financial liability would ordinarily, by its nature, be measured at amortised cost. They are not 'held for trading'.

The use of the fair value option is restricted to those financial instruments that meet certain conditions:
- the fair value option designation eliminates or significantly reduces an accounting mismatch, or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis by the entity's management.

It is the second of these criteria which determines the Company's designation of financial assets as fair value through profit or loss.

Notes to the financial statements

1 Accounting policies (continued)

(u) Other receivables

Other receivables are stated at their cost less impairment losses (see accounting policy (w)).

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and money market funds. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

(w) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on a stand-alone basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of profit or loss. When an available for sale financial asset is considered to be impaired, cumulative gains or losses recognised previously in other comprehensive income are reclassified to the statement of profit or loss in the period.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the statement of profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

(ii) Non-financial assets

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements

1 Accounting policies (continued)

(x) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(y) Dividends

Dividends payable on ordinary shares are recognised when they are approved by the Board.

(z) Financial liabilities

Financial liabilities include payables to related parties, lease liabilities, funds held under reinsurance agreements, interest-bearing loans and borrowings and bank overdrafts and other payables. Financial liabilities are recognised in the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss over the year of the borrowings on an effective interest basis.

The directors have determined that the carrying amounts of the subordinated debt, bank overdrafts and other payables reasonably approximate their fair values because these liabilities are either short term in nature or are repriced frequently.

(aa) Derecognition and offset of financial assets and liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(ab) Provisions

A provision is recognised in the statement of financial position if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the financial statements

2 Change in Accounting Policies and Disclosure

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements.

The Company has applied the modified retrospective approach and has therefore not restated comparative amounts for the year prior to first time adoption. Reclassifications and adjustments arising from the adoption of IFRS 16 have been recognised in the opening statement of financial position on 1 January 2019. The new accounting policy is disclosed in note 1.

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.2%.

(a) Practical expedients

The Company has used the following practical expedients permitted by the standard:

- relying on previous assessments of whether an arrangement contains a lease;
- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(b) Measurement of lease liabilities

	2019 £m
Operating lease commitments disclosed as at 31 December 2018	4.9
Restatement of operating lease commitments	0.4
Operating lease commitments restated as at 31 December 2018	5.3
Discounted using the lessee's incremental borrowing rate at the date of initial application	5.0
Add: contracts reassessed as lease contracts	0.9
Less: short-term leases not recognised as a liability	(0.3)
Lease liability recognised as at 1 January 2019	5.6

(c) Measurement of right-of-use assets

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018, plus any dilapidation provisions required.

(d) Impact on the financial statements

The impact on the statement of financial position at 1 January 2019 was as follows:

	2019 £m
Increase in property, plant and equipment right-of-use assets	5.6
Increase in other financial liabilities	(5.6)
	-

Notes to the financial statements

2 Change in Accounting Policies and Disclosure (continued)

(e) Lessor accounting

The Company was not required to make any adjustments to the way in which it measured, classified or disclosed assets held as lessor under operating leases (see note 33) as a result of the adoption of IFRS 16.

3 Accounting estimates and judgements

The most critical judgements and estimates made by the Company are those regarding reported and unreported claims, defined benefit pension obligations and deferred tax assets.

Outstanding claims and provisions

The Company establishes reserves in respect of the anticipated losses incurred in respect of business it has written. These reserves reflect the expected ultimate cost of settling claims occurring prior to the statement of financial position date, but remaining unsettled at that time, and take into account any related reinsurance recoveries. Such reserves are established separately for each line of business written by the Company and fall into two categories – reserves for reported claims and reserves for losses incurred but not reported ('IBNR') as of the statement of financial position date.

Reserves for reported claims are established on a case-by-case basis and are based largely on past experience of settlements on similar claims. These reserves are set on an undiscounted basis except for PPOs and reflect the anticipated cost of final settlement, taking into account inflation and other factors which might influence the final outcome. Such reserves are reviewed on a regular basis to take account of changing circumstances, such as changes in the law and changes in costs relating to settlement.

Reserves for claims incurred but not reported as of the statement of financial position date are also established on an undiscounted basis, except for PPOs. They are estimated based on historical data using various actuarial techniques and statistical modeling methodologies. Reserves for claims incurred but not reported are calculated separately for each line of business written and take into account trends in settlement costs in arriving at the final estimates.

The personal injury discount rate ('Ogden rate') is set by the Ministry of Justice and is used by the courts to calculate lump sum personal injury payments. The Civil Liability Act received Royal Assent on 20 December 2018, legislating the determination of the Ogden rate based on a reference investment portfolio. An announcement was made by the Lord Chancellor on 15 July 2019 confirming the change in the Ogden rate from minus 0.75% to minus 0.25%, following which reserves have been assessed at the current rate of minus 0.25%.

For further details on outstanding claims see note 24.

Defined benefit pension obligations

The Company's liability for defined benefit pension obligations is based on various estimates including discount rates, future salary increases, future pension increases, mortality rates and future staff turnover. Differences in future actual experience may result in the balance recorded in the Company's statement of financial position ultimately proving to be either too high or too low. Such differences will be accounted for as they arise.

For further details on defined benefit obligations see note 34.

Notes to the financial statements

3 Accounting estimates and judgements (continued)

Deferred tax assets

The Company has unutilised tax losses which it acquired from Groupama Insurance Company Limited ('GICL') (renamed GICL 2013 Limited) (now dissolved) under the Part VII Scheme of the Financial Services and Markets Act 2000 on 1 October 2013. These can be carried forward to offset an agreed percentage of income tax liabilities arising on future taxable profits of the combined business. These losses were supplemented in 2016 by an additional loss due to the change in the Ogden rate. The Company must judge the extent that future taxable profits will arise such that any deferred tax asset is based on profits that are more likely to arise than not based on tax rates that have been substantively enacted at the balance sheet date. The Company has calculated the deferred tax asset based on the Company's budgets and forecasts, adjusting for any material known tax differences that will arise in that period.

For further details on deferred tax assets see note 20.

4 Risk management

Objectives and policies for mitigating business risk

The Company's primary activity, the acceptance of risk of loss from individuals or businesses, exposes it to a number of risks which may adversely affect the Company's ability to meet its business objectives. The Company has identified the following risk areas: insurance, regulation, market, credit, liquidity, operational, Brexit, pension, Covid-19 and capital management.

The Company has various procedures in place to manage these exposures. These procedures have been embedded into decision making processes and the culture of the business. They include an overall risk management framework together with a set of clearly defined risk policies which articulate the Company's risk appetite. The Company also maintains a comprehensive risk register which identifies the individual risks faced in each area of the business and the controls in place to mitigate these. The risk framework includes an event notification procedure which enables focus on preventing a similar incident occurring in addition to managing the impact of the event, thereby ensuring a proactive control environment.

The Ageas UK Board Risk Committee established by the Boards of the Company, Ageas (UK) Limited, Ageas Retail Limited and Ageas Services (UK) Limited meets regularly to review both the risk policies and the risk register, to ensure they are up-to-date, reflecting the risks currently facing the business and that corresponding control issues and risk mitigation actions are being addressed in a timely manner. The findings of the Board Risk Committee are reported to the Boards.

(a) Insurance risk

The Company assumes insurance risk by issuing contracts of insurance to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurred. The risk under any one insurance contract is the possibility that the insured event occurred and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is uncertain and therefore unpredictable. The classification of insurance risks are underwriting, claims reserving, claims management and reinsurance.

(i) Underwriting risk

Underwriting risk occurs when the underwriter binds a policy at a given price and obliges the Company to pay claims under certain specified conditions, thus exposing the Company to the risk that the policy was not priced correctly due to underestimating the frequency and/or severity of the claims. Underwriting risk is at the core of the Company's business and is a major source of exposure for the Company's capital. The systems and controls required to manage and control this area of risk are therefore of critical importance.

Notes to the financial statements

4 Risk management (continued)

(a) Insurance risk (continued)

(i) Underwriting risk (continued)
The Company's business lines are generally characterised by large numbers of policyholders with homogeneous exposures, such as motor, household, travel and small commercial lines. The approach to pricing these products is based on the Company's knowledge and the price is given to the market not to individuals. Therefore underwriting is tightly controlled. The main technique to determine the price to be charged is to use past exposures, historical losses (plus an appropriate IBNR allowance) and external data sources as a basis for developing proposed premiums. Appropriate adjustments are made to reflect anticipated future conditions, expenses and the required profit margin. The performance of each business line is constantly monitored to identify new trends caused by distribution and cause or value of loss so that corrective pricing action can be implemented.

The Company reinsures a portion of the risks it underwrites in order to control its exposures to losses and protect capital resources. The Company's largest reinsurance arrangement is in respect of a 30% loss portfolio transfer agreement and quota share treaty with ageas SA/NV, the ultimate holding company, of both prior and future claim liabilities respectively. The Company also buys excess of loss (i.e. non-proportional) reinsurance treaties to reduce its net exposure to agreed levels for each line of business in accordance with the Company's risk appetite. In addition, the Company will buy facultative reinsurance on individual risks in certain specified circumstances. There are also occasions when other quota share reinsurance or stop loss treaties are put in place as part of a larger overall transaction.

Concentrations of insurance risk
A key aspect of the insurance risk faced by the Company is the degree of concentration of insurance risk, which may exist where a particular event or series of events could impact significantly upon the Company's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise. Concentrations of risk can arise in both high severity, low frequency events, such as natural and other disasters and in situations where underwriting is biased towards a particular group, such as a particular geographical concentration or demographic trend.

High severity, low frequency concentrations
The timing and frequency of high severity events are, by their nature, uncertain. They represent a material risk as the occurrence of such an event would have a significant adverse impact on the Company's cash flows and profitability. The Company manages these risks by making appropriate allowance within the price calculated by underwriters and by purchasing a reinsurance programme that reduces the impact of these events. The Company uses non-proportional reinsurance treaties to manage retention levels and the limits of protection.

Geographic and demographic concentrations
Material geographical concentrations of risk can exist in property portfolios such that natural perils of windstorm and floods may give rise to a large number of material damage and business interruption claims. The Company models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events. Material concentrations of risk may be created by specific distribution channels that target certain age ranges, affinity groups or underwriting strengths in certain geographic locations. These risks are managed through underwriting and use of reinsurance contracts.

Economic downturn
The Company's insurance portfolio exposes it to a potential accumulation of different risks in the event of an economic recession. The Company's strategy in a recession is to ensure that premiums reflect the additional risks and exposures to those areas that could be adversely impacted by an economic downturn. It also monitors economy related claims closely to identify any that may be exaggerated or fraudulent.

Notes to the financial statements

4 Risk management (continued)

(a) Insurance risk (continued)

(i) Underwriting risk (continued)

Total aggregate exposure

The Company identifies the total aggregate exposure that it is prepared to accept in relation to concentrations of risk. It monitors these exposures on a regular basis by reviewing reports which show the key aggregations to which the Company is exposed. The Company uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes, and to quantify the net exposure for the Company. Additional stress and scenario tests are run using these models during the year.

Delegated underwriting authorities

The Company has a number of delegated underwriting authorities with third parties. There is a risk that the third party might not have the controls, management information, quality of staff and technical skills to charge an appropriate price for the risk underwritten. Prior to contract the third party is subject to a due diligence process and is subsequently audited on a regular basis to ensure compliance with the contractual obligations and that the required levels of profitability are being achieved.

Third party injury claims

In recent years, the Company and the insurance market in general have experienced an increase in the frequency and value of third party injury claims, arising mainly in the private and commercial motor accounts. These increases have been driven by an increased propensity for the population to be litigious and the extensive activities of companies actively persuading potential victims to instigate claims. The Company has recognised this trend and monitors its development closely, adjusting the prices of its products accordingly.

(ii) Claims reserving risk

The aim of the reserving policy of the Company is to produce estimates of outstanding claims that are accurate and reliable across each line of business and are consistent over the time period required to settle all the claims. Reserving and the ultimate cost of claims risk occurs where the Company's estimates of its outstanding claims prove to be insufficient through inaccurate forecasting, additional expenses or reinsurance bad debts. The methods used to estimate the insurance liabilities in respect of outstanding claims and provisions are detailed in note 1 to the financial statements. In addition an external independent actuary undertakes an annual review of large elements of the Company's claims reserves.

Notes to the financial statements

4 Risk management (continued)

(a) Insurance risk (continued)

(iii) Claims management risk
Claims management risk could arise in the event of inaccurate or incomplete case reserving or settlement, poor customer service or excessive costs of handling claims. The Company's approach to claims management focuses upon creating a successful balance between satisfying the needs of the customer against control of the overall cost of providing the service that meets those needs. Customer includes both insured as well as others that believe our insured has breached a duty of care. The Company's philosophy is based upon the following principles:

- manufacturing claims – production commences at first notification of a loss where the components to satisfy a customer's claim are taken;
- predicament management – tailoring our service to meet the individual customer's needs; and
- reducing failure demand – failure demand is caused by a failure to do something right for the customer.

These principles support the Company's objectives to:

- create empathy with the customer and to offer processes that successfully deal with the resolution of their individual predicament not just their damaged assets;
- provide claims settlement that treats customers fairly, reflects policy and legal liability and complies fully with all other regulatory requirements;
- exercise control over claims reserves, indemnity claims costs, subrogated recoveries and payments to other parties; and
- exercise control over the expense costs associated with handling and settling claims.

(iv) Reinsurance risk
Reinsurance is placed to reduce the Company's exposure to specific risks, events and accumulations. The risk is that the reinsurance contracts fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, either by risks not being appropriately covered or because there are gaps in the programme. The reinsurance programme is subject to considerable scenario planning, including by the Company's various reinsurance brokers, and is approved by the Company's Reinsurance Committee and in accordance with the wider reinsurance strategy set by the Company's Board. The failure of a reinsurer to pay a claim is categorised as a credit risk.

(b) Regulatory risk

There is continued regulatory attention to ensure firms have the appropriate culture in place and are focused on delivering good customer outcomes. Areas of focus include Product Governance & Value, Pricing, Distribution Chains, Instalment Credit, Operational Resilience and Controls, Oversight of Third Parties, and Management of Change. Final outcomes of regulator reviews are still awaited in a number of these areas.

(c) Market risk

Market risk can be described as the risk of change in the fair value of financial assets due to changes in interest rates, foreign exchange rates and market prices, whether specific to the individual asset or its issuer, or to factors affecting all assets traded in the market.

4 Risk management (continued)

(c) Market risk (continued)

Interest rate risk
Interest rate risk is the risk that the value of future cash flows of a financial instrument could have fluctuated because of a change in interest rates. The Company's exposure to changes in interest rates is primarily concentrated in its investment portfolio. To mitigate changes in interest rates the Company holds a material proportion of its investments in fixed rate debt securities. It will normally hold these securities until their maturity. This reduces the variation in future cash flows and provides security over future income and redemption values. The market value of fixed interest securities is inversely correlated to movements in interest rates, that is the market value of fixed interest securities rises if interest rates fall and vice versa. The Company regularly monitors its investment strategy to minimise the risk of a fall in the portfolio's market value which could affect the amount of business that the Company is able to underwrite or its ability to settle claims as they fall due. The Company's risk is limited to interest rate risk on the £139.1m subordinated debt it has issued, as the interest rate is based on LIBOR.

The Company has assessed the likely impact following the transition from LIBOR after 2021 and does not expect there to be a material impact, as its exposure is limited to infrastructure debt and loans with fellow group undertakings.

Most insurance contract liabilities are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing. PPOs take account of likely increases in payments due to, for example, inflation, and are discounted using a rate of interest based on the same indexing factors.

Foreign exchange risk
The Company is not exposed to material foreign currency risks on assets and liabilities as a result of changes in exchange rates. The majority of the Company's premiums are currently received in Pounds Sterling.

The Company has US Dollar ('USD') liabilities in respect of the run off of its former Marine and City business. The foreign exchange risk on these liabilities was mitigated by entering into a loss portfolio transfer in 2018 to transfer the portfolio to a third party at an arm's length transaction in the foreseeable future. The Company is also exposed to current travel policy claims that require settlement in USD and Euros. These are normally settled within a short period from notification of the loss. Purchases of currency are made to cover the estimated requirement for current liabilities.

The Company invests in USD denominated bonds and so has foreign currency risk exposure on those assets. Until December 2018, the Company mitigated that risk by putting in place three month currency forward contracts.

Debt security price risk
The Company is exposed to changes in the market values of debt securities for reasons other than changes in interest rates. This may be due to the credit rating changes, anticipated future interest rate changes, trading performance or market sentiment relating to the issuer. The Company mitigates this risk by investing in high level of quality issuers in line with its investment strategy and normally holding debt securities until their maturity.

Property price risk
The Company is exposed to changes in market value due to its investment in property. To mitigate this risk the Company has invested in property funds as well as holding direct investments. Property funds allow investors to achieve greater diversification across multiple types of property and location, and to gain access to the expertise of specialist managers.

Notes to the financial statements

4 Risk management (continued)

(d) Credit risk

Credit risk is the risk that a counterparty will not be able to pay amounts in full when due in accordance with the items of the contract, causing the Company to incur a financial loss. The main sources of credit risk are:

- Investments
- Agents, brokers and intermediaries
- Reinsurance
- Other financial assets

The Company has a Credit Risk Forum that monitors the exposure, rating and accumulation risks. It will make recommendations on actions to reduce risk. The maximum exposure is equal to the carrying amount of those assets.

Investments
The risk is managed within the Company's investment guidelines by the Investment Committee who regularly update the Board. The investments are held in a high quality, fixed income portfolio and are normally held until maturity.

The analysis based on the second highest credit ratings of the available-for-sale portfolio is as follows:

	Note	2019 £m	2019 %	2018 £m	2018 %
AAA		190.9	14.1	304.4	17.4
AA		412.7	30.4	648.4	37.0
A		477.9	35.3	508.9	29.0
BBB		273.4	20.2	290.7	16.6
Total	21	1,354.9	100.0	1,752.4	100.0

The second highest credit rating is used because it gives a better overall assessment of credit risk by avoiding any rating agency anomalies.

The infrastructure debt also has inherent credit risk. This is managed and mitigated within the Company's guidelines by the Investment Committee. The infrastructure bond has an external rating of BBB as provided by AG Insurance using an internal rating model based on S&P.

The financial assets designated as fair value through profit or loss do not have a credit rating. The investment is in five property funds and each fund consists of a pool of assets managed by specialist property fund managers. Hence, risk is mitigated through this selection.

An analysis of available-for-sale assets, assets designated as fair value through profit or loss, and other investments is shown in note 21.

4 Risk management (continued)

(d) Credit risk (continued)

Agents, brokers and intermediaries

The Company trades only through intermediaries who have been subject to a rigorous credit risk assessment and appointment procedure. All intermediaries are authorised and regulated by the Financial Conduct Authority ('FCA') (with the exception of those located on the Isle of Man and the Channel Islands). Credit insurance is purchased as part of the credit risk strategy. The levels of debt are regularly monitored and appropriate action is taken in respect of slow and non-payment within the terms of credit. The level of bad debts in the current and prior year was negligible.

Balances due:	Note	2019 £m	2019 %	2018 £m	2018 %
Within terms		237.1	98.1	216.7	97.3
0 - 1 month		2.9	1.2	4.7	2.1
2 months		0.5	0.2	0.9	0.4
3 months and above		1.2	0.5	0.4	0.2
Total	22	241.7	100.0	222.7	100.0

Reinsurance

The Company is exposed to credit risk through its reinsurance arrangements, where amounts due under a reinsurance contract may not be paid. The Company manages this risk by only placing reinsurance with reinsurers who are rated A- or above (AM Best or Standard & Poor's), although ratings may subsequently fluctuate after original placement. The only exception to this relates to a small number of proportional treaties where captive reinsurers are used in specific circumstances. Any alternative reinsurance arrangements are required to be agreed by the Company's Board. The ratings of reinsurers are monitored by the Credit Risk Forum.

Other financial assets

The credit risk arising from the other financial assets of the Company - comprising cash and cash equivalents, instalments and other receivables, but excluding related party balances - is from the default of the counterparty. Default on instalment payments results in the Company cancelling the underlying policy in order to reduce its exposure. An analysis of insurance and other receivables is shown in note 22.

(e) Liquidity risk

Liquidity risk is the risk that the Company, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. The Company is exposed to liquidity risks arising from daily calls on its cash resources, notably from claims arising on its insurance contracts. There is therefore a risk that cash will not be available to settle liabilities when due.

The liquidity risk needs to be balanced against the aim to match the maturity of financial assets with the estimate of the settlement of insurance liabilities and also optimise the yield on the investment portfolio.

4 Risk management (continued)

(e) Liquidity risk (continued)

The Company manages its liquidity risk by having investment guidelines and maintains sufficient liquidity to be able to realise its financial assets at short notice if required. The Company may also make use of borrowing facilities if required.

There are no significant amounts of insurance payables or reinsurance payables that fall due for payment by the Company other than within one year. Insurance contract provisions include provisions for outstanding claims, a significant element of which are payable after more than one year.

Gross outstanding claims - estimated payment profile		2019	2019	2018	2018
Payment period	Note	£m	%	£m	%
0 - 1 year		495.8	30.5	515.3	31.0
2 - 5 years		601.5	37.0	601.7	36.2
5 years and above		528.3	32.5	545.1	32.8
Total	24	1,625.6	100.0	1,662.1	100.0

Liquidity risk can also have an impact on the Company's ability to pay interest on and ultimately repay the subordinated debt of £139.1m. Below is a table which discloses the contractual cash flows for both interest and repayment of capital.

The subordinated debt incurs interest at 3.85% above LIBOR per annum, with the LIBOR rate being reviewed quarterly. From 2026 the interest rate will increase to 4.85% above LIBOR per annum and will remain at this rate until maturity. Accrued interest is payable quarterly. The subordinated debt has a maturity date of 5 November 2046. This has been reflected in this calculation.

Subordinated debt – contractual cash flow		2019	2018
Payment period	Note	£m	£m
0 - 1 year		6.4	6.5
2 - 5 years		25.7	25.9
5 years and above		320.5	321.6
Total	25	352.6	354.0

The amounts disclosed in the following table are the contractual undiscounted cash flows for lease liabilities. Liquidity risk can have an impact on the Company's ability to pay the contractual cash flows as and when they fall due.

Lease liabilities – contractual cash flow		2019
Payment period	Note	£m
0 - 1 year		1.4
2 - 5 years		2.6
5 years and above		1.8
Total undiscounted cash flows		5.8
Total discounted cash flows	26	5.4

Notes to the financial statements

4 Risk management (continued)

(f) Operational risk

Operational risk arises from inadequate or failed internal processes, people and systems, or from external events. It is diverse in nature and permeates all business activities but remains a distinct form of risk.

The identification, assessment and evaluation, management, monitoring and reporting of risks rests with business managers. Risks are identified, and regularly assessed; the Board Risk Committee reviews the risks on a regular basis and for those falling outside the Company's risk appetite monitors the remedial action to ensure compliance with the Company's risk appetite.

(g) Brexit risk

The Company will be exposed to limited risk now that the United Kingdom (UK) has left the European Union (EU). Business activities that are directly impacted relate to a limited reliance of passporting rights into the Republic of Ireland. Dependant on any trade deal reached between the UK and the EU, the company could be exposed to risks in relation to the supply chain.

The Company could be exposed to the potential indirect consequences of Brexit which could show through unexpected increases in claims inflation, exchange rate volatility or increased medical costs.

A number of stress tests have been performed on potential economic downturn and claims inflation scenarios and in such events the financial position of the Company is sufficiently resilient. However, contingency plans have been developed should such events develop.

(h) Pension risk

The Company is exposed to a number of risks through the Ageas Insurance Staff Pension Scheme, a defined benefit pension scheme which is closed to new members but within which existing members can still accrue further benefits until 2021.

Volatility in market conditions
The year end result under IAS 19 accounting can vary considerably depending on market conditions. The liabilities are measured by reference to bond yields whilst the assets of the scheme are invested in debt securities, equities and property. Changing investment markets together with the variable discount rate will lead to volatility in the net pension liability/asset in the balance sheet and in other comprehensive income.

Selection of accounting assumptions
The calculation of the defined benefit pension obligation is based on projecting future cash flows for many years into the future until all obligations have been settled. This means that the assumptions used can have a material impact on the liability and amount reported in the statement of financial position and in the statement of profit or loss and other comprehensive income. In practice the future experience may not be in line with the assumptions adopted in the valuation.

Inflation rate risk
Pensions accrued are linked to various inflation measures. Higher inflation will lead to higher liabilities.

4 Risk management (continued)

(i) Covid-19 risk

During December 2019 the Chinese city of Wuhan was affected by an outbreak of the virus Covid-19, publicly also referred to as the Coronavirus. By 31 December 2019 only a limited number of cases of the Covid-19 virus were reported to the World Health Organisation. Via infected travellers, the virus subsequently spread in early 2020 to a number of other countries, including the UK, and has in the meantime been officially declared a pandemic. Ageas is of the position that the escalation of the severity of the virus in early 2020 did not provide additional information about uncertainties that existed at the reporting date of 31 December 2019. Therefore, Ageas considers the virus Covid-19 as a non-adjusting event.

The impact of insurance claims related to Covid-19 on the Company is expected to be low to moderate due to its diversified portfolio, although we note that the wider industry has potentially significant exposures, which remain subject to significant uncertainty. Regarding the impact on our commercial activities and operations, both directly and indirectly due to the overall reduced economic activity we cannot reasonably estimate the impact at this time, but robust plans are in place to ensure that customers will continue to be served. Regarding the impact from the high volatility and negative sentiment on the financial markets, the situation is very volatile and no accurate impact assessment can be reasonably made as to the medium to long term impact at this time in respect of either the Company or its defined benefit pension scheme. The company continues to monitor and review the impact of Covid-19 on operations and the Crisis Management team are meeting daily to coordinate the company's response. Ageas invoked its business continuity plans in March as measures in the UK were announced by the Government including enabling key functions to home work to ensure core activities were maintained, increased liquidity and credit risk monitoring and greater oversight of third party suppliers.

A number of stress tests have been performed on potential economic downturn and claims scenarios and in such events the going concern basis of preparation for these financial statements remains appropriate.

(j) Capital management

Aims of capital management policy
The Company has established standards for the efficient management of capital, to meet the needs of the business and return on capital requirements of shareholders. This includes the capital required to support the risk appetite identified in the Company's Risk Policies including an additional risk margin, in full compliance with the requirements of the Prudential Regulation Authority ('PRA').

Definitions of capital management (and supporting terms)
Capital Management is the collection of processes and activities undertaken to ensure that sufficient capital is maintained to ensure the organisation's ability to meet its liabilities and ultimately ensure its survival, particularly in the case of significant losses arising from adverse events.

Capital Management includes the assessment of capital required to support the Company's plans and objectives, the structure of its shareholders' funds, arrangements to secure capital, and the ongoing monitoring of capital against business requirements. The Company is authorised by the PRA and regulated by the FCA and PRA.

The Company is required to report to the PRA two measures of capital adequacy, a minimum capital requirement ('MCR') and a solvency capital requirement ('SCR').

The MCR seeks to ensure that the Company has at least the minimum amount of capital to meet future expected claims obligations. The SCR reflects a level of eligible own funds that enables the Company to absorb a 1 in 200 event and provides reasonable assurance to policyholders that payments will be made as they fall due.

4 Risk management (continued)

(j) Capital management (continued)

Approach to capital management
The Company provides input into the Ageas UK Business Plan which is reviewed and revised each year and then formally approved by the Company's Board. A factor in the formulation of the Business Plan is the assessment of the capital required to support the business objectives (i.e. growth and profit targets) and the appropriateness of the supporting capital structure.

Overall capital requirements and structure are assessed taking account of the following:

- capital required to support the planned growth in new business and renewal premiums and profit targets;
- the required rate of return on capital employed;
- the required dividend;
- Solvency II capital requirements; and
- capital required to support the desired credit rating.

In the event of failure to meet the capital requirements, the Company would expect to revert to its shareholders for an injection of funds or look to alternative methods for ensuring compliance.

For pricing/underwriting purposes, capital is allocated to different classes of business using a risk-based methodology. Where product lines do not have the potential to achieve the required return on capital within the plan period the Company will consider discontinuing the products.

(k) Sensitivity to key business drivers

The impact of the changes in key business drivers is each assumed to be a discrete change. All other factors will be unchanged. Some of these changes cannot be guaranteed to have a linear effect and as a range of other factors will impact the results they cannot be guaranteed to predict the detailed result. In addition the risk management process that the Company operates will ensure that corrective action is implemented to mitigate or reverse the changes.

The sensitivities below have been selected based on the significant effect they have on the profitability of the Company.

Interest yields change by 1.0%
The Company will be exposed to the impact of interest yield changes on its assets and liabilities. Forecasting the impact on the market values of fixed interest debt securities will not be linear due to other factors including credit rating movement, anticipation of future interest rate changes, trading performance or market sentiment of the issuers. The impacts shown below are based on the premise that there will be a parallel shift of all interest rates for short and long term.

For a decrease in yields there would be an increase in the market value of fixed interest debt securities. As the Company will normally hold its fixed interest debt securities to maturity, it will not suffer any reduction in its future cash flows. It will suffer a reduction in the yield on any future fixed interest debt securities that it purchases from surplus funds and the maturity of current investments. The financial assets designated as fair value through profit or loss have no maturity date and will not be directly impacted by changes in the interest rate. Further, the Company intends to hold the infrastructure debt to maturity and the rate is a floating rate of interest (reset to LIBOR every six months). Hence, the impact of interest rate changes is minimal over the term of the debt. This also applies to the subordinated debt which is also a floating rate.

Notes to the financial statements

4 Risk management (continued)

(k) Sensitivity to key business drivers (continued)

	2019	2018
	£m	£m
Decrease of 1% would cause an increase in net assets before tax	12.9	12.4
Increase of 1% would cause a decrease in net assets before tax	(20.2)	(24.0)

Expenses increase by 5.0%
If all three expense areas (acquisition, administration and claims handling) were to increase by 5.0%, in addition to the impact on profit of the additional costs it would also increase the claims handling provision and result in the deferral of additional acquisition costs to the extent that these will be recovered by unearned premiums.

	2019	2018
	£m	£m
Total impact on profit before tax	(8.4)	(7.9)
Total impact on net assets before tax	(8.4)	(7.9)

Gross loss ratio increases by 1.0%
If the cost of claims were to increase the gross loss ratio (gross incurred claims as a proportion of gross earned premium) by 1.0% there would be a reduction in profits. It is assumed that a similar portion of claims costs would be recoverable from reinsurers. There would also be an increase in claims handling reserve as a proportion of the claims would be unpaid at the statement of financial position date.

	2019	2018
	£m	£m
Total impact on profit before tax	(2.0)	(13.5)
Total impact on net assets before tax	(2.0)	(13.5)

Notes to the financial statements

5 Gross written premiums

	2019 £m	2018 £m
Gross written premiums	1,206.6	1,228.4
Change in the gross provision for unearned premiums	15.1	53.2
Gross insurance premium revenue	1,221.7	1,281.6
less: Written premiums ceded to reinsurers incepting in the current year	(969.4)	(110.4)
less: Reinsurers' share of change in the provision for unearned premiums	182.3	(2.9)
Ceded earned premiums	(787.1)	(113.3)
Net insurance premium revenue	434.6	1,168.3

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. See note 36 for more information.

6 Commission income

	2019 £m	2018 £m
Reinsurance commission	193.3	0.8
Change in reinsurers' share of deferred acquisition costs	(68.3)	-
Commission income	125.0	0.8

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. See note 36 for more information.

7 Investment income

	2019 £m	2018 £m
Interest income:		
- Available-for-sale interest income	27.0	38.7
- Loans and receivables interest income	3.2	3.5
- Fair value through profit or loss interest income	3.7	4.3
Investment property income	1.3	1.3
Foreign exchange movement on derivative	(0.1)	(1.4)
Dividend income	0.1	-
Net realised gains on available-for-sale financial assets	4.2	1.1
Net unrealised gains on financial assets designated as fair value through profit or loss	1.7	3.4
Total investment income	41.1	50.9

Notes to the financial statements

8 Other operating income

	2019 £m	2018 £m
Engineers' income	1.5	1.8
Instalment service charge income	0.3	0.4
Other income	3.7	3.5
Total other operating income	5.5	5.7

9 Claims and benefits incurred

	2019 £m	2018 £m
Current year claims paid	(383.9)	(413.8)
Change in prior years claims	134.3	167.3
Claims handling costs	(32.7)	(36.2)
Additional liabilities arising during the year	(482.8)	(434.1)
Net foreign exchange differences	-	1.0
Total claims and benefits incurred	(765.1)	(715.8)

10 Reinsurers' share of claims and benefits incurred

	2019 £m	2018 £m
Current year claim recoveries	117.4	5.8
Change in prior years claims	334.1	(60.7)
Additional recoveries arising during the year	170.9	31.4
Total reinsurers' share of claims and benefits incurred	622.4	(23.5)

11 Acquisition costs

	2019 £m	2018 £m
Commission expenses payable	(254.0)	(272.2)
Other acquisition costs payable	(56.5)	(48.1)
Changes in deferred acquisition costs	(7.3)	(20.2)
Total acquisition costs	(317.8)	(340.5)

Notes to the financial statements

12 Operating expenses

	Note	2019 £m	2018 £m
Depreciation and amortisation:			
- Investment property	16	(0.3)	(0.3)
- Buildings	17	(0.7)	(0.7)
- Equipment and motor vehicles	17	(0.6)	(1.2)
- IT equipment	17	(2.4)	(2.4)
- Right of use cars	17	(0.3)	-
- Right of use land and buildings	17	(0.8)	-
- Intangible assets	18	(0.3)	-
Personnel expenses:			
- Wages and salaries	32	(101.1)	(97.0)
- Compulsory social security contributions	32	(9.3)	(10.0)
- Other pension costs	32	(6.5)	(7.5)
- Personnel expenses recharged to a fellow group subsidiary		32.7	32.6
Other costs		(87.7)	(75.6)
Total operating expense		(177.3)	(162.1)

Operating expenses are analysed as:

	Note	2019 £m	2018 £m
Acquisition costs	11	(56.5)	(48.1)
Administration costs		(88.1)	(77.8)
Claims handling costs	9	(32.7)	(36.2)
		(177.3)	(162.1)

Investment management fees

Investment management fees are included within other costs above.

	2019 £m	2018 £m
Total fees incurred for investment management activities	1.0	1.5

Auditor's remuneration

Auditor's remuneration is included within other costs above.

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	313.8	187.5
Fees payable to the Company's auditor for other services:		
- Audit-related assurance services	69.6	-
- Other services pursuant to regulation	28.8	-

13 Finance costs

	2019 £m	2018 £m
Interest expense relating to lease liabilities	0.1	-
Interest expense on loans	6.7	6.5
Other interest payable	0.2	-
Total finance costs	7.0	6.5

Notes to the financial statements

14 Income taxes

(a) Amounts recognised in profit or loss

	2019 £m	2018 £m
Current tax		
UK corporation tax on profits of the year	(5.4)	(8.0)
Prior year over/(under) provision in respect of current tax	0.2	(0.2)
	(5.2)	(8.2)
Deferred tax		
Origination and reversal of temporary differences	(4.6)	(3.7)
Effect of change in rate on deferred tax	(0.2)	(0.4)
Prior year over/(under) provision in respect of deferred tax	0.1	(0.1)
	(4.7)	(4.2)
Total income tax charge	(9.9)	(12.4)

(b) Reconciliation of effective tax rate

The tax assessed on the year is higher (2018: higher) than the standard rate of corporation tax in the United Kingdom of 19.0% (2018: 19.0%). The differences are explained below:

	2019 £m	2018 £m
Profit before tax	50.6	61.6
Standard rate of corporation tax in year	19.0%	19.0%
Expected tax charge based on the standard rate of corporation tax in the UK	(9.6)	(11.7)
Expenses not deductible for tax purposes	(0.4)	(0.5)
Effect of variable tax rates	(0.2)	(0.3)
Income receivable not taxable	-	0.4
	(10.2)	(12.1)
Prior year over/(under) provision in respect of current tax	0.2	(0.2)
Prior year over/(under) provision in respect of deferred tax	0.1	(0.1)
	(9.9)	(12.4)

(c) Amounts recognised in other comprehensive income

	2019 £m	2018 £m
Deferred tax on remeasurement of defined benefit pension obligation	(0.6)	(5.0)
Deferred tax on change in fair value of available-for-sale financial assets	(4.4)	5.5
Current tax on change in fair value of available-for-sale financial assets	0.7	1.1
	(4.3)	1.6

Notes to the financial statements

15 Investment in group undertakings

	2019 £m	2018 £m
Investments in group undertakings are stated at cost		
At 1 January and 31 December	-	-

The following company, which is incorporated in the United Kingdom, was a joint venture during the year:

Company	**Activity**	**% Owned**	**Ownership**
HCP (Estate Management) Limited	Estate management	51	Joint Venture

The registered address of HCP (Estate Management) Limited ('HCP') is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

The Company has a 51% share (2018: 51%) in HCP, a company limited by guarantee with no share capital. HCP is structured as a separate vehicle for the maintenance and upkeep of shared real estate and the Company has only a residual interest in the net assets of HCP. Accordingly, HCP is classified as a joint venture of the Company.

16 Investment property

	Land £m	Buildings £m	Total £m
Cost			
Balance at 1 January 2018	5.3	16.0	21.3
Balance at 31 December 2018	5.3	16.0	21.3
Balance at 31 December 2019	5.3	16.0	21.3
Accumulated depreciation			
Balance at 1 January 2018	-	0.8	0.8
Depreciation charge for the year	-	0.3	0.3
Balance at 31 December 2018	-	1.1	1.1
Depreciation charge for the year	-	0.3	0.3
Balance at 31 December 2019	-	1.4	1.4
Carrying amounts			
Balance at 31 December 2018	5.3	14.9	20.2
Balance at 31 December 2019	5.3	14.6	19.9

The property relates to Deansleigh House, Bournemouth, and is let to a related party under an operating lease (details included in note 36, Related party transactions). See also note 33, Operating leases, for the terms of the operating lease.

17 Property, plant and equipment

	Right of use assets		Own use assets			Total
	Land and buildings	Motor vehicles	Land and buildings	Equipment and motor vehicles	IT equipment	
	£m	£m	£m	£m	£m	£m
Cost						
Balance at 1 January 2018	-	-	36.5	11.9	32.4	80.8
Acquisitions	-	-	-	0.1	2.6	2.7
Balance at 31 December 2018	-	-	36.5	12.0	35.0	83.5
Impact of initial application of IFRS 16	5.0	0.6	-	-	-	5.6
Restated balance at 1 January 2019	5.0	0.6	36.5	12.0	35.0	89.1
Acquisitions	1.3	0.6	-	0.5	1.7	4.1
Reclassifications	-	-	-	(0.2)	-	(0.2)
Disposals	(0.6)	-	-	-	-	(0.6)
Balance at 31 December 2019	5.7	1.2	36.5	12.3	36.7	92.4
Accumulated depreciation						
Balance at 1 January 2018	-	-	2.2	8.1	27.8	38.1
Depreciation charge for the year	-	-	0.7	1.2	2.4	4.3
Balance at 31 December 2018	-	-	2.9	9.3	30.2	42.4
Depreciation charge for the year	0.8	0.3	0.7	0.6	2.4	4.8
Impairment	1.1	-	-	1.0	-	2.1
Disposals	(0.2)	-	-	-	-	(0.2)
Balance at 31 December 2019	1.7	0.3	3.6	10.9	32.6	49.1
Carrying amounts						
Balance at 31 December 2018	-	-	33.6	2.7	4.8	41.1
Balance at 31 December 2019	4.0	0.9	32.9	1.4	4.1	43.3

From 1 January 2019, the Company was required to adopt IFRS 16 which introduced a single, on-balance sheet lease accounting model for lessees.

The Company impaired its property, plant and equipment by £1.9m following the announcement of a number of organisational changes in the year.

The right of use assets recognised by the Company following the implementation of IFRS 16 are in respect of leased office premises and leased cars. See note 2 for further information.

Notes to the financial statements

18 Intangible assets

	Software £m	Licences £m	Total £m
Cost			
Acquisitions	1.9	0.7	2.6
Reclassifications	-	0.2	0.2
Balance at 31 December 2019	1.9	0.9	2.8
Accumulated amortisation			
Amortisation charge for the year	0.2	0.1	0.3
Balance at 31 December 2019	0.2	0.1	0.3
Carrying amounts			
Balance at 31 December 2019	1.7	0.8	2.5

19 Deferred acquisition costs

As part of the Company's insurance business, certain acquisition costs are deferred. An analysis of these deferred costs is set out below:

	2019 £m	2018 £m
Balance at 1 January	167.3	187.5
Acquisition costs incurred in year	310.5	320.3
Amortisation charged to income	(317.8)	(340.5)
Balance at 31 December	160.0	167.3

Notes to the financial statements

20 Deferred tax

From 1 April 2017 the main rate of UK corporation tax rate has been 19%. The Finance Act 2016 was substantively enacted on 6 September 2016 and further reduces the corporation tax rate to 17% (effective 1 April 2020). The deferred tax asset recognised as at 31 December 2019 has been calculated based on these rates. The maintenance of the tax rate at 19% has been substantively enacted into law on 17 March 2020. As this rate had not been substantively enacted at the balance sheet date it has not been included in calculations.

Recognised deferred tax
Deferred tax assets and liabilities are attributable to the following:

	2019 £m	2018 £m
Property, plant and equipment	1.7	3.0
Defined benefit pension scheme	(4.4)	(3.8)
Provisions and other timing differences	1.6	1.3
Recognised losses	31.1	34.8
Available-for-sale financial assets	(6.0)	(2.3)
Unwinding of unrealised gains	0.7	1.4
Deferred tax asset	24.7	34.4

The balance is all non-current (2018: all non-current).

There is no unrecognised deferred tax in respect of any unrecognised losses (2018: none).

Movement in temporary differences during the year

	1 Jan 2019 £m	Recognised in profit £m	Recognised in OCI £m	31 Dec 2019 £m
Property, plant and equipment	3.0	(1.3)	-	1.7
Defined benefit pension scheme	(3.8)	-	(0.6)	(4.4)
Provisions and other timing differences	1.3	0.3	-	1.6
Recognised losses	34.8	(3.7)	-	31.1
Available-for-sale financial assets	(2.3)	-	(3.7)	(6.0)
Unwinding of unrealised gains	1.4	-	(0.7)	0.7
Deferred tax assets/(liabilities)	34.4	(4.7)	(4.9)	24.7

	1 Jan 2018 £m	Recognised in profit £m	Recognised in OCI £m	31 Dec 2018 £m
Property, plant and equipment	2.4	0.6	-	3.0
Defined benefit pension scheme	1.2	-	(5.0)	(3.8)
Provisions and other timing differences	1.6	(0.3)	-	1.3
Recognised losses	39.3	(4.5)	-	34.8
Available-for-sale financial assets	(8.9)	-	6.6	(2.3)
Unwinding of unrealised gains	2.5	-	(1.1)	1.4
Deferred tax assets/(liabilities)	38.1	(4.2)	0.5	34.4

Notes to the financial statements

21 Financial assets

	2019 £m	2018 £m
Available-for-sale financial assets	1,354.9	1,752.4
Loans and receivables	16.3	16.9
Financial assets designated as fair value through profit or loss	90.7	121.2
Total financial assets	1,461.9	1,890.5

(a) Available-for-sale financial assets

	2019 £m	2018 £m
Debt securities - fixed rate		
UK Government bonds	129.9	317.6
Non-UK Government bonds	2.0	2.0
Quasi Government Bonds	226.4	352.4
Corporate bonds	996.6	1,080.4
	1,354.9	1,752.4

The movements in available-for-sale financial assets are as follows:

	2019 £m	2018 £m
Balance at 1 January	1,752.4	1,780.6
Foreign exchange/translation differences	(0.1)	5.7
Additions	464.7	483.9
Sales and redemptions	(902.7)	(463.0)
Fair value unrealised losses and gains	22.0	(34.6)
Amortisation of premiums and discounts	18.6	(20.2)
Balance at 31 December	1,354.9	1,752.4

Notes to the financial statements

21 Financial assets (continued)

(a) Available-for-sale financial assets

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively on a funds withheld basis. The funds withheld financial assets have been derecognised from the Company's statement of financial position in line with the derecognition criteria within IAS 39 Financial Instruments. See note 36 for further information.

As at 31 December 2019 the current portion of available-for-sale financial assets is £220.1m (2018: £338.3m) and the non-current portion is £1,134.8m (2018: £1,414.1m).

The effective interest rate at the statement of financial position date on sterling assets available-for-sale is 1.95% (2018: 2.04%) and on USD assets is 1.75% (2018: 1.75%).

The Company does not have direct exposure to sovereign debt other than to the UK and US government, and indirect exposure is carefully managed through conservative investment guidelines.

(b) Loans and receivables

	2019 £m	2018 £m
Infrastructure debt	16.3	16.9

The infrastructure debt has a floating rate of interest (2.00% above LIBOR per annum, with an increase to 2.25% above LIBOR per annum after eight years from 2016) with a term to maturity of ten years, until 31 December 2025.

Notes to the financial statements

21 Financial assets (continued)

(c) Financial assets designated at fair value through profit or loss

	2019 £m	2018 £m
Property funds	90.7	121.2

The investment has been designated as fair value through profit or loss as it is the Company's intention to manage the investment and evaluate performance on a fair value basis. The return on the property funds is the key performance measure against which the property funds will be measured.

All property funds are non-current.

(d) Valuation of financial instruments

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. The category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets	131.9	1,223.0	-	1,354.9
Financial assets designated as fair value through profit or loss	-	90.7	-	90.7
	131.9	1,313.7	-	1,445.6

2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets	319.6	1,432.8	-	1,752.4
Financial assets designated as fair value through profit or loss	-	121.2	-	121.2
	319.6	1,554.0	-	1,873.6

There have been no transfers between levels 1 and 2 during the year.

The classification and measurement of all assets and liabilities is detailed in note 35.

Notes to the financial statements

21 Financial assets (continued)

(e) Unrealised gains and losses in fair value on available-for-sale assets through other comprehensive income

	2019		2018	
	Fair value £m	Unrealised gain or (loss) £m	Fair value £m	Unrealised gain or (loss) £m
Available-for-sale financial assets				
Assets fair valued at below amortised cost	170.4	(0.5)	770.4	(9.8)
Assets fair valued at or above amortised cost	1,184.5	34.7	982.0	22.0
Total	1,354.9	34.2	1,752.4	12.2
Gross unrealised loss position for various percentages of amortised cost				
Between 90% and 100%	170.4	(0.5)	770.4	(9.8)
Total	170.4	(0.5)	770.4	(9.8)

(f) Unrealised gains and losses in fair value on assets designated as fair value through profit or loss

	2019		2018	
	Fair value £m	Unrealised gain or (loss) £m	Fair value £m	Unrealised gain or (loss) £m
Assets designated as fair value through profit or loss	90.7	(4.4)	121.2	8.9
Total	90.7	(4.4)	121.2	8.9

Notes to the financial statements

22 Insurance and other receivables

	2019 £m	2018 £m
Receivables arising from insurance contracts:		
- contract holders	25.5	25.1
- agents, brokers and intermediaries	195.6	181.9
- reinsurers	19.1	15.7
Total receivables arising from insurance contracts	240.2	222.7
Amounts due from group undertakings	107.2	90.3
Salvage and subrogation recoveries	25.2	25.2
Accrued interest income	18.1	23.0
Deferred other charges	10.2	9.5
Other receivables	2.4	28.9
Total insurance and other receivables	403.3	399.6

In 2017, the Company issued loans to Ageas (UK) Limited and Ageas Retail Limited, with maximum capacities of £15.0m and £100.0m respectively. Both loans bear interest at 1.6% above LIBOR per annum, with interest payable at the end of each quarter. There is also a non-utilisation charge at 0.56% of the undrawn portion of each loan facility. On 7 September 2019, the Company restated both loans to extend the maturity dates to 7 September 2021.

Amounts due from group undertakings are unsecured, interest free and repayable on demand in cash.

The balance above is split £295.8m current and £107.5m non current (2018: £290.8m current, £108.8m non current).

23 Cash and cash equivalents

	2019 £m	2018 £m
Cash at bank	71.4	152.8
Cash not available to the Company - held in trust	1.5	1.5
Cash and cash equivalents	72.9	154.3

The effective interest rate for the year 2019 on short term bank deposits was 0.75% (2018: 0.49%), with an average maturity of one day.

Included in cash and cash equivalents held by the Company as at 31 December 2019 are balances totalling £1.5m (2018: £1.5m) not available for use by the Company because they are held in trust to guarantee claims liabilities.

Notes to the financial statements

24 Insurance contract provisions and reinsurance assets

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Unearned premiums	612.2	(185.3)	426.9	627.4	(3.0)	624.4
Outstanding claims:						
- Reported by policy holders	1,615.4	(761.5)	853.9	1,542.1	(404.5)	1,137.6
- Incurred but not reported	10.2	76.7	86.9	120.0	92.9	212.9
Total insurance contract provisions	2,237.8	(870.1)	1,367.7	2,289.5	(314.6)	1,974.9

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. See note 36 for more information.

Recoveries are not included above. For details see subsection (iii).

The gross insurance contract provisions balance is split £1,096.7m current and £1,141.1m non current (2018: £1,114.8m current, £1,174.7m non current). The reinsurance contract provisions balance is split £391.7m current and £478.4m non current (2018: £99.6m current, £215.0m non current).

(i) Analysis of movements in insurance contract provisions

	2019			2018		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Balance at 1 January	2,289.5	(314.6)	1,974.9	2,481.9	(374.6)	2,107.3
Claims paid/recovered from reinsurers	(769.0)	249.2	(519.8)	(819.0)	33.7	(785.3)
Movement in claims incurred but not reported	(109.9)	(16.2)	(126.1)	(57.5)	28.9	(28.6)
Claims reported in the year	842.3	(606.2)	236.1	737.3	(5.5)	731.8
Change in provision for unearned premiums	(15.1)	(182.3)	(197.4)	(53.2)	2.9	(50.3)
Balance at 31 December	2,237.8	(870.1)	1,367.7	2,289.5	(314.6)	1,974.9

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. See note 36 for more information.

(ii) Analysis of movements in provision for gross unearned premium

	2019	2018
	£m	£m
Balance at 1 January	627.4	680.6
Written premiums during the year	1,206.6	1,228.4
Less: premiums earned during the year	(1,221.8)	(1,281.6)
Balance at 31 December	612.2	627.4

Notes to the financial statements

24 Insurance contract provisions and reinsurance assets (continued)

(iii) Analysis of movements in outstanding claims

	2019	2018
	£m	£m
Gross outstanding claims		
Balance at 1 January	1,662.1	1,801.3
Current year claims	866.8	867.6
Change in prior year claims	(134.3)	(187.8)
Current year claims paid	(383.9)	(413.8)
Previous year claims paid	(385.1)	(405.2)
Balance at 31 December	1,625.6	1,662.1
Salvage and subrogation recoveries		
Balance at 1 January	(25.2)	(25.9)
Current year claims	(25.2)	(19.7)
Change in prior year claims	25.2	20.4
Balance at 31 December	(25.2)	(25.2)
Gross outstanding claims net of recoveries		
Balance at 1 January	1,636.9	1,775.4
Current year claims	841.6	847.9
Change in prior year claims	(109.1)	(167.4)
Current year claims paid	(383.9)	(413.8)
Previous year claims paid	(385.1)	(405.2)
Balance at 31 December	1,600.4	1,636.9

24 Insurance contract provisions and reinsurance assets (continued)

(iv) Process used to determine the assumptions

The sources of data used as inputs for the assumptions behind insurance contract provisions are internal, using detailed studies that are carried out quarterly. The assumptions are checked to ensure that they are consistent with observable market prices or other published information. There is more emphasis on current trends, and where in early years there is insufficient information to make a reliable best estimate of claims development, prudent assumptions are used.

The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to the claim circumstances and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information arises. The provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments. The impact of many of the items affecting the ultimate cost of the loss is difficult to estimate. The degree of complexity involved will also differ by book of business due to differences in the underlying insurance contract, claim complexity, the volume of claims and the individual severity of claims, determining the occurrence date of a claim, and delayed reporting by policyholders.

For the majority of risks the cost of outstanding claims and the IBNR provisions are estimated using various statistical methods. Such methods extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident year based upon observed development of earlier years and expected loss ratios.

The key methods, which remain unchanged from prior years, are:

- chain ladder methods, which use historical data to estimate the paid and incurred to date proportions of the ultimate claim cost;
- expected loss ratio methods, which use the Company's expectation of the loss ratio for a class of business; and
- benchmarking methods, which use the experience of comparable, more mature classes to estimate the cost of claims.

The actual method or blend of methods used varies by accident year being considered, the class of business and observed historical claims development.

To the extent that these methods use historical claims development information they assume that the historical claims development pattern will occur again in the future. There are reasons why this may not be the case, which, insofar as they can be identified, have been allowed for by modifying the methods. Such reasons include:

- changes in processes that affect the development/recording of claims paid and incurred (such as changes in claim reserving procedures);
- economic, legal, political and social trends (resulting in, for example, a difference in expected levels of claims inflation);
- changes in mix of business; and
- random fluctuations, including the impact of large losses.

IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Company is covered by a variety of excess of loss and quota share reinsurance programmes. The method used by the Company takes historical data, gross IBNR estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

24 Insurance contract provisions and reinsurance assets (continued)

(iv) Process used to determine the assumptions (continued)

Liability insurance contracts underwritten by the Company for accident years 1986 and prior expose the Company to claims in the US from asbestos, environmental pollution and latent injury damage. The Company has minimal exposure in the more recent accident years and these liabilities comprise less than one percent of the total liabilities. The estimate of its ultimate liability for such exposures includes case estimate provisions and a provision for liabilities incurred but not reported; the latter is established based on various methods such as loss development patterns and frequency and severity trends. Estimation of ultimate liabilities for asbestos and environmental exposures is inherently difficult due to the significant complexities surrounding such exposures. The key assumptions affecting the measurement of the provisions are:

(a) continued growth in the number of claims filed due to a more aggressive plaintiff's bar; and
(b) increase in claims involving defendants formerly regarded as peripheral.

In 2018, the Company entered into a reinsurance agreement with a third party covering the majority of its liability insurance contracts underwritten for accident years 1986 and prior, with a view to completing a transfer under a Part VII Scheme of the Financial Services and Markets Act 2000 in 2020.

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. See note 36 for more information.

The Company believes that the outstanding claims reported in the statement of financial position are adequate. However, it recognises that the process of estimation is based upon certain variables and assumptions, which could differ when claims arise.

The reserves are net of recoveries from salvage and subrogation. These recoveries are estimated on the probability of the recovery being made and are subject to regular review.

(v) Analysis of claims development – gross of reinsurance and net of salvage and subrogation recoveries

			Accident Year			
	2015	2016	2017	2018	2019	Total
	£m	£m	£m	£m	£m	£m
Gross estimate of cumulative claims						
At end of accident year	980.3	1,101.3	972.5	847.9	866.7	4,768.7
- one year later	253.7	84.8	5.1	92.4	-	436.0
- two years later	(203.0)	(93.6)	(33.4)	-	-	(330.0)
- three years later	(34.4)	(67.5)	-	-	-	(101.9)
- four years later	(37.8)	-	-	-	-	(37.8)
Estimate of cumulative claims	958.8	1,025.0	944.2	940.3	866.7	4,735.0
Cumulative payments to date	(865.5)	(856.4)	(733.0)	(603.0)	(383.9)	(3,441.8)
	93.3	168.6	211.2	337.3	482.8	1,293.2
Provision for prior years						307.2
Gross outstanding claims net of recoveries						1,600.4

24 Insurance contract provisions and reinsurance assets (continued)

(vi) Analysis of claims development – net of reinsurance and net of salvage and subrogation recoveries

	Accident Year					
	2015	2016	2017	2018	2019	Total
	£m	£m	£m	£m	£m	£m
Net estimate of cumulative claims						
At end of accident year	944.7	1,008.4	913.2	810.6	578.3	4,255.2
- one year later	123.3	61.3	39.4	(75.0)	-	149.0
- two years later	(105.8)	(80.5)	(130.7)	-	-	(317.0)
- three years later	(14.2)	(92.8)	-	-	-	(107.0)
- four years later	(66.4)	-	-	-	-	(66.4)
Estimate of cumulative claims	881.6	896.4	821.9	735.6	578.3	3,913.8
Cumulative payments to date	(822.5)	(812.8)	(695.7)	(537.1)	(266.5)	(3,134.6)
	59.1	83.6	126.2	198.5	311.8	779.2
Provision for prior years						136.4
Net outstanding claims						915.6

25 Loans and borrowings from group companies

	2019	2018
	£m	£m
Non-current liabilities		
Subordinated debt	139.1	139.0

The subordinated debt incurs interest at 3.85% above LIBOR per annum, with the LIBOR rate being reviewed quarterly. From 2026 the interest rate will increase to 4.85% above LIBOR per annum and will remain at this rate until maturity. Accrued interest is payable quarterly. The subordinated debt has a maturity date of 5 November 2046.

Notes to the financial statements

26 Other financial liabilities

	2019 £m	2018 £m
Lease liabilities	5.4	0.2
Funds held under reinsurance agreements	0.5	0.5
Total financial liabilities	5.9	0.7

(a) Lease liabilities

Future lease payments are due as follows:

	Minimum lease payments £m	Interest £m	Present value £m
Current liabilities			
No later than one year	1.4	(0.1)	1.3
Non-current liabilities			
Between one and five years	2.6	(0.2)	2.4
Later than five years	1.8	(0.1)	1.7
	5.8	(0.4)	5.4

From 1 January 2019 the Company adopted IFRS 16 Leases which introduced a single, on-balance sheet lease accounting model for lessees. An overview of the impact of this new standard can be found in note 2.

During the year, £0.1m (2018: £0.5m) was recognised as interest expense in the statement of profit or loss and other comprehensive income in respect of leases.

(b) Funds held under reinsurance agreements

	2019 £m	2018 £m
Funds held under reinsurance agreements	0.5	0.5

The reinsurance agreements are all non-current liabilities.

Notes to the financial statements

27 Other provisions

	2019 £m	2018 £m
Balance at 1 January	18.1	15.8
Transferred from accrued expenses	10.6	-
Released during the year	(1.3)	-
Provisions used during the year	(19.0)	(15.2)
Increase in provisions during the year	15.1	17.5
Balance at 31 December	23.5	18.1

During 2019, a number of provisions were reclassified from accrued expenses to other provisions.

Included in the amounts above are provisions for expected future levy expenses in respect of the Motor insurers' Bureau (£13.8m 2018: £13.6m), for restructuring costs (£3.3m, 2018: £nil), for onerous contract costs (£0.9m, 2018: £0.5m) and a liability in respect of expected dilapidation costs (£0.8m, 2018: £1.7m).

The balance is split £9.7m current and £13.8m non-current (2018: £2.9m current and £15.2m non-current).

There is some uncertainty around the timing of outflows in relation to the future levy expenses provision as it is dependent on future events. The onerous contract and restructuring cost provisions are expected to be fully utilised during 2020. The dilapidation cost provision will be utilised upon expiry of the specific lease it relates to.

28 Current tax liability

	2019 £m	2018 £m
Current tax liability	1.6	1.8

The current tax balance represents the amount of income taxes payable in respect of the current year as well as a residual balance in respect of prior years.

29 Reinsurance payables

	2019 £m	2018 £m
Due to reinsurers	5.1	19.6

This balance is all current (2018: all current).

30 Insurance payables, other payables and deferred income

	2019 £m	2018 £m
Direct insurance contract payables	26.1	26.7
Reinsurers' share of deferred acquisition costs	68.3	-
Other payables and accrued expenses	27.2	36.2
IPT, VAT and other taxes payable	37.8	39.0
Deferred income	0.2	0.2
Total insurance payables, other payables and deferred income	159.6	102.1

During 2019, a number of provisions were reclassified from accrued expenses to other provisions.

Included in the amounts above are amounts due to group undertakings of £1.6m (2018: £1.1m) which are unsecured, interest free and repayable on demand in cash. All amounts are payable within one year (2018: within one year).

See note 36 for details on reinsurers' share of deferred acquisition costs.

31 Capital and reserves

(a) Share capital

	Ordinary shares		Deferred shares		Total	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
In issue at 1 January and 31 December	274.8	274.8	3.0	3.0	277.8	277.8

At 31 December 2019, the issued and authorised share capital comprised 274,823,432 ordinary shares (2018: 274,823,432) and 3,000,000 deferred shares (2018: 3,000,000). The ordinary and deferred shares have a par value of £1 each and are fully paid up.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Deferred shares do not carry the right to vote and holders are not entitled to participate in profits of the Company. All shares rank equally with regard to the Company's residual assets, except that deferred shareholders participate only to the extent of the face value of the shares. On winding up, the deferred shares would rank second, repaying the holders the amount of capital paid up.

(b) Dividends

The Company declared and paid a dividend of £22.6m during the year (2018: £nil), representing 8.25 pence per ordinary share (2018: £nil).

Notes to the financial statements

32 Staff numbers and costs

During the year, a review of the allocation of employees between group companies was undertaken to better reflect those seconded to any fellow group companies. As a result, the following disclosure is not on a like-for-like basis between each year.

On 1 January 2018 all Ageas UK group employees' contracts of service were transferred to the Company. The following disclosure represents the total number of persons employed by the Company, excluding any employees seconded to any fellow group companies.

The total number of employees at the year end, analysed by category, was as follows:

	2019 No.	2018 No.
Business acquisition	614	1,249
Claims handling	782	687
Administration	636	785
	2,032	2,721

The full time equivalent number of employees was as follows:

	2019 No.	2018 No.
Business acquisition	596	1,192
Claims handling	712	632
Administration	604	751
	1,912	2,575

The average number of employees during the year was as follows:

	2019 No.	2018 No.
Total number of employees	2,093	2,878
Full time equivalent number of employees	1,964	2,729

The aggregate payroll costs in respect of these persons were as follows:

	2019 £m	2018 £m
Wages and salaries	101.1	97.0
Social security costs	9.3	10.0
Other pension costs	6.5	7.5
	116.9	114.5

Notes to the financial statements

33 Operating leases

Leases as lessor

The Company leases office premises to a fellow group undertaking under the terms of a lease which expires in 2029.

At 31 December, the future minimum lease payments receivable under non-cancellable leases are as follows:

	2019	2018
	£m	£m
Less than one year	1.3	1.3
Between one and five years	5.2	5.2
More than five years	5.8	7.1
Total	12.3	13.6

Leases as lessee

From 1 January 2019 the Company adopted IFRS 16 Leases which introduced a single, on-balance sheet lease accounting model for lessees. An overview of the impact of this new standard and the required disclosures can be found in note 2.

The Company has a short term rolling lease agreement in respect of land. The lease includes an option to renew every six months and the lease payments are reviewed every year in line with the Retail Price Index ('RPI').

During 2019, £0.1m (2018: £1.4m) was recognised as an expense in the statement of profit or loss in respect of operating leases.

Notes to the financial statements

34 Pension schemes

Defined contribution plans
The Company operates two defined contribution schemes. The Ageas Group Personal Pension scheme is for the majority of its employees and the Groupama Personal Pension Plan is in respect of a small number of employees. The assets of the schemes are held separately from those of the Company in independently administered funds. The pension costs in respect of members of these funds represents contribution payable by the Company to the funds and amounted to £5.6m (2018: £5.7m). The Company has no further payment obligations once the contributions have been paid.

Defined benefit pension scheme
The Company operates a funded defined benefit pension scheme, the Ageas Insurance Staff Pension Scheme, in respect of staff who were members of the scheme on 31 December 1997 and staff of group companies who had contractual rights to join the scheme after this date. In 2001 active members of the Northern Star Insurance Company Limited Superannuation Fund, whose employment transferred to the Company, joined the scheme for future service on a benefit structure mirroring that in their previous scheme and were granted past service benefits in respect of a bulk transfer payment received from that scheme. The scheme will be closed for future accrual with effective from 1 January 2021.

The assets of the scheme are held in a separate trust fund. Assets are invested under trustee guidelines. Contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. A full actuarial valuation was carried out at 1 January 2018. At that date, the market value of the assets of the scheme amounted to £197,783,000 and was sufficient to cover 99% of the benefits that had accrued to members, after allowing for the expected future increases in earnings.

On 1 January 2018, Ageas (UK) Limited ceased to be a participant in the scheme as all employees were transferred to the Company.

During 2018, the High Court ruled that equalisation was required on guaranteed minimum pensions ('GMP'). The Department for Work and Pensions is to finalise guidance for schemes on the approach to GMP equalisation. The Company recognised £0.2m as a past service cost in respect of GMP equalisation following external independent actuarial advice.

The expense recognised in the statement of profit or loss in respect of the defined benefit pension scheme in 2019 was £0.4m (2018: £1.8m).

34 Pension schemes (continued)

Defined benefit pension obligation recognised in the balance sheet

	2019 £m	2018 £m
Opening net (asset)/liability	(20.1)	6.0
Expense recognised in the statement of profit or loss	0.4	1.8
Remeasurements recognised through other comprehensive income	(3.8)	(26.3)
Contributions paid	(1.4)	(1.6)
Net defined benefit pension asset recognised in the balance sheet	(24.9)	(20.1)

Assumptions

The formal valuation of the Ageas Insurance Staff Pension Scheme was updated by a qualified independent actuary on an IAS 19 (Revised) basis as at 31 December 2019. The major assumptions used by the actuary were:

	2019	2018
Valuation method	Projected unit	Projected unit
	%	%
Rate of increase in salaries	3.25	3.40
Pensions accrued before 1 October 2012 rate of increase:		
- Post 1988 Non GMP (ex Bishopsgate members)	5.00	5.00
- Post 1988 Non GMP (ex Northern Star members)	3.15	3.40
Pensions accrued from 1 October 2012 rate of increase	2.25	2.40
Discount rate	1.95	2.85
RPI inflation assumption	3.15	3.40

The future life expectancy assumption for a current male pensioner aged 65 is 22.9 years (2018: 22.8 years), for a current female pensioner aged 65 it is 24.9 years (2018: 24.8 years), for a future male pensioner aged 65 in 20 years from the accounting date it is 24.6 years (2018: 24.5 years), and for a future female pensioner aged 65 in 20 years from the accounting date it is 26.7 years (2018: 26.6 years).

The assumptions used by the actuary are considered to be the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

The defined benefit scheme is closed to new members. Under the projected unit method of valuing the liabilities of the scheme, the current service cost will increase as the members of the scheme approach retirement.

At 31 December 2019 the weighted average duration of the defined benefit obligation was 19.0 years (2018: 19.2 years).

Notes to the financial statements

34 Pension schemes (continued)

Changes in the present value of the obligations

	2019 £m	2018 £m
Present value of defined benefit obligation at 1 January	164.3	203.3
Interest expense	4.6	4.9
Past service cost	-	0.2
Current service cost	1.0	1.4
Benefits and other payments	(7.0)	(13.2)
Remeasurement on obligation	24.6	(32.3)
Present value of defined benefit obligation at 31 December	187.5	164.3

Changes in the fair value of scheme assets

	2019 £m	2018 £m
Fair value of scheme assets at 1 January	184.4	197.3
Interest on assets	5.2	4.7
Employer contributions	1.4	1.6
Benefits and other payments	(7.0)	(13.2)
Remeasurement on scheme assets	28.4	(6.0)
Fair value of scheme assets at 31 December	212.4	184.4

Notes to the financial statements

34 Pension schemes (continued)

Amounts recognised in the statement of financial position and statement of profit or loss and other comprehensive income

	2019 £m	2018 £m
Fair value of scheme assets at 31 December	(212.4)	(184.4)
Present value of the defined benefit obligation at 31 December	187.5	164.3
Net defined benefit asset recognised in balance sheet	(24.9)	(20.1)
Current service cost	1.0	1.4
Past service cost	-	0.2
Interest expense	4.6	4.9
Interest on assets	(5.2)	(4.7)
Expense recognised in the profit or loss	0.4	1.8
Remeasurement on scheme assets during the year	28.4	(6.0)
Remeasurement on defined benefit obligations during the year	(24.6)	32.3
Total remeasurement during the year	3.8	26.3
Opening remeasurements through OCI	27.9	1.6
Total remeasurement during the year	3.8	26.3
Closing remeasurements through OCI	31.7	27.9
Interest on scheme assets	5.2	4.7
Remeasurement on scheme assets	28.4	(6.0)
Actual return on scheme assets	33.6	(1.3)
Remeasurement on defined benefit obligations due to change in assumptions		
- Remeasurement on defined benefit obligations due to change in demographic assumptions	-	(17.5)
- Remeasurement on defined benefit obligations due to change in financial assumptions	26.5	(13.6)
Experience remeasurement on defined benefit obligation	(1.9)	(1.2)
Total remeasurement on defined benefit obligation	24.6	(32.3)
Asset mix of scheme assets		
Equity securities	45.8	35.4
Debt securities	81.8	75.1
Real estate	37.7	37.9
Other	47.1	36.0
Fair value of scheme assets at 31 December	212.4	184.4
Maturity profile of minimum funding		
Payable within one year	-	0.6
	-	0.6

Notes to the financial statements

34 Pension schemes (continued)

Sensitivity analysis

The following potential changes to two of the key actuarial assumptions at the reporting date, holding other assumptions constant, would have affected the defined benefit pension scheme obligation by the amounts shown below:

	2019		2018	
	Increase	Decrease	Increase	Decrease
	£m	£m	£m	£m
Discount rate (1% movement)	31.2	(41.4)	26.3	(34.7)
Future pension growth (1% movement)	(15.1)	14.8	(11.9)	12.3

35 Assets and liabilities – classification and measurement

Assets and liabilities have been classified and valued in accordance with the requirements of IFRS. For financial assets the basis of valuation is set out in note 1 and classification into Levels is detailed in note 21.

Other assets and liabilities valued at fair value are in accordance with the principles set out in IFRS 13: Fair Value Measurement. Where the carrying amount of financial assets and financial liabilities not measured at fair value is a reasonable approximation of fair value, then the fair value information is not disclosed. The basis applied is summarised below:

	2019 £m	2019 £m	2019 £m	2019 £m
	Fair value available for sale through OCI/ Profit or Loss	Cost/ amortised cost/ IFRS 4 basis	Total carrying value	Fair value where applicable
Assets				
Investments in group undertakings	-	-	-	-
Investment property	-	19.9	19.9	-
Property, plant and equipment	-	43.3	43.3	-
Intangible assets	-	2.5	2.5	-
Employee benefits	-	24.9	24.9	-
Deferred acquisition costs	-	160.0	160.0	-
Deferred tax assets	-	24.7	24.7	-
Financial assets	1,445.6	16.3	1,461.9	1,461.9
Reinsurance assets	-	870.1	870.1	-
Insurance and other receivables	-	403.3	403.3	-
Cash and cash equivalents	-	72.9	72.9	-
Total assets	1,445.6	1,637.9	3,083.5	1,461.9
Liabilities				
Insurance contract provisions	-	2,237.8	2,237.8	-
Financial liabilities:				
- Loans and borrowings from group companies	-	139.1	139.1	-
- Other	-	5.9	5.9	-
Other provisions	-	23.5	23.5	-
Current tax liability	-	1.6	1.6	-
Reinsurance payables	-	5.1	5.1	-
Insurance payables, other payables and deferred income	-	159.6	159.6	-
Total liabilities	-	2,572.6	2,572.6	-

Notes to the financial statements

35 Assets and liabilities – classification and measurement (continued)

	2018 £m	2018 £m	2018 £m	2018 £m
	Fair value available for sale through OCI/ Profit or Loss	Cost/ amortised cost/ IFRS 4 basis	Total carrying value	Fair value where applicable
Assets				
Investments in group undertakings	-	-	-	-
Investment property	-	20.2	20.2	-
Property, plant and equipment	-	41.1	41.1	-
Employee benefits	-	20.1	20.1	-
Deferred acquisition costs	-	167.3	167.3	-
Deferred tax assets	-	34.4	34.4	-
Financial assets	1,873.6	16.9	1,890.5	1,890.5
Reinsurance assets	-	314.6	314.6	-
Insurance and other receivables	-	399.6	399.6	-
Cash and cash equivalents	-	154.3	154.3	-
Total assets	1,873.6	1,168.5	3,042.1	1,890.5
Liabilities				
Insurance contract provisions	-	2,289.5	2,289.5	-
Financial liabilities:				
- Loans and borrowings from group companies	-	139.0	139.0	-
- Other	-	0.7	0.7	-
Other provisions	-	18.1	18.1	-
Current tax liability	-	1.8	1.8	-
Reinsurance payables	-	19.6	19.6	-
Insurance payables, other payables and deferred income	-	102.1	102.1	-
Total liabilities	-	2,570.8	2,570.8	-

Notes to the financial statements

36 Related party transactions

The Company has a related party relationship with the directors and other key management personnel of the Company.

Transactions with directors and other key management personnel

In addition to their salaries, the Company also provides non-cash benefits to directors and other key management personnel, and contributes to a post-employment defined benefit plan or a defined contribution scheme on their behalf.

The remuneration of the directors consists of:	2019 £m	2018 £m
Short-term employee benefits	0.7	1.7
Equity compensation benefits	0.1	0.1
Termination benefits	-	0.2
	0.8	2.0

The remuneration of the key management personnel consists of:	2019 £m	2018 £m
Short-term employee benefits	0.8	0.4
Equity compensation benefits	-	0.1
Termination benefits	0.1	0.1
	0.9	0.6

In respect of the highest paid director:	2019 £m	2018 £m
Short-term employee benefits	0.3	1.1
Equity compensation benefits	0.1	0.1
Termination benefits	-	0.2
	0.4	1.4

One of the Company's directors is not included in the disclosure above as no recharge is received for their services.

Under the defined benefit scheme, the highest paid director's accrued pension at the year end was £nil (2018: £nil).

Benefits are accruing for one key management person under the defined benefit pension scheme (2018: one).

The key management personnel are able to obtain discounted personal insurance at the same rates as all other staff.

Notes to the financial statements

36 Related party transactions (continued)

Group reinsurance

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. The execution of this reinsurance arrangement had the following initial impact on the income statement:

	1 January 2019 £m
Written premiums ceded to reinsurers	(548.7)
Change in reinsurers' share of unearned premium provision	187.3
Net insurance premium revenue	(361.4)
Commission income	69.9
Change in reinsurers' share of deferred acquisition costs	(69.9)
Reinsurers' share of claims and benefits incurred	361.4
	-

The transaction has been undertaken on a funds withheld basis, with the Company retaining legal ownership of the financial assets but transferring the risks and rewards of ownership to ageas SA/NV.

The funds withheld financial assets have been derecognised from the Company's statement of financial position in line with the derecognition criteria within IAS 39 Financial Instruments (see accounting policy z).

The premiums, claims and expenses which have been reinsured out of the Company under the arrangement during the year are:

	2019 £m
Written premiums ceded to reinsurers	(337.7)
Change in reinsurers' share of net unearned premium provision	(4.3)
Net insurance premium revenue	(342.0)
Commission income	122.7
Change in reinsurers' share of deferred acquisition costs	1.6
Reinsurers' share of claims and benefits incurred	231.5
	13.8

As at 31 December 2019, the balances in the statement of financial position relating to this arrangement are:

Reinsurance unearned premiums	183.0
Reinsurance outstanding claims	370.1
	553.1

In December 2019 the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to increase from 30% to 40% its existing loss portfolio transfer and quota share reinsurance treaties, with an effective date of 1 January 2020.

Notes to the financial statements

36 Related party transactions (continued)

Other related party transactions

In the ordinary course of business the Company carries out transactions with related parties as defined in IAS 24, Related Party Disclosures. Material transactions are set out below:

The Company's immediate parent undertaking is Ageas (UK) Limited.

The Company has subordinated debt with Ageas Insurance International N.V., the Company's intermediate parent undertaking, Ageas Insurance International N.V. also provides the Company with services in relation to Solvency II.

The Company has issued loans to Ageas (UK) Limited and Ageas Retail Limited, with maximum capacities of £15.0m and £100.0m respectively. Both loans bear interest at 1.6% above LIBOR per annum, with interest payable at the end of each quarter. There is also a non-utilisation charge at 0.56% of the undrawn portion of each loan facility. On 7 September 2019, the Company restated both loans to extend the maturity date to 7 September 2021.

The majority of fellow subsidiary company transactions and balances are with Ageas Retail Limited ('ARL'), an insurance broker which is wholly owned by Ageas (UK) Limited. The Company pays ARL commission in relation to premiums brokered by ARL. In addition, the Company receives rental income from ARL as it is the sitting tenant within Deansleigh House, Bournemouth.

The Company provides administration and claims settlement services to its fellow subsidiary, Ageas Services (UK) Limited.

The Company also recharges Tesco Underwriting Limited, a joint venture between Ageas (UK) Limited and Tesco Personal Finance plc, for staff costs for claims settlement services and pays commission in relation to underwriting business.

Intreas N.V., a wholly owned subsidiary of Ageas Insurance International N.V., was a reinsurer of the Company. Hence, transactions with this related party are also included in fellow subsidiary company transactions and balances.

The Company holds a 51% controlling interest in HCP (Estate Management) Limited ('HCP'). HCP is limited by guarantee (the amount of the guarantee is £1) and has been formed without share capital.

	2019 Comp. income £m	2019 Financial Position £m	2018 Comp. income £m	2018 Financial Position £m
	Income/ (expense)	Asset/ (liability)	Income/ (expense)	Asset/ (liability)
Immediate parent and intermediate holding company	(5.8)	(140.6)	(6.9)	(140.3)
Fellow subsidiary company transactions and balances	(9.1)	106.0	(34.4)	90.7
Defined benefit pension scheme transactions and balances	(0.4)	25.0	(1.8)	20.1
Grand total	(15.3)	(9.6)	(43.1)	(29.5)

Notes to the financial statements

37 Capital commitments

	2019 £m	2018 £m
Authorised and contracted for	-	-
Authorised but not contracted for	1.9	5.8
	1.9	5.8

Authorised but not contracted items predominately relate to various technology upgrades.

38 Post balance sheet event

Reinsurance agreement

On 31 December 2019, the Company entered into a reinsurance arrangement with ageas SA/NV, the ultimate holding company, to increase from 30% to 40% its existing loss portfolio transfer and quota share reinsurance treaties, with an effective date of 1 January 2020. This has been treated as a non-adjusting event under IAS 10: Events after the Reporting Period.

Covid-19

The outbreak of the virus Covid-19, publically referred to as the Coronavirus, is considered to be a non-adjusting event after the reporting date. Further details are provided in note 4(i). Whilst the situation is uncertain at present we have considered the potential impacts and scenarios and have concluded that the impact of Covid-19 does not have a material impact on the Company's ability to meet its capital solvency requirements or to meet its liabilities as they fall due.

39 Parent company

The Company's immediate parent company is Ageas (UK) Limited, a company incorporated in England and Wales whose registered address is Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

The Company's results are consolidated into the financial statements of the ultimate holding company ageas SA/NV, a company incorporated in Belgium whose registered address is Markiesstraat 1 Box 7, 1000 Brussels.

Copies of the above financial statements can be obtained from the Company Secretary, Ageas Insurance Limited, Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA.

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

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

Independent Auditor's Report to the Members of Ageas Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Ageas Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of financial position as at 31 December 2019, the Statement of profit or loss and other comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

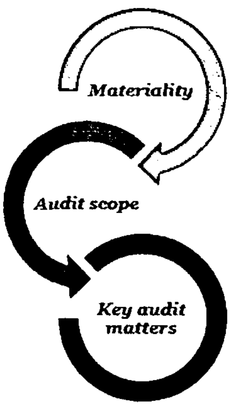
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

Other than those disclosed in note 12 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall materiality: £12,000,000 (2018: £12,284,000), based on 1% of gross written premiums.
- The Company has a single business line, being the underwriting of general insurance business.
- The Company is managed from a single location with staff based in other locations around the UK, we visited these other locations when required.
- We performed audit procedures on all material balances and line items in the financial statements, all of which were undertaken by the same engagement team.
- The valuation of outstanding claims liabilities was £1,626m (2018: £1,662m)
- The appropriateness of the accounting for a significant new loss portfolio and quota share arrangement
- Potential impact of COVID-19

Independent Auditor's Report to the Members of Ageas Insurance Limited (continued)

Our audit approach (continued)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Financial Conduct Authority's regulations, the Prudential Regulation Authority's regulations and UK Tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, risk, compliance and internal audit staff, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Reading key correspondence with regulatory authorities (the PRA and FCA);
- Challenging the judgements and estimates made by management in their significant accounting estimates, in particular in relation to claims reserves assumptions (see related key audit matter below), assumptions underlying the defined benefit pension scheme liabilities and consideration of the recoverability of deferred tax assets;
- Identifying and testing journal entries, including any journal entries posted with unusual account combinations impacting revenue or expenses, posted by senior management or staff after their leaving date, or posted late in the year end close process which create profit.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent Auditor's Report to the Members of Ageas Insurance Limited (continued)

Our audit approach (continued)

Key audit matters (continued)

This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
The valuation of general insurance claims liabilities of £1,626m (2018: £1,662m) Refer to note 1(h) on page 22 and note 24 on page 56. The Company holds an outstanding gross claims reserve of £1,625,550,000 including both claims reported by customers and claims incurred but not reported. This liability represents a heightened inherent risk due to the uncertainties present when estimating future claims development. The assumptions and methodology used in calculating the expected future payments are complex and performed by qualified individuals who apply assumptions to historical data to calculate the expected future liability. In addition, during the year it was announced that the Ogden discount rate was changed from -0.75% to -0.25% resulting in a £29m release to case estimates. Therefore, we have focussed on this area due to the significance of the balance to the financial statements and the inherent judgemental nature of the liabilities.	Our work to address the valuation of gross outstanding claims liabilities was supported by PwC actuarial specialists. Specifically, the following areas of testing have been performed. We independently selected our own methodology and assumptions to estimate reserves for 73% of claims liabilities, taking into account both internal and external drivers of changes in reserve development and the latest Ogden discount rate. For periodic payment order ("PPO") reserves which comprise 3% of the total claims liabilities, we reviewed Ageas' methodology and assumptions and considered if they were reasonable and in line with market best practice and the latest Ogden discount rate. For the remaining 24%, we have performed key indicator reviews, which involves higher level testing of key diagnostics. We performed testing of underlying data that the above independent reprojections rely upon to validate the claims paid and incurred data to underlying claims records. We reviewed a sample of the most significant case reserves and a sample of smaller reserves to consider whether these were reasonable, engaging a PwC claims specialist where appropriate. We found the methodology and assumptions used in estimating the costs of outstanding claims liabilities were appropriate and supported by the evidence we obtained.

Independent Auditor's Report to the Members of Ageas Insurance Limited (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
The appropriateness of the accounting for a significant new loss portfolio and quota share arrangement Refer to note 36 on page 74. During March 2019 the Company entered into two reinsurance arrangements with Ageas SA/NV, the Ultimate Parent of the Company, to reinsure approximately 30% of the outstanding claims liabilities. These agreements were a Loss Portfolio Transfer (LPT) for claims made prior to 1 January 2019 and a Quota Share (QS) agreement covering claims and new business written on or after 1 January 2019. This represented a significant change to the Company's business model. At 31 December 2019 a reinsurance asset of £370.1m is recorded in relation to these agreements. The reinsurance contracts were updated during the year to clarify the intention of certain key terms. We have focussed on this area as the relevant accounting and disclosure can be complex and require judgement, as well as the magnitude of the related accounting entries.	We obtained copies of the signed original agreements and subsequent updates independently to assess the required accounting in accordance with IFRS 4 "Insurance Contracts" and compared this to the treatment applied by management. In particular we considered whether risk transfer had been achieved and understood the basis of the premiums ceded and commission earned under the contracts. We considered whether thederecognition of assets transferred to Ageas SA/NV as part of the agreements was in accordance with IAS 39 "Financial Instruments; presentation and disclosure". We performed independent calculations of the income statement and balance sheet entries under the new reinsurance contract and compared them to those recorded by management. We also examined the classification of the accounting entries. We confirmed the year end counterparty balance on the reinsurance agreements directly with the auditors of the counterparty to confirm the balances were complete and accurate. We considered whether the presentation and disclosure in the Annual Report was in accordance with IFRS 4. We found the accounting treatment and presentation and disclosure to be appropriate.

Independent Auditor's Report to the Members of Ageas Insurance Limited (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	***How our audit addressed the key audit matter***
Potential impact of Covid-19 Refer to page 40 (Note 4 (i): Covid-19 risk) and page 76 (Note 38: Post balance sheet event). The emergence of the Covid-19 coronavirus and its development into a global pandemic in 2020 has resulted in a significant change to the business environment in which the Company operates as well as impacting the UK and global economies more broadly. This has been disruptive to both the commercial and operational activities of the business in the first quarter of 2020. In addition, there has been significant volatility in financial markets during that time. The directors have concluded that this is a non-adjusting post balance sheet event. Management have specifically considered the impact of Covid-19 on the Annual Report in relation to the going concern assessment and required post balance sheet event disclosures. Management included Covid-19 considerations in the financial position report prepared to support the director's going concern assessment. Having assessed the heightened financial volatility and economic stress, the directors have prepared the financial statements on the basis the Company is a going concern and believe this assumption remains appropriate. The directors have considered potential impacts and scenarios and have concluded that the impact of Covid-19 on the Company is not currently believed to be material and made disclosures on that basis.	Our procedures in respect of going concern and the impacts of Covid-19 on the business included: • Evaluating the appropriateness of sensitivity and stress scenarios used and their impact on the Company's capital, solvency and liquidity positions; • Obtaining sample policy documentation to understand the coverage levels provided and used in management's models; • Validating the impact on investments of the market volatility to third party sources, including investments held in the defined benefit pension scheme; • Evaluating the consistency of assumed claims frequency with relevant external data, where available, for example government transport use statistics; • Obtaining the projected cash flows for the Company to consider management's assessment on available liquidity; and • We assessed the Directors' conclusions that this is a non-adjusting post balance sheet event by considering the timing of the development of the outbreak in the UK and across the world. Through the procedures performed above we have concluded that management's assessment of the impact of Covid-19 on the going concern basis of accounting and disclosures in the Annual Report are appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent Auditor's Report to the Members of Ageas Insurance Limited (continued)

Our audit approach (continued)

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£12,000,000 (2018: £12,284,000).
How we determined it	1% of gross written premiums.
Rationale for benchmark applied	We consider gross written premium to be the most appropriate benchmark as profits have fluctuated over previous years; gross written premium therefore gives a more stable measure year on year.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £600,000 (2018: £614,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements 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 financial statements are authorised for issue.

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

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

Independent Auditor's Report to the Members of Ageas Insurance Limited (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the Strategic Report, the Report of the Directors and the Financial Statements set out on page 77, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but 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 economic decisions of users taken on the basis of these financial statements.

Independent Auditor's Report to the Members of Ageas Insurance Limited (continued)

Responsibilities for the financial statements and the audit (continued)

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 16 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2018 to 31 December 2019.

Joanne Leeson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

7 April 2020