Ageas Insurance Limited

Annual Report
For the year ended 31 December 2020

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 (resigned 22 October 2020)
Jeremy Haynes
Malcolm McCaig
Anthony Middle
Jonathan Price
Tara Waite
Andrew Watson (resigned 17 June 2020)
Mark Winlow

Secretary

Claire Marsh

Head Office and Registered Address

Ageas House
Hampshire Corporate Park
Templars Way
Eastleigh
SO53 3YA

Independent Auditors

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

Bankers

HSBC
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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 direct and intermediated channels, supported by technical excellence.

Covid-19

Following the outbreak of the virus Covid-19 in December 2019, Governments around the world took measures throughout 2020 in order to control the spread of the virus which included restricting nonessential movements, border controls and public gatherings. These actions resulted in significant economic disruption to businesses with leisure, travel and hospitality sectors particularly adversely affected.

As a result of these restrictions, financial markets become volatile and highly uncertain with many central banks taking measures to help stabilise markets. The Bank of England cut interest rates to their lowest level at 0.1%. During March 2020 equity markets saw large falls and corporate credit spreads widened significantly, although many of the falls were offset through corporate spread tightening after the initial impacts.

Ageas invoked its business continuity plans in March 2020 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 was also implemented. The business has continued to operate remotely without disruption.

Financial Performance during the year

Gross Written Premiums ('GWP') totalled £1,229.2m (2019: £1,206.6m) increasing by 1.9% compared to 2019. A focus on maintaining pricing discipline restricted the Motor book in the first half of the year, albeit this stabilised during the second half despite market volatility. Growth in the Household book was driven by a number of new deals in the year. Whilst the broker channel continues to be the predominant route to market, direct sales through aggregator platforms are in line with the strategic intent.

The profit after tax for the year was £32.4m (2019: profit of £40.7m). The Company benefitted from lower frequency of Motor claims as a result of less traffic on the roads, as a result of Covid-19, which offset the multiple weather events during the year. The Motor market continues to evolve with underlying uncertainties reflecting claims inflation and expected future liabilities with post-Brexit and post-Covid-19 impact on claims costs. Claims volumes in Household increased because of severe weather in February, August and December. This was particularly noticeable compared to the benign weather of 2019.

Effective 1 January 2020, the Company increased its reinsurance agreement with ageas SA/NV, the ultimate parent holding company, from 30% to 40% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. The Company ceded £28.4m before tax in respect of the premiums, claims and expenses under the arrangement during 2020. See note 35 for more information.

Strategic Report (continued)

Financial Performance during the year (continued)

The Combined Operating Ratio ('COR') for 2020 was 99.1% (2019: 97.8%). The Motor book benefitted from the lower claims frequency as a result of Covid-19, as well as prior year releases. These more than compensated for the impact of adverse weather events throughout the year. The Company benefitted from the change in the personal injury discount rate from minus 0.75% to minus 0.25% in 2019.

Other Comprehensive Income ('OCI') reflects the change in fair value of financial assets and movements in the defined benefit pension asset net of tax. The change in fair value of financial assets saw a net positive transfer to equity after tax of £17.5m (2019: positive £18.3m) due to a tightening of corporate spreads. Remeasurements of the net defined benefit pension scheme have led to a net negative contribution of £5.2m to equity (2019: positive £3.2m) following a decrease in the discount rate used to estimate expected future liability cash flows.

The solvency ratio at 31 December 2020 was 158% of the solvency capital requirement ('SCR') (2019: 165%). The reduction has been driven by the repayment of subordinated debt to ageas SA/NV in the year, decreasing eligible own funds, and an increase in the SCR.

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

	2020 £m	2019 £m	Change %
Gross written premiums	1,229.2	1,206.6	1.9%

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.

	2020 £m	2019 £m	Change %
Profit before taxation	35.7	50.6	(29.4)%

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.

	2020 %	2019 %	Change %
Combined operating ratio	99.1%	97.8%	(1.3)%

The combined operating ratio is a measure of the Company's efficiency. It is calculated as the total of incurred claims, commissions, expenses, other operating income and reinsurance, as a percentage of net earned premiums.

Strategic Report (continued)

Key Financial Performance Indicators (continued)

	2020 %	2019 %	Change %
Return on equity after tax	6.2%	8.3%	(2.1)%

The return on equity after tax is a key measure of the total return the Company generates for its shareholder. 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 £24.3m to £535.2m, from an opening position of £510.9m. The underlying business generated a profit after tax in the year of £32.4m (2019: £40.7m) and fair value of investments within the fair value reserve increased by £17.5m (2019: increase of £18.3m). These were offset by the payment of a dividend of £20.4m (2019: £22.6m) and there was a decrease to retained earnings of £5.2m (2019: increase of £3.2m) as a result of the remeasurement of the defined benefit pension scheme.

Assets

Total assets have decreased by £22.6m in the year to £3,060.9m (2019: increase of £41.4m). Following the increase in the Company's reinsurance agreement with ageas SA/NV from 30% to 40% reinsurance assets have increased by £153.1m, offset by a decrease in financial assets (including cash) of £156.0m, as the funds withheld financial assets in respect of the new reinsurance agreements have been derecognised. Other notable movements include a decrease in insurance and other receivables of £8.4m due to a reduction in accrued interest and amounts due from group undertakings, a reduction in employee benefits of £5.9m driven by a reduction in the discount rate used to estimate future liability cash flows, and a £3.9m decrease in deferred tax assets.

Liabilities

Total liabilities have decreased by £46.9m in the year to £2,525.7m (2019: increase of £1.8m). Insurance contract provisions reduced by £55.9m following lower claims frequency in Motor with financial liabilities reducing by £19.9m following partial repayment of subordinated debt during the year. These have been offset by an increase of £32.0m in insurance payables as a result of an increase in reinsurers' share of deferred acquisition costs as part of the increased reinsurance agreement with ageas SA/NV.

Financial assets and cash and cash equivalents

Total financial assets (including cash and cash equivalents) have decreased by £156.0m (2019: decrease of £510.0m) in the year as a result of the derecognition of financial assets following the increase in reinsurance agreement with ageas SA/NV (see note 35). 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. Further details on financial assets can be found in note 20 and on cash and cash equivalents in note 22.

Strategic Report (continued)

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 which it monitors through a number of measures 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 page 9.

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 9.

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 consider other metrics that are monitored internally are not key to the reader's understanding of the development, performance or position of the Company's business.

Strategic Report (continued)

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, the community, environment and regulators.

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 for each matter which comes before the Boards, stakeholders who may be affected and their interests carefully considered as part of the decision making process. Further detail has been incorporated within the Corporate Governance and Stakeholder Engagement statements set out in this report and in the Report of the Directors on pages 9 - 12.

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 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', 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, they 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.

Strategic Report (continued)

Principle two: Board Composition (continued)

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 2020 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 throughout 2020.

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 is 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 of 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. The Terms of Reference of the Remuneration Committee make it 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.

Strategic Report (continued)

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, the community, the environment and regulators, 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 9-12.

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 distribution channels of direct and intermediated. 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.

As part of setting the future direction of the Company, management undertook a strategic review of the business during the second half of 2020 and into 2021.

Principal risks and uncertainties

The Company has identified the following principal risks and uncertainties:

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

A review of these principal risks and uncertainties and the way in which they are managed is detailed in note 3 to the financial statements.
This report was approved by the Board of Directors on 30 March 2021 and signed on behalf of the board by:

Jonathan Price
Chief Financial Officer
Date 31 March 2021

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 2020.

Results

The results of the Company are contained in the financial statements on pages 14 to 77. The 2020 profit before tax was £35.7m (2019: £50.6m).

Business review

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

Dividends

The Company paid a dividend of £20.4m during the year (2019: £22.6m).

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 3. Details of the financial instruments used for these purposes are disclosed in note 20.

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 2,004 (2019: 2,093). The full time equivalent number of employees adjusted for part time staff was 1,886 (2019: 1,964). Their annual aggregate remuneration was £82.4m (2019: £84.2m). An analysis is shown in note 31.

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, Connect 21. During 2020 Ageas SA/NV was represented on the Ageas UK Boards by Ageas Group Executive and Non-Executive Directors.

During 2020 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 £20.4 million be declared, to be paid to Ageas (UK) Limited and approved the repayment of £20.0 million subordinated debt to Ageas SA/NV. A Loss Portfolio Transfer (LPT) and Quota Share (QS) reinsurance arrangement was increased from 30% to 40% with Ageas Group, provided via the Ageas Group Reinsurance platform.

Customers, Brokers and Partners 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. Customer interests have been a key consideration in a wide range of activities overseen by the Ageas UK Boards during 2020. In 2020 Ageas became a member of the Institute of Customer Service and is making great strides to achieving their 'Service Mark' Accreditation, having achieved a customer satisfaction score above the all sector average. To support oversight, customer experience reports and focus sessions have been provided to the Ageas UK by the Claims and Customer Operations Directors. During 2020 the Ageas UK Boards also considered the Ageas UK Customer ambition ahead of it's launch, the purpose of which is to articulate what we want to achieve, what we'll deliver for customers and what they can expect every time they transact with us, as well as how we'll measure our success and ensure outstanding delivery of our goals.

Report of the Directors (continued)

Customers, Brokers and Partners and Suppliers (continued)

Within Sales and Service Operations the customer journey has continued to be improved and simplified based on customer feedback, and despite the impact of Covid-19, digital solution development was progressed to enhance the customer end to end experience, including the integration of artificial intelligence into the claims process and the launch of virtual assistants (Chatbots) at the beginning of 2021. The 'voice of the customer' programme continued to provide immediate feedback with positive results and during 2020 Ageas' continued focus on customers was recognised through a number of industry awards including "Contact Centre of the Year " in the UK Customer Experience Awards and for the "Ageas Way" work undertaken by the European Contact Centre Awards. Also "Claims Initiative of the Year and Best Technology Award' from the Insurance Post British Insurance Awards 2020, and "Customer Champion of the Year and Home Claims Team of the year" from the Insurance Times Awards 2020.

To support Ageas UK customers during a challenging year, the Ageas Care training programme was launched that assisted our people to have the right conversations with those customers who are or may be vulnerable. Some examples of additional assistance provided to our customers during the pandemic included, extending policy cover for home workers and volunteers, offering customers the option to defer their instalment payments, offering customers the option to change cover for the period they are not driving their vehicle. We also provided our colleagues with the tools to create "Magic Moments" for customers by arranging gifts to be sent to customers identified as experiencing a difficult time during the pandemic.

Ageas UK maintains at all times a keen focus on treating customers fairly to ensure our products provide value for money. During 2020 a Customer Best Interest Framework, that seeks to deliver fair customer outcomes through pricing and value to customers, via product development and governance, distribution oversight, and service to our customers, delivered in line with our risk appetite, has also been a key consideration of the Ageas UK Boards.

Ageas UK's relationships with brokers are fundamental to its distribution, because 85% of its business is conducted through this channel. During 2020 Ageas UK launched a dedicated video account management team as part of a drive to offer brokers a broader service experience, which was well timed with one of the biggest changes in the way companies do business in 2020. It landed well and has been named "a real game changer" in building relationships with more regional brokers and allows Ageas UK to flex its proposition to meet their needs.

In addition to this, throughout the pandemic Ageas UK received positive feedback from brokers about the support provided during the first and subsequent lockdowns in the form of Business Continuity Planning, online trading sessions at broker events, training videos about trading in a hard market, and Q&As via the website to help brokers with communicating to their customers at a very difficult time.

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. During 2020 Ageas has worked closely with suppliers to ensure providers of repairs and other services were able to continue to do so. 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

Attracting, developing and engaging our people is key to our business, and this shaped the 'Winning Team' strategic priority progressed during 2020. This sought to: connect our people with our vision and values; develop capability and support potential; to create a supportive, inclusive and safe environment; and ensure our people feel informed, involved and listened to.

Employee engagement (continued)

These ambitions were tested during 2020 as the business responded to the Covid-19 pandemic, with the health, safety and wellbeing of our employees being a key area of focus for the Ageas UK Boards and leadership team. Ageas UK's response to the pandemic and first UK lockdown was swift and decisive, the Crisis Management Team was mobilised to provide immediate action, IT infrastructure was quickly enhanced enabling the majority of staff to work from home and support networks were established. For those whose role could not be performed remotely, cleaning and social distancing regimes recommended by the Government and Public Health England were implemented throughout the Ageas UK offices. During the first lockdown in 2020 the decision was made not to furlough employees, instead focussing on enabling all employees to be able to work and continue to be paid. The Ageas UK Boards received regular updates regarding the implementation of the pandemic support plan along with feedback from employees via "Peakon" the digital employee engagement tool which enabled the business to monitor employee sentiment on a real time basis and respond accordingly. Employee engagement scores have been very positive throughout the pandemic and are continuing to improve to be above industry benchmarks. The business response to the pandemic, together with the feedback received by our people throughout 2020, supported the acceleration of a new way of working, specifically the embedding of remote and flexible ways of working as a more permanent feature of our employee proposition. The Ageas UK Boards were provided with a detailed overview of the proposition and have been kept apprised of developments.

We have developed in collaboration with Mind, Samaritans and Time for Change, a framework to support the mental and financial wellbeing of our people, with programs including the launch of Mental Health first aiders who are available to all employees for one to one support. Providing our people with timely and regular communications was also critical during the pandemic, and in the initial phase of the first lockdown daily communications were issued via the digital tool "Workplace"; a dedicated digital working from home resources hub was launched, and the new learning and development platform "People Hub" was further developed to support remote working and ongoing learning. Employees have also been kept up to date regarding business as usual matters such as strategy and performance through a variety of virtual channels, including formal leadership events, employee briefings and the Employee Forum. Regular meetings with the Employee Forum have continued virtually 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. As agreed by the Ageas UK Boards, the Chair of the Remuneration Committee, an INED, attends the Employee Forum on an annual basis and meets the Chair of the Forum biannually, without the Executive present, in order to enhance the engagement between the Employee Forum and the Ageas UK Boards.

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, he reported to the Ageas UK Audit Committee in 2020 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 people management are regularly reviewed and monitored to ensure they 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. Since 2019, as part of the Diversity and Inclusion strategy, Ageas UK has been the official sponsor of the Bournemouth Pride Event, Bourne Free. Unfortunately, the pandemic meant the 2020 Bourne Free event was cancelled, however Ageas UK continued to work closely with the Bourne Free Trustees to look for opportunities to support other activities in 2021. Individual Members of the UK Executive Team are sponsors for diversity topics on the Inclusion Plan, with ideas generated from employees, including becoming a champion of Stonewall, Members of the Global Disability Task Force and a Business Disability Forum. We are also a signatory of the Race at Work Charter, and during 2020 measured our ethnicity pay gap for the first time, with further action to be taken to tackle barriers associated with racial inequality, which will be an area of focus for the 2021 Inclusion Plan. The gender pay gap report is provided to the Ageas UK Boards at least annually, together with progress against the target established in the Women in Finance Charter to have 40% of senior positions held by women by the end of 2021.

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.

Report of the Directors (continued)

Community and Environment

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 "green parts" initiative to make the repair of vehicles more sustainable. This initiative is now award-winning and really came into its own during the national lockdown, when the impact of the global pandemic meant that it was harder for repair centres to source new parts and therefore the greater availability and use of refurbished parts overcame a supply chain challenge while also helping the planet.

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 since 2020 has been Rays of Sunshine. As a home insurer, Ageas Insurance has also supported another local charity, the 'Bobby Scheme', including donating to an appeal to purchase Carbon Monoxide detectors for instillation in the homes of the elderly and the most vulnerable in the area.

In response to the Covid-19 pandemic, the Ageas UK Boards also supported donations of up to £1 million to charitable and industry initiatives, comprising £750k to the ABI Industry Charitable Fund and £250k to an Ageas Group wide initiative to research institutions, funding potential treatments for Covid-19.

The Board has allocated responsibility for managing Climate Change financial risks to its Chief Underwriting Officer, and in recognition that Ageas embraces Environmental Societal and Governance priorities a Climate Change Strategy was approved by the Ageas UK Boards that seeks to not only adapt to issues and regulatory requirements as they emerge, but to be pro-active in modifying our business and decision–making so that climate risk considerations are integral to the way that we work. The strategy will continue to be developed to support a transition to a low carbon economy and enable consideration to be given to the feasibility of being carbon neutral in the future. During 2020 the Investment Committee established investment guidelines that reflected a number of Environmental Social and Governance priorities.

Following the implementation of the Streamlined Energy and Carbon Reporting framework, the Company is required to disclose its energy and carbon emissions in the year. The following table shows the Company's energy use and associated greenhouse gas emissions:

	2020
Energy consumption used to calculate emissions - kWh	5,864,090
Total gross emissions in metric tonnes of Carbon Dioxide Equivalent ('tCO2e')	623.5
Intensity matrix	0.33

UK energy use covers the Company's consumption of electricity and gas across all office sites, together with energy consumed through reimbursed company mileage and pool cars. Total emissions have been calculated using the latest applicable UK Government emission conversion factors for greenhouse gas reporting.

All emissions are from the UK.

The Company is required to calculate and disclose an intensity matrix. The intensity matrix has been calculated as the tCO2e per employee.

Regulatory

The Company and the Ageas UK Boards maintain an open and constructive dialogue with the PRA and FCA alongside the provision of required reports, for example in relation to Solvency II and through regular supervisory meetings. Throughout 2020 we maintained regular contact with the PRA and FCA in relation to our response to coronavirus, keeping both regulators apprised of our operational resilience, scenario planning, business interruption exposure, solvency and liquidity, and how we could ensure a good level of customer response.

Report of the Directors (continued)

Regulatory (continued)

The FCA pricing proposal indicates that a renewal price should be no greater than the equivalent new business price. The proposals are far-reaching and will have a profound impact on the market, influencing pricing across distribution channels within the market. The changes are likely to be implemented in Q4 2021 and the impact is difficult to predict, particularly as the market transitions.

Donations

No political donations (2019: £nil) were made during the year. The Company made charitable donations of £1,031,265 in the year (2019: £7,021).

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 Auditors

During March 2021 the Audit Committee initiated an audit tender for external audit services, which at the time of signing these accounts was not concluded.

This report was approved by the Board of Directors on 30 March 2021 and signed on behalf of the board by:

Jonathan Price
Chief Financial Officer
Date 31 March 2021

Ageas Insurance Limited

Company registration number: 354568

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Gross written premiums	4	1,229.2	1,206.6
Change in the gross provision for unearned premiums	4, 35	(9.1)	15.1
Gross insurance premium revenue		1,220.1	1,221.7
Written premiums ceded to reinsurers	4	(740.4)	(969.4)
Reinsurers' share of change in the provision for unearned premiums	4, 35	64.6	182.3
Net insurance premium revenue		544.3	434.6
Commission income	5, 35	168.8	125.0
Investment income	6	30.7	41.1
Other operating income	7	4.1	5.5
Net income		747.9	606.2
Claims and benefits incurred	8	(722.6)	(765.1)
Reinsurers' share of claims and benefits incurred	9, 35	423.3	622.4
Net policyholder claims and benefits incurred		(299.3)	(142.7)
Acquisition costs	10, 18	(324.3)	(317.8)
Administration costs	11	(82.4)	(88.1)
Operating profit before finance costs		41.9	57.6
Finance costs	12	(6.2)	(7.0)
Profit before tax		35.7	50.6
Income taxes	13	(3.3)	(9.9)
Profit for the year		32.4	40.7
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit pension scheme	33	(6.2)	3.8
Related tax	13	1.0	(0.6)
		(5.2)	3.2
Items that are or may be reclassified to profit or loss			
Available-for-sale financial assets - net change in fair value	20	27.2	26.2
Available-for-sale financial assets - reclassified to profit or loss	6, 20	(5.1)	(4.2)
Related tax	13	(4.6)	(3.7)
		17.5	18.3
Other comprehensive income, net of tax		12.3	21.5
Total comprehensive income		44.7	62.2

The notes on pages 18 to 77 form an integral part of these financial statements.

Ageas Insurance Limited

Company registration number: 354568

Statement of financial position

As at 31 December 2020

	Note	2020 £m	2019 £m
Assets			
Investment in group undertaking	14	-	-
Investment property	15	19.4	19.9
Property, plant and equipment	16	43.1	43.3
Intangible assets	17	11.8	2.5
Employee benefits	33	19.0	24.9
Deferred acquisition costs	18	148.3	160.0
Deferred tax assets	19	20.8	24.7
Financial assets	20	1,276.6	1,461.9
Reinsurance assets	23	1,023.2	870.1
Current tax assets	27	1.6	-
Insurance and other receivables	21	394.9	403.3
Cash and cash equivalents	22	102.2	72.9
Total assets		3,060.9	3,083.5
Shareholders' equity			
Share capital	30	277.8	277.8
Share premium		3.9	3.9
Retained earnings		207.8	201.0
Fair value reserve		45.7	28.2
Total shareholders' equity		535.2	510.9
Liabilities			
Insurance contract provisions	23	2,181.9	2,237.8
Financial liabilities:			
- Loans and borrowings from group companies	24	119.2	139.1
- Other	25	6.1	5.9
Other provisions	26	21.7	23.5
Current tax liability	27	-	1.6
Reinsurance payables	28	5.2	5.1
Insurance payables, other payables and deferred income	29	191.6	159.6
Total liabilities		2,525.7	2,572.6
Total equity and liabilities		3,060.9	3,083.5

The notes on pages 18 to 77 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 30 March 2021 and were signed on its behalf by:

Jonathan Price
Chief Financial Officer
Date 31 March 2021

Ageas Insurance Limited

Company registration number: 354568

Statement of changes in equity

For the year ended 31 December 2020

				Other reserves		
	Note	Share capital £m	Share premium £m	Retained earnings £m	Fair value reserve £m	Total £m
Balance at 1 January 2019	30	277.8	3.9	182.0	7.6	471.3
Profit for the year		-	-	40.7	-	40.7
Other comprehensive income	33, 20	-	-	3.2	18.3	21.5
Total comprehensive income		-	-	43.9	18.3	62.2
Dividend paid	30	-	-	(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
Balance at 1 January 2020	30	277.8	3.9	201.0	28.2	510.9
Profit for the year		-	-	32.4	-	32.4
Other comprehensive (expense)/income	33, 20	-	-	(5.2)	17.5	12.3
Total comprehensive income		-	-	27.2	17.5	44.7
Dividend paid	30	-	-	(20.4)	-	(20.4)
Balance at 31 December 2020		277.8	3.9	207.8	45.7	535.2

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.

Retained earnings include the defined benefit pension scheme remeasurements.

The notes on pages 18 to 77 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 2020

	Note	2020 £m	2019 £m
Cash flows from/(used in) operating activities			
Profit before tax		35.7	50.6
Adjustments for:			
Investment income	6	(30.7)	(41.1)
Finance costs	12	6.2	7.0
Defined benefit pension expense	33	0.5	0.4
Depreciation of investment property	11, 15	0.4	0.3
Depreciation of property, plant and equipment	11, 16	4.4	4.8
Amortisation of intangible assets	11, 17	0.9	0.3
Impairment of property, plant and equipment	16	-	2.1
Loss on disposal of property, plant and equipment	16	0.7	0.4
Change in deferred acquisition costs	18	11.7	7.3
Operating profit before working capital changes		29.8	32.1
Decrease in financial assets	20	199.2	444.0
(Increase) in reinsurance assets	23	(153.1)	(555.5)
Decrease/(increase) in insurance and other receivables	21	8.4	(3.7)
(Decrease)/increase in insurance contract provisions, insurance payables, other payables and deferred income	23, 29	(23.9)	5.8
Increase/(decrease) in reinsurance payables	28	0.1	(14.5)
Increase/(decrease) in financial liabilities		0.2	(0.8)
(Decrease)/increase in provisions	26	(1.8)	5.4
Cash flows generated from/(used in) operations		58.9	(87.2)
Defined benefit contributions paid	33	(0.8)	(1.4)
Interest received		39.2	47.7
Income tax paid		(6.3)	(4.6)
Net cash flows generated from/(used in) operating activities		91.0	(45.5)
Cash flows used in investing activities			
Purchase of intangible assets	17	(10.2)	(2.6)
Purchase of property, plant and equipment	16	(4.9)	(4.1)
Net cash used in investing activities		(15.1)	(6.7)
Cash flows used in financing activities			
Dividends paid	30	(20.4)	(22.6)
Repayment of subordinated debt	24	(20.0)	-
Interest paid		(6.2)	(6.6)
Net cash used in financing activities		(46.6)	(29.2)
Net change in cash and cash equivalents		29.3	(81.4)
Cash and cash equivalents at 1 January		72.9	154.3
Cash and cash equivalents at 31 December		102.2	72.9
Cash available to the Company		100.7	71.4
Cash not available to the Company - held in trust		1.5	1.5
	22	102.2	72.9

The notes on pages 18 to 77 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. 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 30 March 2021.

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 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 14 to 17, and in the subsequent notes on pages 18 to 77. Further analysis of the objectives and policies for mitigating risk can be found within note 3.

Having considered the position of the Company as above, the approved budget for the next 12 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 international accounting standards 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 international accounting standards 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 2 and 3.

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:

- Conceptual Framework: Amendments to References to the Conceptual Framework in IFRS Standards
- IAS 1 and IAS 8 amendments: Definition of material
- IFRS 3 amendments: Definition of a business
- IAS 39 and IFRS 7 amendments: Interest rate benchmark reform

In addition, the following is a list of standards that are in issue but are not effective in 2020, together with the effective date of application to the Company:

- IAS 37 amendments: Cost of fulfilling a contract – January 2022
- Annual improvements to IFRS standards 2018-2020 – January 2022
- IAS 16 amendments: Proceeds before intended use – January 2022
- IFRS 3 amendments: Reference to the Conceptual Framework – January 2022
- IAS 1 amendments: Classification of liabilities as current or non-current – January 2023
- IFRS 17: Insurance contracts – January 2023. A cross functional project continues to assess the impact of this new standard.

The standards effective from 2022 have been reviewed and are not expected to have a material impact on the Company. The implications of the remaining standards are under review.

IFRS 9: Financial Instruments
The Company meets the eligibility criteria for the temporary exemption from IFRS 9: Financial Instruments ('IFRS 9') and will therefore 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.

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

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.

Notes to the financial statements

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	Loans and receivables	Financial assets designated as fair value through profit or loss	Derivative financial instruments	Cash and cash equivalents	Total
	£m	£m	£m	£m	£m	£m
As at 31 December 2019:						
Solely payments of principal and interest	1,354.9	116.8	-	-		1,471.7
All other financial assets	-	-	90.7	-	72.9	163.6
Total	1,354.9	116.8	90.7	-	72.9	1,635.3
Change in fair value in the year:						
Solely payments of principal and interest	(167.6)	(27.1)	-	-	-	(194.7)
All other financial assets	-	-	(1.5)	0.1	29.3	27.9
Total	(167.6)	(27.1)	(1.5)	0.1	29.3	(166.8)
As at 31 December 2020:						
Solely payments of principal and interest	1,187.3	89.7	-	-		1,277.0
All other financial assets	-	-	89.2	0.1	102.2	191.5
Total	1,187.3	89.7	89.2	0.1	102.2	1,468.5

We have reconsidered the classification of assets which fall under loans and receivables and determined that intercompany loans and receivables from contract holders should be included in this category. The prior year comparative has been updated to include £99.9m of such assets to ensure consistency year on year.

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 as at 31 December 2020:

	Gross carrying amount applying IAS 39	Loss allowance is measured				Purchased or originated credit-impaired financial assets
		At an amount equal to 12-month expected credit losses ('ECL')	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	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired)	Trade receivables, contract assets or lease receivables for which the loss allowances are measured in accordance with IFRS 9 (paragraph 5.5.15)	
	£m	£m	£m	£m	£m	£m
AAA	201.6	201.6	-	-	-	-
AA	298.7	298.7	-	-	-	-
A	473.0	473.0	-	-	-	-
BBB	214.0	214.0	-	-	-	-
Total investment grade	1,187.3	1,187.3	-	-	-	-
Below investment grade	-	-	-	-	-	-
Unrated	89.7	89.7	-	-	-	-
Total	1,277.0	1,277.0	-	-	-	-

The principal accounting policies adopted are listed below. These policies have been consistently applied to all years presented, unless otherwise stated.

(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 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 net unrealised gains on financial assets designated as fair value through profit or loss. Interest income is recognised as it accrues in the statement of profit or loss, using the effective interest method. Dividend income is recognised in the statement of profit or loss 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. Payments made for leases which are short-term in nature or low value are recognised in the statement of profit and loss. All expenses are accounted for on an accruals basis.

(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 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.

Notes to the financial statements

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.

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 with deferred taxation being recognised at the rate relevant to the expected form of recovery. 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 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.

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. The foreign exchange differences arise from the translation of both 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 and net realisable value. Details of transactions with group companies are included in note 35, 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 statement of profit or loss 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.

Notes to the financial statements

1 Accounting policies (continued)

(q) Property, plant and equipment (continued)

(ii) Leased assets
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 as payments made under such leases are recorded in the statement of profit or loss in the year in which they are incurred.

(iii) Depreciation
Depreciation is charged to the statement of profit or loss 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.

(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.

An internally-generated intangible asset is recognised if, and only if, all of the following conditions have been demonstrated:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

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

The estimated useful lives are as follows:

Software and licences	Three to five years

Notes to the financial statements

1 Accounting policies (continued)

(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.

(ii) Depreciation
Depreciation is charged to the statement of profit or loss 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 assets
The Company has a number of debt securities which are held as available-for-sale. Available-for-sale financial assets are recognised initially at fair value without any deduction for transaction costs the Company may incur on disposal. Purchases of available-for-sale financial assets 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 assets 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 assets 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.

(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) Derivative financial instruments
The Company holds derivative financial instruments to manage exchange risk exposure from its USD and Euro denominated net financial assets. Derivatives are recognised initially at fair value with any attributable transaction costs recognised in profit or loss as incurred. After initial recognition derivatives are measured at fair value and changes are recognised in profit or loss. The fair value reflects the estimated amount the Company would receive or pay in an arms' length transaction. The amount is determined based on observable exchange rates.

Notes to the financial statements

1 Accounting policies (continued)

(t) Financial assets (continued)

(iv) 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.

(v) Committed funds
Investments made by the Company but not yet allocated to underlying funds are stated at cost within other receivables.

(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.

Notes to the financial statements

1 Accounting policies (continued)

(w) Impairment (continued)

(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.

(x) 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 period of the borrowings on an effective interest basis.

The directors have determined that the carrying amounts of bank overdrafts and other payables reasonably approximate their fair values because these liabilities are typically either short term in nature or are repriced frequently. The subordinated debt is held at amortised cost and the directors have determined that the carrying value of the subordinated debt approximates the fair value.

(y) 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.

Notes to the financial statements

1 Accounting policies (continued)

(z) 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.

(aa) Dividends

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

(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.

2 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. It is used by the courts to calculate lump sum personal injury payments and is based on a reference investment portfolio. Reserves have been assessed at the current Ogden rate of minus 0.25%.

For further details on outstanding claims see note 23.

Notes to the financial statements

2 Accounting estimates and judgements (continued)

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 33.

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 income tax liabilities arising on taxable profits of the Company. 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 statement of financial position 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 19.

3 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 tofregu meet its business objectives. The Company has identified the following risk areas: insurance, regulation, market, credit, liquidity, operational, Brexit, pension, Covid-19, climate 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.

Notes to the financial statements

3 Risk management (continued)

(a) Insurance risk (continued)

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.

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 40% (2019: 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.

Notes to the financial statements

3 Risk management (continued)

(a) Insurance risk (continued)

(i) Underwriting risk (continued)

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.

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

3 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 and 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 industry-wide reviews.

The FCA pricing proposal indicates that a renewal price should be no greater than the equivalent new business price. The proposals are far-reaching and will have a profound impact on the market, influencing pricing across distribution channels within the market. The changes are likely to be implemented in Q4 2021 and the impact is difficult to predict, particularly as the market transitions.

In addition, the UK Government has recently issued a call for evidence as part of its Solvency II review, seeking views on reforming the prudential regulation of the UK insurance sector. The overarching aim of the review is to ensure that the UK's prudential regulatory regime for the insurance sector is better tailored to support the unique features of the sector and the UK regulatory approach.

Notes to the financial statements

3 Risk management (continued)

(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.

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 £119.2m (2019: £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 at 31 December 2020, as its exposure is limited to loans with fellow group undertakings and discussions are underway to renegotiate the related interest rates.

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 invests in USD denominated bonds as well as USD and Euro denominated infrastructure equity funds and so has foreign currency risk exposure on those assets. During the year the Company entered into derivative financial instruments in order to mitigate the exchange risk arising from its USD and Euro denominated infrastructure equity funds.

The Company is 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.

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 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

3 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	2020 £m	2020 %	2019 £m	2019 %
AAA		201.6	17.0	190.9	14.1
AA		298.7	25.2	412.7	30.4
A		473.0	39.8	477.9	35.3
BBB		214.0	18.0	273.4	20.2
Total	20	1,187.3	100.0	1,354.9	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 financial assets designated as fair value through profit or loss do not have a credit rating. The investments are in five property funds and two infrastructure equity funds, both of which are managed by specialist investment managers. Hence, risk is mitigated through this selection.

An analysis of available-for-sale financial assets, financial assets designated as fair value through profit or loss, and other investments is shown in note 20.

Notes to the financial statements

3 Risk management (continued)

(d) Credit risk (continued)

Receivables arising from insurance contracts
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	2020 £m	2020 %	2019 £m	2019 %
Within terms		254.8	97.2	237.1	98.1
Up to 1 month overdue		3.4	1.3	2.9	1.2
Between 1 and 3 months overdue		3.1	1.2	0.5	0.2
More than 3 months overdue		0.8	0.3	1.2	0.5
Total	21	262.1	100.0	241.7	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. Cash and cash equivalents are predominantly held in money market funds which have a rating of AAA, with the balance held with a counterparty rated A. 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 21.

(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.

Notes to the financial statements

3 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		2020	2020	2019	2019
Payment period	Note	£m	%	£m	%
Within 1 year		563.4	36.1	495.8	30.5
Between 1 and 5 years		549.3	35.2	601.5	37.0
Later than 5 years		447.9	28.7	528.3	32.5
Total	23	1,560.6	100.0	1,625.6	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 £119.2m. 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. Discussions are underway to renegotiate the interest rate following the transition from LIBOR after 2021.

Subordinated debt – contractual cash flow		2020	2019
Payment period	Note	£m	£m
Within 1 year		4.6	6.4
Between 1 and 5 years		18.4	25.7
Later than 5 years		253.1	320.5
Total	24	276.1	352.6

Infrastructure equity funds – contractual cash flow

The Company has investments in illiquid securities in line with the Company's liquidity risk appetite. The Company is committed to investing a total of $51.1m and €7.2m in infrastructure equity funds and the investments cannot be redeemed until maturity in 2030.

Notes to the financial statements

3 Risk management (continued)

(e) Liquidity risk (continued)

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 cashflows as and when they fall due.

Lease liabilities – contractual cash flow		2020	2019
Payment period	Note	£m	£m
Within 1 year		1.1	1.4
Between 1 and 5 years		3.4	2.6
Later than 5 years		2.1	1.8
Total undiscounted cashflows		6.6	5.8
Total discounted cashflows	25	6.1	5.4

(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 is exposed to limited risk following the United Kingdom's (UK) departure from the European Union (EU).

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

Although the impact of potential post-Brexit trade deals are uncertain and the risk of further Sterling depreciation and increased claims inflation remains, the financial position of the Company is sufficiently resilient to withstand any potential impacts. However, contingency plans have been put into place in case such events should develop.

(h) Climate risk

Climate change has continued to attract increasing political and regulatory focus. With growing coverage of climate related matters in the global media and changes in social attitudes, customers are becoming increasingly conscious of their environmental impact.

During the year, the Company approved its Climate Change Strategy that aims to appropriately integrate climate risk considerations into the business and decision-making. The strategy serves to meet regulatory obligations, including embedding the Company's approach to managing climate-related financial risks, whilst remaining sufficiently flexible to adapt to evolving regulatory guidance and scientific understanding.

Notes to the financial statements

3 Risk management (continued)

(i) 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 could still accrue further benefits until 31 December 2020.

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.

(j) Covid-19 risk

The Company monitors and reviews the impact of Covid-19 on operations and the Crisis Management team coordinate the Company's response. Business continuity plans can be invoked to enable key functions to home work to ensure core activities are maintained.

Although the Company benefited from lower claims frequency in 2020 due to Covid-19, uncertainty around the duration of Covid-19 and increased uncertainty on the economic outlook as well as customers' behaviour is expected to continue. An increased level of fraud risk is expected in a recessionary economic environment.

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.

Notes to the financial statements

3 Risk management (continued)

(k) 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.

The Company uses a Partial Internal Model to calculate its SCR, approval for which was given by the PRA in December 2015. The solvency ratio at 31 December 2020 was 158% of the solvency capital requirement ('SCR') (2019: 165%).

All regulatory capital requirements have been complied with during the year.

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.

Notes to the financial statements

3 Risk management (continued)

(l) 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 subordinated debt to maturity and the rate is a floating rate of interest. Hence, the impact of interest rate changes is minimal over the term of the debt.

	2020 £m	2019 £m
Decrease of 1% would cause an increase in net assets before tax	(1.4)	12.9
Increase of 1% would cause a decrease in net assets before tax	(19.5)	(20.2)

Notes to the financial statements

3 Risk management (continued)

(l) Sensitivity to key business drivers (continued)

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.

	2020 £m	2019 £m
Total impact on profit before tax	(8.4)	(8.4)
Total impact on net assets before tax	(8.4)	(8.4)

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.

	2020 £m	2019 £m
Total impact on profit before tax	(4.8)	(2.0)
Total impact on net assets before tax	(4.8)	(2.0)

Notes to the financial statements

4 Gross written premiums

	2020 £m	2019 £m
Gross written premiums	1,229.2	1,206.6
Change in the gross provision for unearned premiums	(9.1)	15.1
Gross insurance premium revenue	1,220.1	1,221.7
less: Written premiums ceded to reinsurers incepting in the current year	(740.4)	(969.4)
less: Reinsurers' share of change in the provision for unearned premiums	64.6	182.3
Ceded earned premiums	(675.8)	(787.1)
Net insurance premium revenue	544.3	434.6

Effective from 1 January 2020, the Company increased its reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% rather than 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty. See note 35 for more information.

5 Commission income

	2020 £m	2019 £m
Reinsurance commission	191.3	193.3
Change in reinsurers' share of deferred acquisition costs	(22.5)	(68.3)
Commission income	168.8	125.0

Effective from 1 January 2020, the Company increased its reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% rather than 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty. See note 35 for more information.

6 Investment income

	2020 £m	2019 £m
Interest income:		
- Available-for-sale interest income	21.6	27.0
- Loans and receivables interest income	2.2	3.2
- Fair value through profit or loss interest income	2.7	3.7
Investment property income	1.3	1.3
Foreign exchange movement on derivative	(0.4)	(0.1)
Dividend income	0.3	0.1
Net realised gains on available-for-sale financial assets	5.1	4.2
Net unrealised (loss)/gain on financial assets designated as fair value through profit or loss	(2.1)	1.7
Total investment income	30.7	41.1

Notes to the financial statements

7 Other operating income

	2020 £m	2019 £m
Engineers' income	1.0	1.5
Instalment service charge income	0.2	0.3
Other income	2.9	3.7
Total other operating income	4.1	5.5

8 Claims and benefits incurred

	2020 £m	2019 £m
Current year claims paid	(314.2)	(383.9)
Change in prior years claims	99.3	134.3
Claims handling costs	(36.3)	(32.7)
Additional liabilities arising during the year	(471.4)	(482.8)
Total claims and benefits incurred	(722.6)	(765.1)

9 Reinsurers' share of claims and benefits incurred

	2020 £m	2019 £m
Current year claim recoveries	127.4	117.4
Change in prior years claims	83.3	334.1
Additional recoveries arising during the year	212.6	170.9
Total reinsurers' share of claims and benefits incurred	423.3	622.4

10 Acquisition costs

	2020 £m	2019 £m
Commission expenses payable	(257.8)	(254.0)
Other acquisition costs payable	(54.8)	(56.5)
Changes in deferred acquisition costs	(11.7)	(7.3)
Total acquisition costs	(324.3)	(317.8)

Notes to the financial statements

11 Operating expenses

	Note	2020 £m	2019 £m
Depreciation and amortisation:			
- Investment property	15	(0.4)	(0.3)
- Buildings	16	(0.7)	(0.7)
- Equipment and motor vehicles	16	(0.4)	(0.6)
- IT equipment	16	(2.2)	(2.4)
- Right of use cars	16	(0.3)	(0.3)
- Right of use land and buildings	16	(0.8)	(0.8)
- Intangible assets	17	(0.9)	(0.3)
Personnel expenses:			
- Wages and salaries	31	(95.6)	(101.1)
- Social security costs	31	(10.1)	(9.3)
- Other pension costs	31	(6.7)	(6.5)
- Personnel expenses recharged to a fellow group subsidiary		29.9	32.7
Other costs		(85.3)	(87.7)
Total operating expense		(173.5)	(177.3)

Operating expenses are analysed as:

Acquisition costs	10	(54.8)	(56.5)
Administration costs		(82.4)	(88.1)
Claims handling costs	8	(36.3)	(32.7)
		(173.5)	(177.3)

Investment management fees

Investment management fees are included within other costs above.

	2020 £m	2019 £m
Total fees incurred for investment management activities	1.1	1.0

Auditors remuneration

Auditors remuneration is included within other costs above.

	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit of the Company's Annual report		
- in respect of the current year	300.0	313.8
- in respect of the prior year	102.2	-
Fees payable to the Company's auditors for other services:		
- Audit-related assurance services	219.6	69.6
- Other services pursuant to regulation	-	28.8

12 Finance costs

	2020 £m	2019 £m
Interest expense relating to lease liabilities	0.1	0.1
Interest expense on loans	6.0	6.7
Other interest payable	0.1	0.2
Total finance costs	6.2	7.0

Notes to the financial statements

13 Income taxes

(a) Amounts recognised in profit or loss

	2020 £m	2019 £m
Current tax		
UK corporation tax on profits of the year	(3.8)	(5.4)
Prior year over provision in respect of current tax	-	0.2
	(3.8)	(5.2)
Deferred tax		
Origination and reversal of temporary differences	(3.3)	(4.6)
Effect of change in rate on deferred tax	3.7	(0.2)
Prior year over provision in respect of deferred tax	0.1	0.1
	0.5	(4.7)
Total income tax charge	(3.3)	(9.9)

(b) Reconciliation of effective tax rate

The tax assessed on the year is lower (2019: higher) than the standard rate of corporation tax in the United Kingdom of 19.0% (2019: 19.0%). The differences are explained below:

	2020 £m	2019 £m
Profit before tax	35.7	50.6
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	(6.8)	(9.6)
Expenses not deductible for tax purposes	(0.3)	(0.4)
Effect of variable tax rates	3.7	(0.2)
	(3.4)	(10.2)
Prior year over provision in respect of current tax	-	0.2
Prior year over provision in respect of deferred tax	0.1	0.1
Total income tax charge	(3.3)	(9.9)

(c) Amounts recognised in other comprehensive income

	2020 £m	2019 £m
Deferred tax on remeasurement of defined benefit pension obligation	1.0	(0.6)
Deferred tax on change in fair value of available-for-sale financial assets	(5.4)	(4.4)
Current tax on change in fair value of available-for-sale financial assets	0.8	0.7
	(3.6)	(4.3)

Notes to the financial statements

14 Investment in group undertakings

	2020 £m	2019 £m
Investments in group undertakings are stated at cost		
At 1 January and 31 December	-	-

The Company has the following investment in group undertakings:

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 (2019: 51%) in HCP, a company limited by guarantee with no share capital and is incorporated in the United Kingdom. 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.

15 Investment property

	Land £m	Buildings £m	Total £m
Cost			
Balance at 1 January 2019	5.3	16.0	21.3
Balance at 31 December 2019	5.3	16.0	21.3
Other	-	(0.1)	(0.1)
Balance at 31 December 2020	5.3	15.9	21.2
Accumulated depreciation			
Balance at 1 January 2019	-	1.1	1.1
Depreciation charge for the year	-	0.3	0.3
Balance at 31 December 2019	-	1.4	1.4
Depreciation charge for the year	-	0.4	0.4
Balance at 31 December 2020	-	1.8	1.8
Carrying amounts			
Balance at 31 December 2019	5.3	14.6	19.9
Balance at 31 December 2020	5.3	14.1	19.4

The property relates to Deansleigh House, Bournemouth, and is let to a fellow group undertaking under an operating lease (details are included in note 35, Related party transactions). See also note 32, Operating leases, for the terms of the operating lease.

Notes to the financial statements

16 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 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
Acquisitions	2.4	0.1	-	0.4	2.0	4.9
Disposals	(0.3)	(0.2)	-	(9.8)	(27.4)	(37.7)
Balance at 31 December 2020	7.8	1.1	36.5	2.9	11.3	59.6
Accumulated depreciation						
Balance at 1 January 2019	-	-	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
Depreciation charge for the year	0.8	0.3	0.7	0.4	2.2	4.4
Disposals	(0.3)	(0.1)	-	(9.3)	(27.3)	(37.0)
Balance at 31 December 2020	2.2	0.5	4.3	2.0	7.5	16.5
Carrying amounts						
Balance at 31 December 2019	4.0	0.9	32.9	1.4	4.1	43.3
Balance at 31 December 2020	5.6	0.6	32.2	0.9	3.8	43.1

Following a review in the year, a number of obsolete assets were written off in 2020.

In 2019, the Company impaired its property, plant and equipment by £1.9m following the announcement of a number of organisational changes in the year.

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Notes to the financial statements

17 Intangible assets

	Software £m	Licences £m	Total £m
Cost			
Balance at 1 January 2019	-	-	-
Acquisitions	1.9	0.7	2.6
Reclassifications	-	0.2	0.2
Balance at 31 December 2019	1.9	0.9	2.8
Acquisitions	10.2	-	10.2
Balance at 31 December 2020	12.1	0.9	13.0
Accumulated amortisation			
Balance at 1 January 2019	-	-	-
Amortisation charge for the year	0.2	0.1	0.3
Balance at 31 December 2019	0.2	0.1	0.3
Amortisation charge for the year	0.6	0.3	0.9
Balance at 31 December 2020	0.8	0.4	1.2
Carrying amounts			
Balance at 31 December 2019	1.7	0.8	2.5
Balance at 31 December 2020	11.3	0.5	11.8

Acqusitions in the year include externally purchased and internally developed intangible assets.

18 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:

	2020 £m	2019 £m
Balance at 1 January	160.0	167.3
Acquisition costs incurred in year	312.6	310.5
Amortisation charged to income	(324.3)	(317.8)
Balance at 31 December	148.3	160.0

All amounts are current (2019: current).

Notes to the financial statements

19 Deferred tax assets

A change to the main UK corporation tax rate, announced in the Budget on 11 March 2020, was substantively enacted on 17 March 2020. This resulted in the rate remaining at 19% rather than reducing to 17% from 1 April 2020 as previously enacted. The deferred tax asset recognised as at 31 December 2020 has been calculated at 19%.

Recognised deferred tax

Deferred tax assets and liabilities are attributable to the following:

	2020 £m	2019 £m
Property, plant and equipment	1.3	1.7
Defined benefit pension scheme	(3.6)	(4.4)
Provisions and other timing differences	1.8	1.6
Recognised losses	32.0	31.1
Available-for-sale financial assets	(10.7)	(6.0)
Unwinding of unrealised gains	-	0.7
Deferred tax asset	20.8	24.7

The balance is all non-current (2019: all non-current).

There is no unrecognised deferred tax in respect of any unrecognised losses (2019: none).

Movement in temporary differences during the year

	1 Jan 2020 £m	Recognised in profit £m	Recognised in OCI £m	31 Dec 2020 £m
Property, plant and equipment	1.7	(0.4)	-	1.3
Defined benefit pension scheme	(4.4)	(0.2)	1.0	(3.6)
Provisions and other timing differences	1.6	0.2	-	1.8
Recognised losses	31.1	0.9	-	32.0
Available-for-sale financial assets	(6.0)	-	(4.7)	(10.7)
Unwinding of unrealised gains	0.7	-	(0.7)	-
Deferred tax assets/(liabilities)	24.7	0.5	(4.4)	20.8

	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

An increase to the main rate of corporation tax to 25% from 1 April 2023 was announced in the Budget on 3 March 2021. This rate is yet to be substantively enacted but would not materially impact the deferred tax asset.

Notes to the financial statements

20 Financial assets

	2020 £m	2019 £m
Available-for-sale financial assets	1,187.3	1,354.9
Loans and receivables	-	16.3
Derivative financial instruments	0.1	-
Financial assets designated as fair value through profit or loss	89.2	90.7
Total financial assets	1,276.6	1,461.9

(a) Available-for-sale financial assets

	2020 £m	2019 £m
Debt securities - fixed rate		
UK Government bonds	86.2	129.9
Non-UK Government bonds	1.9	2.0
Quasi Government Bonds	210.3	226.4
Corporate bonds	888.9	996.6
	1,187.3	1,354.9

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

	2020 £m	2019 £m
Balance at 1 January	1,354.9	1,752.4
Foreign exchange/translation differences	(0.1)	(0.1)
Additions	216.0	464.7
Sales and redemptions	(408.7)	(902.7)
Fair value unrealised gains and losses	22.1	22.0
Amortisation of premiums and discounts	3.1	18.6
Balance at 31 December	1,187.3	1,354.9

Notes to the financial statements

20 Financial assets (continued)

(a) Available-for-sale financial assets (continued)

Effective from 1 January 2020, the Company increased its reinsurance agreement with ageas SA/NV, the ultimate parent holding company, to cede 40% rather than 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 35 for further information.

As at 31 December 2020 the current portion of available-for-sale financial assets is £149.2m (2019: £220.1m) and the non-current portion is £1,038.1m (2019: £1,134.8m).

The effective interest rate at the statement of financial position date on sterling available-for-sale financial assets is 1.72% (2019: 1.95%) and on USD assets is 1.75% (2019: 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

	2020 £m	2019 £m
Infrastructure debt	-	16.3

During the year the Company redeemed its infrastructure debt investment.

(c) Derivative financial instruments

	2020 £m	2019 £m
Gross inflow	7.7	-
Gross outflow	(7.6)	-
Currency forward contracts	0.1	-
Notional amount	7.7	-
	£m	£m
Current	0.1	-

During the year the Company entered into derivative financial instruments in order to mitigate the exchange risk arising from its USD and Euro denominated infrastructure equity investments. Currency forward contracts are contractual agreements to sell currency and buy sterling at a specific price and date in the future. The contracts are rebased monthly.

Notes to the financial statements

20 Financial assets (continued)

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

	2020 £m	2019 £m
Infrastructure equity	6.6	-
Property funds	82.6	90.7
Financial assets designated at fair value through profit or loss	89.2	90.7

These investments have been designated as fair value through profit or loss as it is the Company's intention to manage the investments and evaluate performance on a fair value basis. The returns on both the infrastructure equity and property funds are the key performance measures against which they will be measured.

Both the infrastructure equity and property funds are non-current.

(e) 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:

2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets	88.1	1,099.2	-	1,187.3
Derivative financial instruments	-	0.1	-	0.1
Financial assets designated as fair value through profit or loss	-	52.7	36.5	89.2
	88.1	1,152.0	36.5	1,276.6

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	-	58.8	31.9	90.7
	131.9	1,281.8	31.9	1,445.6

We have reconsidered the classification of certain property funds and determined that they should more appropriately be classified as level 3. The prior year comparative has been updated to reclassify £36.5m of such assets from level 2 to level 3 to ensure consistency year on year. 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 34.

Notes to the financial statements

20 Financial assets (continued)

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

	2020		2019	
	Fair value £m	Unrealised gain £m	Fair value £m	Unrealised (loss) or gain £m
Available-for-sale financial assets				
Assets fair valued at below amortised cost	16.3	-	170.4	(0.5)
Assets fair valued at or above amortised cost	1,171.0	56.3	1,184.5	34.7
Total	1,187.3	56.3	1,354.9	34.2
Gross unrealised loss position for various percentages of amortised cost				
Between 90% and 100%	16.3	-	170.4	(0.5)
Total	16.3	-	170.4	(0.5)

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

	2020		2019	
	Fair value £m	Unrealised (loss) £m	Fair value £m	Unrealised (loss) £m
Assets designated as fair value through profit or loss	89.2	(6.5)	90.7	(4.4)
Total	89.2	(6.5)	90.7	(4.4)

Notes to the financial statements

21 Insurance and other receivables

	2020 £m	2019 £m
Receivables arising from insurance contracts:		
- contract holders	14.7	25.5
- agents, brokers and intermediaries	237.3	195.6
- reinsurers	12.4	19.1
Total receivables arising from insurance contracts	264.4	240.2
Amounts due from group undertakings	85.9	107.2
Salvage and subrogation recoveries	17.8	25.2
Accrued interest income	14.2	18.1
Deferred other charges	9.6	10.2
Other receivables	3.0	2.4
Total insurance and other receivables	394.9	403.3

Amounts due from group undertakings include an outstanding loan due from Ageas Retail Limited of £75.0m (2019: £75.0m). There are currently no amounts outstanding on the loan issued to Ageas (UK) Limited (2019: £nil).

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. Both loans have a maturity date of 7 September 2021.

Except for the loans issued to Ageas (UK) Limited and Ageas Retail Limited mentioned above, amounts due from group undertakings are unsecured, interest free and repayable on demand in cash.

Included within other receivables above is £2.1m of an unallocated committed Euro-denominated infrastructure equity investment.

The balance above is split £370.7m current and £24.2m non current (2019: £295.8m current, £107.5m non current).

22 Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank	100.7	71.4
Cash not available to the Company - held in trust	1.5	1.5
Cash and cash equivalents	102.2	72.9

The effective interest rate for the year 2020 on short term bank deposits was 0.29% per annum (2019: 0.75% per annum), with an average maturity of one day.

Included in cash and cash equivalents held by the Company as at 31 December 2020 are balances totalling £1.5m (2019: £1.5m) not available for use by the Company because they are held in trust to guarantee claims liabilities.

Notes to the financial statements

23 Insurance contract provisions and reinsurance assets

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Unearned premiums	621.3	(249.9)	371.4	612.2	(185.3)	426.9
Outstanding claims:						
- Reported by policy holders	1,523.6	(844.8)	678.8	1,615.4	(761.5)	853.9
- Incurred but not reported	37.0	71.5	108.5	10.2	76.7	86.9
Total insurance contract provisions	2,181.9	(1,023.2)	1,158.7	2,237.8	(870.1)	1,367.7

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

Effective from 1 January 2020, the Company increased its reinsurance agreement with ageas SA/NV, the ultimate parent holding company, from 30% to 40%. See note 35 for more information.

Salvage and subrogation recoveries are not included above. For details see subsection (iii).

The gross insurance contract provisions balance is split £1,169.7m current and £1,012.2m non current (2019: £1,096.7m current, £1,141.1m non current). The reinsurance contract provisions balance is split £523.1m current and £500.1m non current (2019: £391.7m current, £478.4m non current).

(i) Analysis of movements in insurance contract provisions

	2020			2019		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£m	£m	£m	£m	£m	£m
Balance at 1 January	2,237.8	(870.1)	1,367.7	2,289.5	(314.6)	1,974.9
Claims paid/recovered from reinsurers	(743.8)	334.9	(408.9)	(769.0)	249.2	(519.8)
Movement in claims incurred but not reported	26.8	(5.2)	21.6	(109.9)	(16.2)	(126.1)
Claims reported in the year	652.0	(418.2)	233.8	842.3	(606.2)	236.1
Change in provision for unearned premiums	9.1	(64.6)	(55.5)	(15.1)	(182.3)	(197.4)
Balance at 31 December	2,181.9	(1,023.2)	1,158.7	2,237.8	(870.1)	1,367.7

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

	2020	2019
	£m	£m
Balance at 1 January	612.2	627.4
Written premiums during the year	1,229.2	1,206.6
Less: premiums earned during the year	(1,220.1)	(1,221.8)
Balance at 31 December	621.3	612.2

Notes to the financial statements

23 Insurance contract provisions and reinsurance assets (continued)

(iii) Analysis of movements in outstanding claims

	2020 £m	2019 £m
Gross outstanding claims		
Balance at 1 January	1,625.6	1,662.1
Current year claims	797.4	866.8
Change in prior year claims	(118.6)	(134.3)
Current year claims paid	(314.2)	(383.9)
Previous year claims paid	(429.6)	(385.1)
Balance at 31 December	1,560.6	1,625.6
Salvage and subrogation recoveries		
Balance at 1 January	(25.2)	(25.2)
Current year claims	(11.8)	(25.2)
Change in prior year claims	19.2	25.2
Balance at 31 December	(17.8)	(25.2)
Gross outstanding claims net of recoveries		
Balance at 1 January	1,600.4	1,636.9
Current year claims	785.6	841.6
Change in prior year claims	(99.4)	(109.1)
Current year claims paid	(314.2)	(383.9)
Previous year claims paid	(429.6)	(385.1)
Balance at 31 December	1,542.8	1,600.4

Notes to the financial statements

23 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.

Notes to the financial statements

23 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.

With an effective date of 1 April 2020, the Company completed the transfer under a Part VII Scheme of the Financial Services and Markets Act 2000 for the majority of its liability insurance contracts underwritten for accident years 1986 and prior to a third party, including the USD liabilities in respect of the run-off of its former Marine and City business.

Effective from 1 January 2019, the Company entered into a reinsurance arrangement with ageas SA/NV to cede 30% of both prior and future claim liabilities under a loss portfolio transfer agreement and quota share treaty respectively. Effective from 1 January 2020, the Company increased its reinsurance agreement with ageas SA/NV, the ultimate parent holding company, from 30% to 40%. See note 35 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					
	2016	2017	2018	2019	2020	Total
	£m	£m	£m	£m	£m	£m
Gross estimate of cumulative claims						
At end of accident year	1,101.3	972.5	847.9	866.7	785.6	4,574.0
- one year later	84.8	5.1	92.4	(9.8)	-	172.5
- two years later	(93.6)	(33.4)	(83.3)	-	-	(210.3)
- three years later	(67.5)	(20.4)	-	-	-	(87.9)
- four years later	(7.7)	-	-	-	-	(7.7)
Estimate of cumulative claims	1,017.3	923.8	857.0	856.9	785.6	4,440.6
Cumulative payments to date	(900.7)	(791.1)	(672.1)	(562.2)	(314.2)	(3,240.3)
	116.6	132.7	184.9	294.7	471.4	1,200.3
Provision for prior years						342.5
Gross outstanding claims net of recoveries						1,542.8

Notes to the financial statements

23 Insurance contract provisions and reinsurance assets (continued)

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

	Accident Year					
	2016	2017	2018	2019	2020	Total
	£m	£m	£m	£m	£m	£m
Net estimate of cumulative claims						
At end of accident year	1,008.4	913.2	810.6	578.3	445.5	3,756.0
- one year later	61.3	39.4	(75.0)	(45.2)	-	(19.5)
- two years later	(80.5)	(130.7)	(59.2)	-	-	(270.4)
- three years later	(92.8)	(29.7)	-	-	-	(122.5)
- four years later	(21.1)	-	-	-	-	(21.1)
Estimate of cumulative claims	875.3	792.2	676.4	533.1	445.5	3,322.5
Cumulative payments to date	(837.2)	(723.7)	(578.0)	(372.6)	(186.8)	(2,698.3)
	38.1	68.5	98.4	160.5	258.7	624.2
Provision for prior years						145.3
Net outstanding claims						769.5

24 Loans and borrowings from group companies

	2020	2019
	£m	£m
Non-current liabilities		
Subordinated debt	119.2	139.1

On 1 December 2020, the Company repaid £20.0m of its subordinated debt with Ageas Insurance International N.V.

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. Discussions are underway to renegotiate the interest rate following the transition from LIBOR after 2021.

Notes to the financial statements

25 Other financial liabilities

	2020 £m	2019 £m
Lease liabilities	6.1	5.4
Funds held under reinsurance agreements	-	0.5
Total financial liabilities	6.1	5.9

(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	1.1	(0.1)	1.0
Non-current liabilities			
Between one and five years	3.4	(0.3)	3.1
Later than five years	2.1	(0.1)	2.0
	6.6	(0.5)	6.1

During the year, £0.1m (2019: £0.1m) 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

	2020 £m	2019 £m
Funds held under reinsurance agreements	-	0.5

During the year a review was undertaken of the funds held under reinsurance agreements and, as a result, the outstanding balance was released in full.

Notes to the financial statements

26 Other provisions

	2020 £m	2019 £m
Balance at 1 January	23.5	18.1
Transferred from accrued expenses	-	10.6
Released during the year	(1.5)	(1.3)
Provisions used during the year	(18.4)	(19.0)
Increase in provisions during the year	18.1	15.1
Balance at 31 December	21.7	23.5

Included in the amounts above are provisions for expected future levy expenses in respect of the Motor Insurers' Bureau of £16.1m (2019: £13.8m) and a liability in respect of expected dilapidation costs of £1.2m (2019: £0.8m). The 2019 figures included restructuring costs of £3.3m and a provision for onerous contract costs of £0.9m.

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

The balance is split £21.0m current and £0.7m non-current (2019: £9.7m current and £13.8m 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 dilapidation cost provision will be utilised upon expiry of the specific lease to which it relates.

27 Current tax

	2020 £m	2019 £m
Current tax asset/(liability)	1.6	(1.6)

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

28 Reinsurance payables

	2020 £m	2019 £m
Due to reinsurers	5.2	5.1

This balance is all current (2019: all current).

Notes to the financial statements

29 Insurance payables, other payables and deferred income

	2020 £m	2019 £m
Direct insurance contract payables	31.9	26.1
Reinsurers' share of deferred acquisition costs	90.9	68.3
Other payables and accrued expenses	28.8	24.4
Amounts due to group undertakings	1.1	2.8
IPT, VAT and other taxes payable	38.9	37.8
Deferred income	-	0.2
Total insurance payables, other payables and deferred income	191.6	159.6

Amounts due to group undertakings are unsecured, interest free and repayable on demand in cash. All amounts are payable within one year (2019: within one year).

See note 35 for details on reinsurers' share of deferred acquisition costs.

30 Capital and reserves

(a) Share capital

	Ordinary shares		Deferred shares		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
In issue at 1 January and 31 December	274.8	274.8	3.0	3.0	277.8	277.8

At 31 December 2020, the issued and authorised share capital comprised 274,823,432 ordinary shares (2019: 274,823,432) and 3,000,000 deferred shares (2019: 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 £20.4m during the year (2019: £22.6m), representing 7.42 pence per ordinary share (2019: 8.25 pence per share).

Notes to the financial statements

31 Staff numbers and costs

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:

	2020 No.	2019 No.
Business acquisition	584	614
Claims handling	802	782
Administration	608	636
	1,994	2,032

The full time equivalent number of employees was as follows:

	2020 No.	2019 No.
Business acquisition	565	596
Claims handling	731	712
Administration	581	604
	1,877	1,912

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

	2020 No.	2019 No.
Total number of employees	2,004	2,093
Full time equivalent number of employees	1,886	1,964

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

	2020 £m	2019 £m
Wages and salaries	70.0	72.8
Social security costs	7.4	6.6
Other pension costs	5.0	4.8
	82.4	84.2

We have reconsidered the aggregate payroll costs and determined that they should show the cost to the company after recharges to a fellow group subsidiary rather than the gross cost. The prior year comparative has been updated to exclude £28.3m of costs from wages and salaries, £2.7m of costs from social security costs and £1.7m of costs from other pension costs which were recharged.

Notes to the financial statements

32 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:

	2020	2019
	£m	£m
Less than one year	1.3	1.3
Between one and five years	5.2	5.2
More than five years	4.5	5.8
Total	11.0	12.3

Leases as lessee

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 2020, £0.1m (2019: £0.1m) was recognised as an expense in the statement of profit or loss in respect of operating leases.

Notes to the financial statements

33 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 £5.9m (2019: £5.6m). 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 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.

During 2020, the High Court published further guidance on the approach to guaranteed minimum pensions (‘GMP’) equalisation. The Company has recognised a further £20,000 (2019: £nil) 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 2020 was £0.5m (2019: £0.4m).

Notes to the financial statements

33 Pension schemes (continued)

Defined benefit pension asset recognised in the statement of financial position

	2020 £m	2019 £m
Opening net asset	(24.9)	(20.1)
Expense recognised in the statement of profit or loss	0.5	0.4
Remeasurements recognised through other comprehensive income	6.2	(3.8)
Contributions paid	(0.8)	(1.4)
Net defined benefit pension asset recognised in the statement of financial position	(19.0)	(24.9)

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 2020. The major assumptions used by the actuary were:

Valuation method	2020 Projected unit %	2019 Projected unit %
Rate of increase in salaries	n/a	3.25
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)	3.20	3.15
Pensions accrued from 1 October 2012 rate of increase	2.50	2.25
Discount rate	1.25	1.95
RPI inflation assumption	3.15	3.15

The future life expectancy assumption for a current male pensioner aged 65 is 22.9 years (2019: 22.9 years), for a current female pensioner aged 65 it is 25.0 years (2019: 24.9 years), for a future male pensioner aged 65 in 20 years from the accounting date it is 25.0 years (2019: 24.6 years), and for a future female pensioner aged 65 in 20 years from the accounting date it is 26.8 years (2019: 26.7 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 2020 the weighted average duration of the defined benefit obligation was 20 years (2019: 19 years).

Notes to the financial statements

33 Pension schemes (continued)

Changes in the present value of the obligations

	2020 £m	2019 £m
Present value of defined benefit obligation at 1 January	187.5	164.3
Interest expense	3.6	4.6
Current service cost	1.0	1.0
Benefits and other payments	(7.6)	(7.0)
Remeasurement on obligation	29.9	24.6
Present value of defined benefit obligation at 31 December	214.4	187.5

Changes in the fair value of scheme assets

	2020 £m	2019 £m
Fair value of scheme assets at 1 January	212.4	184.4
Interest on assets	4.1	5.2
Employer contributions	0.8	1.4
Benefits and other payments	(7.6)	(7.0)
Remeasurement on scheme assets	23.7	28.4
Fair value of scheme assets at 31 December	233.4	212.4

Notes to the financial statements

33 Pension schemes (continued)

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

	2020 £m	2019 £m
Fair value of scheme assets at 31 December	(233.4)	(212.4)
Present value of the defined benefit obligation at 31 December	214.4	187.5
Net defined benefit asset recognised in balance sheet	(19.0)	(24.9)
Current service cost	1.0	1.0
Past service cost	-	-
Interest expense	3.6	4.6
Interest on assets	(4.1)	(5.2)
Expense recognised in the profit or loss	0.5	0.4
Remeasurement on scheme assets during the year	23.7	28.4
Remeasurement on defined benefit obligations during the year	(29.9)	(24.6)
Total remeasurement during the year	(6.2)	3.8
Opening remeasurements through OCI	31.7	27.9
Total remeasurement during the year	(6.2)	3.8
Closing remeasurements through OCI	25.5	31.7
Interest on scheme assets	4.1	5.2
Remeasurement on scheme assets	23.7	28.4
Actual return on scheme assets	27.8	33.6
Remeasurement on defined benefit obligations due to change in assumptions		
- Remeasurement on defined benefit obligations due to change in financial assumptions	30.2	26.5
Experience remeasurement on defined benefit obligation	(0.3)	(1.9)
Total remeasurement on defined benefit obligation	29.9	24.6
Asset mix of scheme assets		
Equity securities	47.4	45.8
Debt securities	100.5	81.8
Real estate	36.4	37.7
Other	49.1	47.1
Fair value of scheme assets at 31 December	233.4	212.4

Notes to the financial statements

33 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:

	2020		2019	
	Increase	Decrease	Increase	Decrease
	£m	£m	£m	£m
Discount rate (1% movement)	37.2	(49.8)	31.2	(41.4)
Future pension growth (1% movement)	(17.4)	17.9	(15.1)	14.8

Notes to the financial statements

34 Assets and liabilities – classification and measurement

Assets and liabilities have been classified and valued in accordance with the requirements of international accounting standards. For financial assets the basis of valuation is set out in note 1 and classification into Levels is detailed in note 20.

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:

	2020 £m	2020 £m	2020 £m	2020 £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	-	19.4	19.4	-
Property, plant and equipment	-	43.1	43.1	-
Intangible assets	-	11.8	11.8	-
Employee benefits	-	19.0	19.0	-
Deferred acquisition costs	-	148.3	148.3	-
Deferred tax assets	-	20.8	20.8	-
Financial assets	1,276.6	-	1,276.6	1,276.6
Reinsurance assets	-	1,023.2	1,023.2	-
Current tax assets	-	1.6	1.6	-
Insurance and other receivables	-	394.9	394.9	-
Cash and cash equivalents	-	102.2	102.2	-
Total assets	1,276.6	1,784.3	3,060.9	1,276.6
Liabilities				
Insurance contract provisions	-	2,181.9	2,181.9	-
Financial liabilities:				
- Loans and borrowings from group companies	-	119.2	119.2	-
- Other	-	6.1	6.1	-
Other provisions	-	21.7	21.7	-
Reinsurance payables	-	5.2	5.2	-
Insurance payables, other payables and deferred income	-	191.6	191.6	-
Total liabilities	-	2,525.7	2,525.7	-

Notes to the financial statements

34 Assets and liabilities – classification and measurement (continued)

	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 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:	2020 £m	2019 £m
Short-term employee benefits	0.6	0.7
Equity compensation benefits	0.1	0.1
	0.7	0.8

The remuneration of the key management personnel consists of:	2020 £m	2019 £m
Short-term employee benefits	0.8	0.8
Equity compensation benefits	0.1	-
Termination benefits	-	0.1
	0.9	0.9

In respect of the highest paid director:	2020 £m	2019 £m
Short-term employee benefits	0.2	0.3
Equity compensation benefits	-	0.1
	0.2	0.4

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 (2019: £nil).

Benefits are accruing for one key management person under the defined benefit pension scheme (2019: one).

Notes to the financial statements

35 Related party transactions (continued)

Group reinsurance

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

Effective from 1 January 2020, the Company increased its reinsurance agreement with ageas SA/NV, the ultimate parent holding company, from 30% to 40%.

The execution of these reinsurance arrangements had the following initial impact on the income statement in the year in which the arrangements became effective:

	1 January 2020 £m	1 January 2019 £m
Written premiums ceded to reinsurers	(184.4)	(548.7)
Change in reinsurers' share of unearned premium provision	61.0	187.3
Net insurance premium revenue	(123.4)	(361.4)
Commission income	21.1	69.9
Change in reinsurers' share of deferred acquisition costs	(21.1)	(69.9)
Reinsurers' share of claims and benefits incurred	123.4	361.4
	-	-

The transactions have 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 y).

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

	2020 £m	2019 £m
Written premiums ceded to reinsurers	(448.8)	(337.7)
Change in reinsurers' share of net unearned premium provision	3.6	(4.3)
Net insurance premium revenue	(445.2)	(342.0)
Commission income	169.0	122.7
Change in reinsurers' share of deferred acquisition costs	(1.4)	1.6
Reinsurers' share of claims and benefits incurred	249.2	231.5
	(28.4)	13.8

The balances in the statement of financial position relating to this arrangement are:

Reinsurance unearned premiums	247.6	183.0
Reinsurance outstanding claims	470.1	370.1
	717.7	553.1

Notes to the financial statements

35 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. Both loans have a maturity date of 7 September 2021. As at 31 December 2020 the outstanding loan due from Ageas Retail Limited was £75.0m (2019: £75.0m). There are currently no amounts outstanding on the loan issued to Ageas (UK) Limited (2019: £nil).

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.

	2020 Comp. income £m	2020 Financial Position £m	2019 Comp. income £m	2019 Financial Position £m
	(Expense)/ income	(Liability) / asset	Expense	(Liability) / asset
Immediate parent and intermediate holding company	0.8	(49.7)	(5.8)	(140.6)
Fellow subsidiary company transactions and balances	10.3	85.4	(9.1)	106.0
Defined benefit pension scheme transactions and balances	(0.5)	19.0	(0.4)	25.0
Grand total	10.6	54.7	(15.3)	(9.6)

Notes to the financial statements

36 Capital commitments

	2020 £m	2019 £m
Authorised and contracted for	26.3	-
Authorised but not contracted for	2.3	1.9
	28.6	1.9

Authorised and contracted items relate to committed investments in infrastructure equity funds.

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

37 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 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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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.

Ageas Insurance Limited

Company registration number 354568

Independent Auditors' 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 2020 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; the Statement of profit or loss and other comprehensive income, the Statement of changes in equity and the Statement of cash flows 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 group headed by Ageas (UK) Limited, of which the Company is a member.

Other than those disclosed in note 11 to the financial statements, we have provided no non-audit services to the Company in the period under audit.

Our audit approach

Overview

Audit scope

- We assessed the risks of material misstatement in the financial statements based on materiality.

Key audit matters

- The valuation of outstanding claims of £1,561m (2019: £1,626m)
- Impact of Covid-19

Materiality

- Overall materiality: £12,200,000 (2019: £12,000,000) based on 1% of Gross Written Premium.
- Performance materiality: £9,150,000.

Independent Auditors' 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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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 ("FCA")'s regulations, the Prudential Regulation Authority ("PRA")'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 management bias in the determination of claims outstanding and other accounting estimates and the posting of inappropriate journal entries to increase gross written premium or to manipulate reported profit before tax or combined operating ratio, to smooth results between periods. 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 .
- Reviewing correspondence with regulators in relation to compliance with laws and regulations.
- Challenging the judgements and estimates made by management in their significant accounting estimates, in particular in relation to claims outstanding assumptions (see related key audit matter below).
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations impacting gross written premium or expenses, posted by senior management or posted late in the year end close process.
- Reviewing governance committee minutes for the Board Risk Committee and attending Audit Committee meetings during the year.
- Assessing executive and finance management remuneration structures and how closely relevant financial metric thresholds have been met (or not met) and how bias could therefore have occurred.
- Designing audit procedures to incorporate unpredictability around the nature, timing and extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Independent Auditors' 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.

The appropriateness of the accounting for a significant new loss portfolio and quota share reinsurance arrangement, which was a key audit matter last year, is no longer included because of the accounting being fully embedded during 2020. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	***How our audit addressed the key audit matter***
The valuation of outstanding claims of £1,561m (2019: £1,626m) Refer to note 1(h) and note 23. The Company holds an outstanding claims provision of £1,561m including both claims reported by policyholders and claims incurred but not reported. This liability represents a heightened inherent risk due to the uncertainties present when estimating future claims development and is made more uncertain by the impact of Covid-19. The methodologies and assumptions used in calculating the expected future payments are complex and actuarially determined. 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 the outstanding claims provision 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 77% of outstanding claims, taking into account both internal and external drivers of changes in reserve development and compared to management's booked reserves to consider if they were reasonable; • We performed testing of underlying data that the above independent reprojections rely upon to validate the gross earned premium, exposure, claims paid and incurred data to underlying records; • For 3% of the total claims liabilities which comprise periodic payment order ("PPO") reserves and reserves for commercial classes (including business interruption arising from Covid-19), we tested management's methodology and assumptions and considered if they were reasonable and in line with market best practice; • We tested the completeness of the liability for business interruption claims by considering the underlying policy records; • For the remaining 20%, we performed key indicator reviews, which involves assessing key metrics and ratios, and challenging management's judgements where the ratios were out of line with our expectations; • We assessed the reasonableness of management's margin held in light of uncertainty, including that created by Covid-19; • We considered whether there were any indicators of management bias; and • 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 Auditors' 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***
Impact of Covid-19 Refer to the Strategic Report. The emergence of Covid-19 and its development into a global pandemic in 2020 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. Covid-19 resulted in a lower frequency of Motor claims as a result of less traffic on the roads. However, uncertainties continue in relation to the impact on claims inflation and ultimate claims settlement costs.	Our procedures in respect of the impact of Covid-19 on the business included: • Assessing the impact of remote working on the overall control environment; • Reviewing the disclosures presented in the Annual Report in relation to Covid-19 by reading the other information, including the Principal risks set out in the Strategic Report, and assessing their consistency with the financial statements and the evidence we obtained in our audit; • Assessing the underlying assumptions around frequency and average cost of Covid-19 impacted classes to assesses the reasonableness of these estimates; • Considering the wording of commercial policies and determining how these were being applied to Covid-19 related claims; • Evaluating the appropriateness of sensitivity and stress scenarios applied by management in their assessment of going concern and their impact on the Company's capital, solvency and liquidity positions; and • Assessing projected cash flows for the Company to consider management's assessment on available liquidity. Through the procedures performed above we have concluded that management's assumptions related to outstanding claims impacted by Covid-19 were reasonable and the 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 on a line by line basis in the financial statements.

Independent Auditors' 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 Company materiality	£12,200,000 (2019: £12,000,000).
How we determined it	1% of gross written premium.
Rationale for benchmark applied	We consider gross written premium to be the most appropriate benchmark as profits have fluctuated in recent years; gross written premium therefore gives a more stable measure year on year.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £9,150,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the audit committee that we would report to them misstatements identified during our audit above £610,000 (2019: £600,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining a copy of management's going concern assessment to assess the identification and assessment of the risks relevant to going concern.
- Assessing the assumptions used in the future profitability forecast, including the impact of the strategic review, for the period 2021-2023.
- Considering the regulatory capital requirements and evaluating the appropriateness of sensitivity and stress scenarios applied by management.
- Assessing projected cash flows for the Company to consider management's assessment on available liquidity.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Conclusions relating to going concern (continued)

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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.

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

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, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

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

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 obtained 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 Members 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 3 years, covering the years ended 31 December 2018 to 31 December 2020.

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

31 March 2021