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# GRESHAM INSURANCE COMPANY LIMITED
## Registered in England and Wales: No. 00110410

# ANNUAL REPORT AND FINANCIAL STATEMENTS 2019

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Contents

# Gresham Insurance Company Limited
**Registered in England and Wales: No. 00110410**

## Directors and Officer

**Directors**

M A Field
T J Latter
G J Hemming
D W Kelly

**Officer - Company Secretary**

Aviva Company Secretarial Services Limited
St Helen's
Undershaft
London
EC3P 3DQ

**Independent auditors**

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

**Registered office**

8 Surrey Street
Norwich
NR1 3NG

**Company number**

Registered in England and Wales: No. 00110410

**Other information**

Gresham Insurance Company Limited (the "Company") is a member of the Association of British Insurers and covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority ("PRA").

The Company is a member of the Aviva plc group of companies ("the Group").

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

# Strategic report

## For the year ended 31 December 2019

The directors present their strategic report for the Company for the year ended 31 December 2019.

### Review of the Company's business

The principal activity of the Company is the transaction of general insurance business, predominantly household, in the United Kingdom through a business arrangement with Barclays Bank plc.

**Significant events**

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.
As an insurer the Company is impacted by the Covid-19 pandemic through its general insurance products and the impact on investment returns. The Company's balance sheet exposure has been reviewed, the Company continues to maintain strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained and IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.

**Financial position and performance**

The financial position of the Company at 31 December 2019 is shown in the statement of financial position on page 25, with the results shown in the income statement on page 23 and the statement of cash flows on page 26.

Gross written premiums decreased by 4% in 2019 (2018: 10% decrease); new business sales were down largely due to no longer participating in aggregator sites offset by a strong retention of back book policies.

Profit before tax for the year is £4,667 thousand (2018: £5,623 thousand). As described in note 23(a)(i), the Company has a 100% quota share reinsurance arrangement (with the exception of levy expenses) with its parent company, Aviva Insurance Limited.

On 11 April 2019 the Board approved a capital reduction of £51,400 thousand and £50,000 thousand interim dividend as detailed in the Directors Report.

**Section 172 Statement**

We report here on how our directors have discharged their duties under Section 172 of the Companies Act 2006.

The Board is responsible for monitoring and upholding the culture, values, standards, ethics and reputation of the Company, and the Group, to ensure that our obligations to our shareholder and to our stakeholders are met. It monitors adherence to the Group business standards and compliance with local corporate governance requirements, and is committed to acting if our businesses should fail to act in the manner we expect of them.
For each matter which comes before the Board, stakeholders who may be affected are identified and their interests are carefully considered as part of the Board's decision-making process.

The Board is also focussed on the wider social context within which our businesses operate, including those issues related to climate change which are of fundamental importance to the planet's well-being.

# Strategic report (continued)

## For the year ended 31 December 2019

## Review of the Company's business (continued)

**Our culture**

As the provider of vital financial services to millions of customers, Aviva seeks to earn customers' trust by acting with integrity and responsibility at all times. We look to build relationships with all our stakeholders based on openness and continuing dialogue.

Our culture is shaped in conjunction with our parent entity, Aviva Insurance Limited (AIL) and ultimate shareholder, Aviva plc, by our clearly defined values to help ensure we do the right thing. We value diversity and inclusivity in our workforce and beyond.
The commitment we make to each customer extends to all our stakeholders; that we are 'with you today, for a better tomorrow'. Throughout our business, we are proud that our people live by our core value of Caring More for our customers, for each other and for the communities we serve.

**Key strategic decisions in 2019**

Within the wider Group, key decisions were made during 2019 to split Aviva UK General Insurance from Aviva UK Life business, with Colm Holmes becoming CEO of the General Insurance division. Mr Holmes delivered his General Insurance Operating Model plan which focuses on driving a better customer experience and reducing complexity in business processes and products.

**Stakeholder engagement**

i) Engagement with employees:

Our employees are formally employed by Aviva Employment Services Limited, which enables them to flexibly work within the wider Aviva Group and undertake duties in or for a number of Group companies. Staff policies align to Group policies, and the engagement, and cascade of benefits, is operated centrally from Group. As per Group, we are committed to recruiting, training and retaining the best talent we can find. We are proud to have been able to implement pioneering employee policies in some areas of employee benefits, including providing six months paid parental leave for all employees.

Our engagement mechanisms align with Group, such as employee forums, internal communication channels, informal meetings with directors and employee engagement surveys.

The AIL Board holds strategy days twice a year, at which, our employees are able to join them to provide 'on the ground' insight into the business. The Gresham Board also holds strategy sessions. Aviva carries out a comprehensive global employee engagement survey each year (called 'Voice of Aviva') and the results are considered by the Boards in the context of culture, values and behaviours. Actions are raised from this with a view to continually improve.

Our people share in the business' success as shareholders through membership in our global share plans.

## Strategic report (continued)

### For the year ended 31 December 2019

### Review of the Company's business (continued)

(ii) Our customers

- The Board receives regular reporting on customer outcomes and strategic initiatives throughout the year.

- The Board closely monitors customer metrics and engages with the leadership team to understand the issues if our performance does not meet our customers' expectations.
- Gresham's parent entity, AIL, is supported by the Conduct Committee to enable it to monitor customer metrics, and subsequently engage with the senior leaders to address any issues that may arise from customer complaints,
- The Board continues to monitor IT performance to ensure consistent service for our customers.
- The Board works to ensure we deliver fair value to our customers, reviewing pricing on our products. Aviva is also working closely with our business partners to focus on the new industry approach to pricing.

(iii) Our suppliers

- All supplier related activity is managed in line with the Group Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual, and brand damage caused by inadequate oversight or supplier failure.
- Our Board reviews the actions we have taken to prevent modern slavery and associated practices in any part of our supply chain and approves our Modern Slavery Act statement each year.
- In the UK, Aviva is a signatory of the Prompt Payment Code which sets high standards for payment practices. We are a Living Wage employer in the UK, and our supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided to Aviva at our premises in the UK.

- Our directors are closely involved in The management of our most critical or important suppliers and regularly review reports on their performance.

(iv) Our communities

Our Board pro-actively supports Wellbeing@Aviva, a health and wellbeing proposition for UK employees, providing products, improved policies and better support to enhance our employees' mental, physical, community and financial well-being. With a focus on prevention and early intervention of illness, Wellbeing@Aviva utilises a dynamic group of 'Health Heroes' across our sites to promote physical, mental and community wellbeing. This has led to our people creating of a number of internal communities to enable colleagues to connect over activities they are passionate about.

The Group have established six global employee resource groups, called the Aviva Communities, to help drive more diversity and inclusivity throughout the organisation to ensure everyone can have a fair voice at Aviva.

The Group actively encourage and support colleagues to volunteer in their communities, providing 21 hours of paid volunteering time to make a positive impact and help build stronger communities.

(v) Shareholders

Our ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chair to its parent. Additionally, members of the Aviva plc Board can attend the Company's Board meetings by invitation.

## Strategic report (continued)

### For the year ended 31 December 2019

### Review of the Company's business (continued)

(vi) Our Regulators

During 2019, a review of the Aviva UK Operating Model concluded that the most effective structure was to split the UK Insurance business to a UK Life and Pensions business, and a UK General Insurance business. The Financial Conduct Authority (the 'FCA') was engaged throughout the decision-making process and as the organisation design was implemented.

The Gresham Board engages with the Regulators on a regular basis.

**Future outlook**

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

The Company is well positioned to compete in its key markets against the ongoing backdrop of regulatory reform and competitive market conditions.

**Principal risks and uncertainties**

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 21 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- General Insurance risk, including fluctuations in the timing, frequency and severity of claims and claims settlements relative to expectations when pricing and reserving.
- Market risk, the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, foreign exchange rates, equity, property and commodity prices.
- Credit risk, the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

## Strategic report (continued)

### For the year ended 31 December 2019

### Review of the Company's business (continued)

As an insurer the Company is impacted by the Covid-19 pandemic through its general insurance products and the impact on investment returns. The Company's balance sheet exposure has been reviewed, the Company continues to maintain strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained and IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.

- Brexit risk: although Brexit is not expected to have significant operational impact on the Company, the influence that it will continue to have on the UK economy will require careful

**Key performance indicators ("KPIs")**

The directors consider that the Company's KPIs that communicate the financial performance are as follows:

- increase/(decrease) in gross written premiums;
- combined operating ratio ("COR") - this comprises the sum of the following ratios:
    - gross incurred claims to gross earned premiums;
    - gross earned commission to gross earned premiums; and
    - gross earned expenses to gross earned premiums.

COR is calculated as gross claims incurred, gross earned commission and gross earned expenses as a percentage of gross earned premiums which aligns to our underwriting result.

| | 2019 | 2018 |
|---|---|---|
| **Financial Performance metrics** | | |
| Decrease in gross written premiums | (4%) | (10%) |
| Combined operating ratio (before corporate costs) | 87% | 88% |

The COR excludes corporate costs relating to other non-underwriting costs of £3,749 thousand (2018: £4,430 thousand).

The decrease in gross written premiums is explained in "Financial position and performance" above.

The COR decreased by 1% in 2019. This has been largely driven by a reduction in claims ratio, due to the impact of poor weather in 2018 not replicated in 2019, offset by an increase in commissions ratio as a result of increased commission contractual terms.

**Non-financial indicators**

The Company is considered to have no non-financial KPIs as it has no employees and environmental matters are monitored for the Group as a whole.

On behalf of the Board on 7 April 2020

T J Latter
Director

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

# Directors' report

## For the year ended 31 December 2019

The directors present their annual report and audited financial statements for the Company for the year ended 31 December 2019.

### Directors

The current directors, except as noted, and those in office during the year, are as follows:

T J Latter
D W Kelly (appointed 9 July 2019)
M A Field (appointed 31 October 2019)
G J Hemming (appointed 23 December 2019)
P J Sowter (resigned 9 July 2019)
R Barker (resigned 31 October 2019)
R I Townend (resigned 23 December 2019)

### Company Secretary

Aviva Company Secretarial Services Limited

### Dividend

On 11 April 2019 the Board approved a capital reduction of £51,400 thousand.
An interim dividend was paid during the year of £50,000 thousand (2018: £nil). The directors do not recommend a final dividend on the Company's ordinary shares for the year ended 31 December 2019 (2018: £nil).

### Going concern

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future to meet its obligations as they fall due. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### Future outlook

Likely future developments in the business of the Company are discussed in the strategic report.

### Financial instruments

The Company uses financial instruments to manage certain types of risk. Details of the objectives and management of these instruments are contained in note 21 on risk management.

### Employees

The Company has no employees. All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited ("AES"). Disclosures relating to employees are made in the annual report and financial statements of AES.

### Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, is unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is aware of that information.

# Directors' report (continued)

## For the year ended 31 December 2019

**Independent auditors**

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of section 487 of the Companies Act 2006.

**Qualifying indemnity provisions**

Aviva plc, the Company's ultimate parent, granted in 2004 an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985 (which continue to apply in relation to any provision made before 1 October 2007). This indemnity is a "qualifying third party indemnity" for the purposes of sections 309A to 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the Directors' Report by virtue of paragraph 15, Schedule 3 of the Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by s234 of the Companies Act 2006.

**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 Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make reasonable and prudent judgements and accounting estimates; 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.

On behalf of the Board on 7 April 2020

T J Latter
Director

# *Independent auditors' report to the members of Gresham Insurance Company Limited*

## Report on the audit of the financial statements

### Opinion

In our opinion, Gresham Insurance Company Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report and Financial Statements 2019 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; the income statement, the statement of cash flows, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the directors.

### Basis for opinion

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

*Independence*

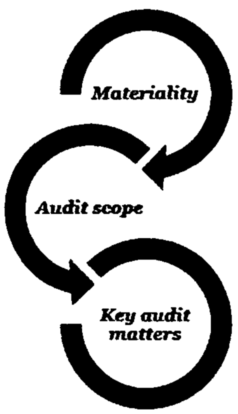
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 5 to the financial statements, we have provided no non-audit services to the company in the period from 1 January 2019 to 31 December 2019.

### Our audit approach

*Overview*




- Overall materiality: £1,512,364 (2018: £1,563,000), based on 1% of the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract.

- Using the output of our risk assessment, we scoped our audit based on materiality over each financial statement line item.

- Valuation of insurance claims liabilities
- Impact of Covid-19 subsequent events

*The scope of our audit*

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

### *Capability of the audit in detecting irregularities, including fraud*

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, 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, the Financial Conduct Authority's and the Prudential Regulation Authority's regulations applicable to insurance companies and UK tax legislation. 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 accounting estimates and judgemental areas of the financial statements as shown in our 'Key Audit Matters'. The engagement team shared this risk assessment with the other auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the engagement team and/or other auditors included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Making enquiries of the Group Investigations team who are responsible for independently reviewing fraudulent activity across the group, utilising activities including, but not limited to, whistle blowing hotlines and data analytics;
- Testing the operating effectiveness and reviewing the results of management's internal controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Company's whistleblowing helpline and fraud register and the results of management's investigation of such matters;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Directors;
- Reviewing data regarding policyholder complaints, the company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of insurance claims liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular journals that appear to be posted outside the normal patterns or parameters; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

### *Key audit matters*

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

| ***Key audit matter*** | ***How our audit addressed the key audit matter*** |
|---|---|
| Insurance claims liabilities are based on an estimated ultimate cost of all claims incurred but not settled at 31 December 2019, whether reported or not, together with the related claims handling costs. The valuation of these insurance claims liabilities is a significant accounting estimate in the financial statements and involves a significant degree of judgement. | In performing our audit over insurance claims liabilities we have used actuarial specialists as part of our team to conduct some of the testing. Our procedures included:<br>• Developing independent point estimates for classes considered to be higher risk, particularly focussing on the largest and most uncertain estimates, as at 30 September 2019 and performing roll-forward testing to 31 December 2019. For these classes, we compared our re-projected estimates to those booked by the directors to form part of our determination as to whether the overall estimated |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| Key areas of focus this year were:<br>• The underlying volatility attached to estimates for the larger classes of business such as Personal Household, where small changes in assumptions can lead to large changes in the level of the estimate held and the reported COR.<br>• The risk of inappropriate assumptions in determining current year estimates for the Company. Given that limited data is available, there is greater reliance on expert judgement in their estimation.<br><br>Refer to Accounting policy B (page 17) and H (page 19) and Notes 13 and 19 (pages 35 and 41) for disclosures of related accounting policies, judgements and estimates. | insurance claims liabilities represent a reasonable estimate.<br>• For other classes of business, we tested the methodology and assumptions used by the directors to derive their estimates and whether these produced reasonable estimates based on the Company's facts and circumstances.<br><br>In performing the above we have also considered and tested the following:<br>• The internal control environment in place over insurance claims liabilities including:<br>  o Governance control activities; and<br>  o Control activities supporting key data used in the estimation process.<br>• The underlying relevant data (including but not limited to claims case estimates and claims paid) to relevant evidence.<br>• Examined prior year run-off of previous estimates.<br>• The directors' assessment of estimation uncertainty.<br>• Considered whether any of our audit procedures gave rise to an indication of management bias.<br><br>Based on the work performed and evidence obtained, we were satisfied with the insurance claims liabilities booked. |
| *Impact of COVID-19 subsequent event*<br><br>As disclosed within the strategic report, 2020 has begun with the outbreak of a new strain of Coronavirus (COVID-19) in China resulting in a global pandemic causing significant economic disruption. The situation at 31 December 2019 was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. The subsequent spread of the virus and its identification as a new coronavirus does not provide additional evidence about the situation that existed at 31 December 2019, and it is therefore a non-adjusting event.<br><br>Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date. However, events after the reporting date can provide additional information about the uncertainties that existed at the reporting date.<br><br>Subsequent to the year-end management have performed procedures to assess the financial and operational impacts of COVID-19 which include:<br><br>Measures to limit the operational impact of being able to deliver key customer and reporting activities;<br>• Operation of a risk management framework to ensure sufficient capital surplus is maintained to meet liabilities, even under stress scenarios and having robust plans in place for certain management actions if the company falls outside its approved risk appetite;<br>• Frequent monitoring of the company's solvency coverage ratio through regular meetings of the Financial Crisis team; | We assessed management's approach to the impact of COVID-19 on the company and the financial statements by performing the following procedures:<br>• Evaluated management's stress and scenario testing and challenged management's key assumptions. As the Solvency Capital Requirement and Risk Margin are not subject to audit, we reviewed the controls and governance over the production of this information and considered its consistency with other available information and our understanding of the business.<br>• Assessed the mitigating actions management have put in place and further plans they have if they are required due to further deterioration of the wider UK and Global economy.<br>• Read correspondence with the PRA in relation to COVID-19.<br>• Read board papers on COVID-19 and attended risk committee meetings held in 2020.<br>• Assessed the disclosures made by management in the financial statements and checked consistency of the disclosures with our knowledge of the company based on our audit.<br>• Obtained and evaluated management's assessments of the potential impact on claims levels for individual classes of business and agreed to supporting information and analyses.<br>• Obtained and reviewed relevant reinsurance contracts (including Excess of Loss agreements) and reviewed correspondence with reinsurance providers. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| • Actively managing the company's capital and liquidity position including monitoring of asset credit quality, employing an active hedging strategy in relation to market and interest rate risks, and actively managing liquidity on a fund by fund basis; and<br>• Frequent communications with the PRA by management.<br>Management have concluded the company will continue to meet its capital requirements and operate through this pandemic and the company continues to be a going concern. However, as the situation is rapidly evolving it is not possible to quantify the potential financial impact of the outbreak on the company. | Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 in the financial statements to be 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.

We performed a full scope audit of the complete financial information of the entity in accordance with our materiality and risk assessment. In doing so, we also considered qualitative and quantitative factors across all financial statement line items in the financial statements.

*Materiality*

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

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

| | |
|---|---|
| ***Overall materiality*** | £1,512,364 (2018: £1,563,000). |
| ***How we determined it*** | 1% of the amount that would change the Combined Operating Ratio ('COR') by more than 1%, excluding the effect of the internal quota share contract. |
| ***Rationale for benchmark applied*** | We believe COR is a key profit related benchmark used by the directors and is central to Aviva's communications to the public on the performance of this business. |

We agreed with the directors that we would report to them misstatements identified during our audit above £73,618 (2018: £78,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

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

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

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

## 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 Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

*Strategic Report and Directors' report*

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

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

### 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 financial statements set out on page 8, 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.

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

*Use of this report*

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

## Other required reporting

### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

## Appointment

We were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2012 to 31 December 2019.

Matthew Nichols (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 April 2020

## Accounting policies

The Company is a private limited liability company incorporated and domiciled in the United Kingdom ("UK"). Its principal activity is the transaction of general insurance business in the UK.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### (A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU") and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value.

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 7.

In accordance with IFRS 4, Insurance Contracts, the Company has applied existing accounting practices for insurance contracts, modified as appropriate to comply with the IFRS framework and applicable standards. Further details are given in accounting policy D below.

The financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£000s).

**New standards, interpretations and amendments to published standards that have been adopted by the Company**

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2019:

**(i) IFRS 16**

In January 2016, the IASB published IFRS 16 Leases. This standard replaces IAS 17 Leases and applies to annual reporting periods begining on or after 1 January 2019. The standard has been endorsed by the EU.

The standard has introduced a definition of a lease with a single lessee accounting model, eliminating the classification of either operating or finance leases. Lessees are required to recognise lease assets and liabilities on the statement of financial position for all leases, with the exception of short-term and low-value leases. Lessor accounting remains similar to current practice set out in IAS 17. The adoption of the standard did not affect the assets, liabilities or retained earnings at 1 January 2019. The company currently has no leases.

The following amendments to existing standards and IFRIC interpretations have been issued and endorsed by the EU, are effective from 1 January 2019 or earlier, and do not have a significant impact on the Company's financial statements.

**(ii) IFRIC 23, Uncertainty over Income Tax Treatments**

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The standard is effective for annual reporting periods beginning on or after 1 January 2019.

**(iii) Annual Improvements to IFRS Standards 2015-2017 Cycle**

These improvements consist of amendments to three IFRSs including IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes and IAS 23 Borrowing Costs. The amendments are effective for annual reporting beginning on or after 1 January 2019.

## Accounting policies (continued)

**(A) Basis of preparation (continued)**

**Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company**

The following new standards, and amendments to existing standards have been issued, are not yet effective and have not been adopted early by the Company:

**(i) IFRS 17, Insurance Contracts**

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows); a Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The impact of the adoption of IFRS 17 significantly impacts the measurement and presentation of the contracts in scope of the standard. Following the publication of an Exposure Draft of proposed amendments to IFRS 17 in June 2019, it is expected that the standard will apply to annual reporting periods beginning on or after 1 January 2023 at the earliest. The final standard is due to be published mid-2020 and remains subject to endorsement by the EU and the UK. We note the UK's endorsement procedure, following departure from the EU, remains under development through the transition period to the end of December 2020

**(ii) IFRS 9, Financial Instruments**

In September 2018, the IASB published amendments to IFRS 4 Insurance Contracts that address the accounting consequences of the application of IFRS 9 to insurers prior to implementing the new accounting standard for insurance contracts, IFRS 17, which replaces IFRS 4. The amendments introduce two options for insurers: the deferral approach and the overlay approach. The deferral approach provides an entity, if eligible, with a temporary exemption from applying IFRS 9. The overlay approach allows an entity to remove from profit or loss the effects of some of the accounting mismatches that may occur before the new insurance contracts standard is applied. In March 2020 the IASB recommended an amendment to IFRS 17 to defer the effective date to 1 January 2023. At the same time, they recommended an extension to the fixed expiry date for the temporary exemption for insurers from applying IFRS 9 until 1 January 2023. These recommendations are subject to IASB's due process. Final amendments are expected to be published in mid-2020.

The carrying amount of the Company's liabilities connected with insurance are significant when compared to its total liabilities and exceed 82% of the carrying amount of the Company's total liabilities. At 31 December 2019 the Company's total liabilities were £247,311 thousand and liabilities connected with insurance in the statement of financial position at this date primarily included insurance liabilities within the scope of IFRS 4 (£100,539 thousand), payables and other financial liabilities which arise in the course of writing insurance business (£90,211 thousand less bank overdrafts £692 thousand and amounts due to other group companies £13,073 thousand), and other liabilities which arise in the course of writing insurance business (reinsurers share of deferred acquisition costs £21,367 thousand plus other insurance related amounts £3,960 thousand). As such, the Company is eligible to apply the deferral approach, as defined by the amendments to IFRS 4. The Company has opted to apply this deferral from 2018. Liabilities connected with insurance in the statement of financial position primarily include liabilities arising from contracts within the scope of IFRS 4, and tax liabilities and payables arising in the course of writing insurance business.

The impact of the adoption of IFRS 9 on the Company's consolidated financial statements will be largely dependent on the interaction with the new insurance contracts standard, IFRS 17. As such, it is not possible to fully assess the effect of the adoption of IFRS 9. IFRS 9 has been endorsed by the EU.

## Accounting policies (continued)

**(A) Basis of preparation (continued)**

The following new standards, amendments to existing standards have been issued, are not yet effective and are not expected to have a significant impact on the Company's financial statements:

**(iii) Amendments to References to the Conceptual Framework in IFRS Standards**

Published by the IASB in March 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

**(iv) Interest Rate Benchmark Reform**

Published by the IASB in October 2019. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

**(v) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current**

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have not yet been endorsed by the EU.

**(B) Critical accounting policies and the use of estimates**

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements.

**Critical accounting policies**

The following accounting policies are those that have the most significant impact on the amounts recognised in the financial statements, including those judgements involving estimation.

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The table below sets out those items the Company considers particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and notes disclosures.

| Item | Critical accounting assumptions | Accounting policy | Notes |
|---|---|---|---|
| Measurement of insurance contract liabilities | Principal assumptions used in the calculation of general insurance liabilities include the discount rates used in determining our latent claim and structured settlements liabilities, and the assumption that past claims experience can be used as a basis to project future claims (estimated using a range of standard actuarial claims projection techniques). | H | 13 |
| Impairment of financial investments | Factors considered when assessing whether there is objective evidence of impairment include industry risk factors, financial condition, credit rating and whether there has been a significant or prolonged decline in fair value. | K | 9 |
| Deferred acquisition costs | Management use estimation techniques to determine the amortisation profile and impairment test by reference to the present value of estimated future profits. | N | 12 |
| Contingent liabilities | When evaluating whether a contingent liability should be recognised the Company assesses the likelihood of a constructive or legal obligation to settle a past event and whether the amount can be reliably estimated. The amount of provision is determined based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date. | P | 19 |

## Accounting policies (continued)

### (C) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and, in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The fair value of a non-financial asset is determined based on its highest and best use from a market participant's perspective. When using this approach, the Company takes into account the asset's use that is physically possible, legally permissible and financially feasible.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is recognised as a gain or loss in the income statement. When unobservable market data has a significant impact on the valuation of financial instruments, the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement, but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matures.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

### (D) Product classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant. Any contracts not considered to be insurance contracts under IFRS are classified as investment contracts.

As noted in accounting policy A, insurance contracts and participating investment contracts in general continue to be measured and accounted for under existing accounting practices at the later of the date of transition to IFRS ('grandfathered') or the date of the acquisition of the entity, in accordance with IFRS 4. IFRS accounting for insurance contracts in UK companies was grandfathered at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice issued by the Association of British Insurers (subsequently withdrawn by the ABI in 2015).

The accounting policies or accounting estimates have been changed, as permitted by IFRS 4 and IAS 8 respectively, to remeasure designated insurance liabilities to reflect current market interest rates and changes to regulatory capital requirements. When accounting policies or accounting estimates have been changed, and adjustments to the measurement basis have occurred, the financial statements of that year will have disclosed the impacts accordingly.

### (E) Premiums earned

Premiums written reflect business incepted during the year, and exclude any sales-based taxes or duties or levies. Unearned premiums are those proportions of the premiums written in a year that relate to periods of risk after the statement of financial position date. Premiums are earned over the life of the contract in line with the incidence of risk. Unearned premiums are calculated on either a daily or monthly pro rata basis. Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience, and are included in premiums written.

# Accounting policies (continued)

### (F) Other operating income

Other operating income consists primarily of commission revenue for successful customer introductions, which is recognised as the services are provided.

### (G) Net investment income

Investment income consists of interest for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on investments held at fair value through profit or loss (as defined in policy K). Interest income is recognised as it accrues, taking into account the effective yield on the investment.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its original cost or amortised cost as appropriate.

Unrealised gains and losses, arising on investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

### (H) Insurance liabilities

*Claims*

Insurance claims incurred include all losses occurring during the year, whether reported or not, related handling costs, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

*Outstanding claims provisions*

Insurance outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the statement of financial position date, whether reported or not, together with related claims handling expenses. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claims provisions are based on the best estimate of the cost of future claims payments plus an explicit allowance for risk and uncertainty. Any estimate represents a determination within a range of possible outcomes. Further details of estimation techniques and assumptions are given in note 13(c).

Provisions for claims that are settled on an annuity type basis (such as structured settlements) are discounted, in the relevant currency at the reporting date, having regard to the expected settlement dates of the claims and the nature of the liabilities. The discount rate is set at the start of the accounting period with any change in rates between the start and end of the accounting period being reflected as a change in insurance liabilities. The range of discount rates used is described in note 13.

Outstanding claims provisions are valued net of an allowance for expected future recoveries. Recoveries include non-insurance assets that have been acquired by exercising rights to salvage and subrogation under the terms of insurance contracts. Where material, anticipated recoveries are disclosed under receivables and not deducted from outstanding claims provisions.

*Provision for unearned premiums*

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of risk.

# Accounting policies (continued)

**(H) Insurance liabilities (continued)**

*Liability adequacy*

At each reporting date, the Company reviews its unexpired risks and carries out a liability adequacy test for any overall excess of expected claims and deferred acquisition costs over unearned premiums, using the current estimates of future cash flows under its contracts, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions. If these estimates show that the carrying amount of its insurance liabilities (less related deferred acquisition costs) is insufficient in light of the estimated future cash flows, the Company recognises the deficiency in the income statement by setting up a provision in the statement of financial position.

*Other assessments and levies*

The Company is subject to various periodic insurance-related assessments or guarantee fund levies. Related provisions are established where there is a present obligation (legal or constructive) as a result of a past event. Such amounts are not included within insurance liabilities but are included under "other liabilities" in the statement of financial position.

**(I) Reinsurance**

The Company cedes reinsurance in the normal course of business. The cost of reinsurance is earned over the risk profile of the underlying reinsured policies, using assumptions consistent with those used to account for these policies. Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

Where general insurance liabilities are discounted, any corresponding reinsurance assets are also discounted using consistent assumptions.

Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying contract liabilities, outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

If a reinsurance asset is impaired, the Company reduces the carrying amount accordingly and recognises that impairment loss in the income statement. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Company may not receive all amounts due to it under the terms of the contract, and the event has an impact that can be reliably measured on the amounts that the Company will receive from the reinsurer.

**(J) Derecognition and offset of financial assets and financial 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:

(i) the rights to receive cash flows from the asset have expired;

(ii) 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

(iii) the Company has transferred its rights to receive cash flows from the asset and either:

- (a) has transferred substantially all the risks and rewards of the asset; or
- (b) 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 currently enforceable legal 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.

## Accounting policies (continued)

### (K) Financial investments

The Company classifies its investments as either financial assets at fair value through profit or loss ("FVTPL") or financial assets available for sale ("AFS"). The classification depends on the purpose for which the investments were acquired, and is determined at initial recognition. The FVTPL category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as "other than trading" upon initial recognition. Purchases and sales of investments are recognised on the trade date, which is the date that the Company commits to purchase or sell the assets, at their fair values.

The other than trading category is used as, in most cases, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis.

Debt securities are initially recorded at their fair value, which is taken to be amortised cost, with amortisation credited or charged to the income statement. Investments classified as other than trading are subsequently carried at fair value. Changes in the fair value of other than trading investments are included in the income statement in the period in which they arise. Equity securities, for which fair values cannot be measured reliably, are recognised at cost less impairment.

### (L) Receivables

Receivables, including inter-company loans, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment.

### (M) Payables and other financial liabilities

Payables, including inter-company amounts payable, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method.

### (N) Deferred acquisition costs

Costs relating to the acquisition of new business for insurance contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recoverable out of future margins in revenues on these contracts. Where such business is reinsured, an appropriate proportion of the deferred acquisition costs is attributed to the reinsurer, and treated as a separate liability.

Deferred acquisition costs are amortised over the period in which the related revenues are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

## Accounting policies (continued)

**(O) Statement of Cash Flows**

*Cash and cash equivalents*
Cash and cash equivalents consist of cash at banks and in hand, deposits held at call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

For the purposes of the statement of cash flows, cash and cash equivalents also include bank overdrafts, which are included in payables and other financial liabilities on the statement of financial position.

*Operating cash flows*
Purchases and sales of loans and financial investments, and related investment income, are included within operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

**(P) Contingent liabilities**

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reliably estimated.

**(Q) Income taxes**

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

**(R) Share capital**

*Equity instruments*
An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
(ii) the instrument is a non-derivative that contains no contractual obligation to deliver a variable number of shares or is a derivative that will be settled only by the Company exchanging a fixed amount of cash or other assets for a fixed number of the Group's own equity instruments.

**Dividends**

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Income statement

### For the year ended 31 December 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | £000s | £000s |
| **Income** | 1 | | |
| Gross written premiums | | 128,088 | 133,306 |
| Premiums ceded to reinsurers | | (121,951) | (126,563) |
| Premiums written and earned, net of reinsurance | | 6,137 | 6,743 |
| Other operating income | | 4,212 | 4,661 |
| | | 10,349 | 11,404 |
| **Expenses** | 2 | | |
| Change in claims provisions, net of reinsurance | | (60) | 187 |
| Other operating expenses, net of reinsurance | | (5,622) | (5,968) |
| | | (5,682) | (5,781) |
| **Profit before tax** | | 4,667 | 5,623 |
| Tax expense | 6 | (887) | (1,068) |
| **Profit for the year** | | 3,780 | 4,555 |

The Company has no recognised income and expenses other than that included in the results above and therefore a separate statement of comprehensive income has not been presented.

The accounting policies on pages 15 to 22 and notes on pages 27 to 53 are an integral part of these financial statements.

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Statement of changes in equity

### For the year ended 31 December 2019

| | Note | Ordinary share capital £000s | Retained earnings £000s | Total equity £000s |
|---|---|---|---|---|
| **Balance at 1 January 2018** | | 61,400 | 4,602 | 66,002 |
| Profit and total comprehensive income for the year | | - | 4,555 | 4,555 |
| **Balance at 31 December 2018** | | 61,400 | 9,157 | 70,557 |
| Profit and total comprehensive income for the year | | - | 3,780 | 3,780 |
| Capital reduction | 17 | (51,400) | 51,400 | - |
| Dividends paid | 7 | - | (50,000) | (50,000) |
| **Balance at 31 December 2019** | | 10,000 | 14,337 | 24,337 |

The accounting policies on pages 15 to 22 and notes on pages 27 to 53 are an integral part of these financial statements.

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Statement of financial position

### As at 31 December 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | **£000s** | **£000s** |
| Financial investments | 9 | 50,597 | 50,620 |
| Reinsurance assets | 10 | 99,903 | 104,746 |
| Receivables | 11 | 70,182 | 72,076 |
| Deferred acquisition costs | 12 | 21,367 | 21,886 |
| Other prepayments and accrued income | | 993 | 1,000 |
| Cash and cash equivalents | 20(c) | 28,606 | 65,609 |
| **Total assets** | | 271,648 | 315,937 |
| **EQUITY** | | | |
| Ordinary share capital | 17 | 10,000 | 61,400 |
| Retained earnings | 18 | 14,337 | 9,157 |
| **Total equity** | | 24,337 | 70,557 |
| **LIABILITIES** | | | |
| Insurance liabilities | 13 | 100,539 | 105,321 |
| Current tax liabilities | 14 | 887 | 1,068 |
| Payables and other financial liabilities | 15 | 90,211 | 81,504 |
| Other liabilities | 16 | 55,674 | 57,487 |
| **Total liabilities** | | 247,311 | 245,380 |
| **Total equity and liabilities** | | 271,648 | 315,937 |

The accounting policies on pages 15 to 22 and notes on pages 27 to 53 are an integral part of these financial statements.

The financial statements on pages 15 to 53 were approved by the Board of Directors on 7 April 2020 and signed on its behalf by

T J Latter
Director

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Statement of cash flows

**For the year ended 31 December 2019**

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | **£000s** | **£000s** |
| **Cash flows from operating activities** | | | |
| Net cash inflow from continuing operations | 20(a) | 12,948 | 4,843 |
| *Net cash generated by operating activities* | | 12,948 | 4,843 |
| **Cash flows from financing activities** | | | |
| Dividend paid | 20(b) | (50,000) | - |
| *Net cash used in financing activities* | | (50,000) | - |
| **Net (decrease) / increase in cash and cash equivalents** | | (37,052) | 4,843 |
| Cash and cash equivalents at 1 January | | 64,966 | 60,123 |
| **Cash and cash equivalents at 31 December** | 20(c) | 27,914 | 64,966 |

The accounting policies on pages 15 to 22 and notes on pages 27 to 53 are an integral part of these financial statements.

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Notes to the financial statements

### 1. Details of income

| | 2019 £000s | 2018 £000s |
|---|---|---|
| **Premiums earned** | | |
| Gross written premiums | 128,088 | 133,306 |
| Less: premiums ceded to reinsurers | (121,951) | (126,563) |
| Gross change in provision for unearned premiums | 2,536 | 8,459 |
| Reinsurers' share of change in provision for unearned premiums | (2,536) | (8,459) |
| Net change in provision for unearned premiums | - | - |
| Net earned premiums | 6,137 | 6,743 |
| Other operating income | 4,212 | 4,661 |
| **Total income** | 10,349 | 11,404 |

### 2. Details of expenses

| | 2019 £000s | 2018 £000s |
|---|---|---|
| **Claims paid, net of reinsurance** | | |
| Claims paid to policyholders | 57,044 | 63,392 |
| Less: Claims recoveries from reinsurers | (57,044) | (63,392) |
| | - | - |
| **Change in claims provisions, net of reinsurance** | | |
| Change in gross claims provisions | (2,247) | 2,691 |
| Change in reinsurance asset for claims provisions | 2,307 | (2,878) |
| | 60 | (187) |
| **Other operating expenses** | | |
| Commission and acquisition costs | 49,850 | 48,653 |
| Other operating expenses | 13,959 | 13,368 |
| Less: reinsurers' share of expenses | (58,187) | (56,053) |
| Net expenses | 5,622 | 5,968 |
| **Total expenses, net of reinsurance** | 5,682 | 5,781 |

The Company's expenses (with the exception of levy expenses) are subject to a 100% quota share reinsurance agreement.

### 3. Employee information

All staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, and a recharge is made to the Company. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited.

### 4. Directors' remuneration

R Barker, R I Townend, M A Field, G J Hemming and T J Latter were remunerated during the year for their roles as employees across the Group. They were not remunerated directly for their services as directors of this Company and no cost is borne by the Company for these services.

P J Sowter and D W Kelly were remunerated by a company outside of the Group during their term. No recharge was made to the Company for their services.

During the year, none of the directors exercised share options (2018: none) and 4 of the directors were granted shares under long term incentive schemes (2018: 4) in relation to shares of the Company's ultimate parent company, Aviva plc.

### 5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP, is shown below.

| | 2019<br>£ | 2018<br>£ |
|---|---|---|
| Fees payable for the audit of the Company's financial statements | 43,813 | 42,128 |
| Fees payable for audit-related assurance services | 5,595 | 6,160 |
| | 49,408 | 48,288 |

Fees payable for audit-related assurance services are in relation to the audit of Employers Liability Register regulatory returns.

Audit fees are paid by Aviva Central Services UK Limited, a fellow Group subsidiary, and recharged as appropriate to the Company and fellow Group companies.

# Notes to the financial statements (continued)

## 6. Tax expense

### (a) Tax charged to the income statement

(i) The total tax charge comprises:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Current tax for this year | 887 | 1,068 |
| Total tax charged to the income statement | 887 | 1,068 |

(ii) There were no unrecognised tax losses and no temporary differences of previous years used to reduce the current tax expense in either 2019 or 2018.

### (b) Tax reconciliation

The tax on the Company's profit before tax is the same as the theoretical amount that would arise using the tax rate in the United Kingdom as follows:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Profit for the year before tax | 4,667 | 5,623 |
| Tax calculated at standard UK corporation tax rate of 19% (2018:19%) | 887 | 1,068 |
| Total tax charged to the income statement | 887 | 1,068 |

Finance Act 2016 introduced legislation reducing the UK corporation tax rate from 1 April 2020 to 17%. In the Budget of 11 March 2020 the UK Government reversed this rate reduction, announcing that the UK corporation tax rate will remain at 19% from 1 April 2020. As the Company has no deferred tax assets or liabilities, any future changes in tax rates have no impact on the net assets of the Company as at 31 December 2019.

## 7. Dividends

| | 2019 £000s | 2018 £000s |
|---|---|---|
| Ordinary dividends declared and charged to equity in the current year and prior year: | | |
| Interim 2019 | | |
| Ordinary shares - £5 per share paid 24 April 2019 | 50,000 | - |

## 8. Fair value

**(a) Basis for determining fair value hierarchy of financial instruments**
All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

**Level 1**
Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date.

**Level 2**
Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- quoted prices for similar assets and liabilities in active markets;
- quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit risks); and
- market-corroborated inputs

Where broker quotes are used and no information as to the observability of inputs is provided by the broker, the investments are classified as follows:

- where the broker price is validated by using internal models with market observable inputs and the values are similar, we classify the investment as Level 2; and
- in circumstances where internal models are not used to validate broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3.

**Level 3**
Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples are certain private equity investments and private placements.

All of the Company's assets and liabilities measured at fair value, are based on quoted market information or observable market data. The Company applies fair value hierarchy Level 1 to its assets as detailed in note 9.

**(b) Changes to valuation techniques**
No changes were made to the valuation techniques during the year compared to those described in the 2018 annual report and financial statements.

# Notes to the financial statements (continued)

## 8. Fair value

### (c) Comparison of the carrying amount and fair value

The fair value of financial investments being debt securities approximates to their carrying amount.

The fair value of cash and cash equivalents, receivables, payables and other financial liabilities approximates to their carrying amount.

As set out in accounting policy A, the Company has chosen to defer application of IFRS 9 due to its activities being predominantly connected with insurance. To facilitate comparison with entities applying IFRS 9 in full, the table below analyses the Company's financial instruments as at the reporting date between those which are considered to have contractual terms which are solely payments of principal and interest (SPPI) on the principal amount outstanding (excluding instruments held for trading or managed and evaluated on a fair value basis), and all other instruments not falling into this category. Instruments that do not meet the SPPI criteria include financial assets that meet the definition of held for trading, financial assets that are managed and evaluated on a fair value basis, and instruments with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

| | 2019 | 2019 | 2018 | 2018 |
|---|---|---|---|---|
| | SPPI - Fair value | Non-SPPI - Fair value | SPPI - Fair value | Non-SPPI - Fair value |
| | £000s | £000s | £000s | £000s |
| Debt securities | - | 50,597 | - | 50,620 |
| Receivables | 70,182 | - | 72,076 | - |
| Cash and cash equivalents | 6 | 28,600 | 9 | 65,600 |
| **Total** | 70,188 | 79,197 | 72,085 | 116,220 |

There has been a £1,897 thousand decrease (2018: £10,265 thousand decrease) in the fair value of SPPI instruments, and £37,023 thousand decrease (2018: £8,857 thousand decrease) in the fair value of non-SPPI instruments during the reporting period.

## Notes to the financial statements (continued)

### 9. Financial investments

**Financial investments comprise:**

**(a) Carrying amount and movements in assets**

| | Debt securities UK Government | |
|---|---|---|
| At fair value through profit or loss | **2019** | **2018** |
| | **£000s** | **£000s** |
| Balance as at 1 January | 50,620 | 64,377 |
| Total net (losses)/gains recognised in the income statement | (23) | 1,045 |
| Purchases | - | 49,876 |
| Disposals | - | (64,678) |
| Balance as at 31 December | 50,597 | 50,620 |

**(b) Cost, unrealised gains and losses, and fair value**

| | | | | **2019** |
|---|---|---|---|---|
| | **Cost/ amortised cost** | **Unrealised gains** | **Unrealised losses and impairments** | **Fair value** |
| | **£000s** | **£000s** | **£000s** | **£000s** |
| Debt securities | | | | |
| UK Government | 49,338 | 1,259 | - | 50,597 |
| Total financial investments | 49,338 | 1,259 | - | 50,597 |

| | | | | **2018** |
|---|---|---|---|---|
| | **Cost/ amortised cost** | **Unrealised gains** | **Unrealised losses and impairments** | **Fair value** |
| | **£000s** | **£000s** | **£000s** | **£000s** |
| Debt securities | | | | |
| UK Government | 49,778 | 842 | - | 50,620 |
| Debt securities | 49,778 | 842 | - | 50,620 |

**(c) Impairment of financial investments**

There were no impairments during the year ended 31 December 2019 (2018: £nil).

### 10. Reinsurance assets

**(a) Carrying amounts**

The following is a summary of the reinsurance assets and related gross insurance provisions as at 31 December:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Reinsurance assets | Gross insurance liabilities | Net | Reinsurance assets | Gross insurance liabilities | Net |
| | £000s | £000s | £000s | £000s | £000s | £000s |
| Outstanding claims provisions | 25,421 | 26,247 | (826) | 27,076 | 27,578 | (502) |
| Provisions for claims incurred but not reported | 10,308 | 10,118 | 190 | 10,961 | 11,034 | (73) |
| | 35,729 | 36,365 | (636) | 38,037 | 38,612 | (575) |
| Provision for unearned premiums | 64,174 | 64,174 | - | 66,709 | 66,709 | - |
| **Total** | 99,903 | 100,539 | (636) | 104,746 | 105,321 | (575) |

Of the above total, £25,567 thousand (2018: £28,414 thousand) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date.

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by £2,955 thousand (2018: £5,048 thousand) as a result of the discounting of structured settlements.

**(b) Assumptions**

The assumptions used for reinsurance contracts follow those used for insurance contracts, shown in note 13(c).

Reinsurance assets are valued net of any provisions for their recoverability.

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

# Notes to the financial statements (continued)

## 10. Reinsurance assets (continued)

**(c) Movements**

| (i) Reinsurers' share of claims provisions | 2019 | 2018 |
|---|---|---|
| | **£000s** | **£000s** |
| **Carrying amount at 1 January** | 38,037 | 35,159 |
| Reinsurers' share of claims losses and expenses incurred in current year | 57,204 | 68,323 |
| Reinsurers' share of claims losses and expenses incurred in prior years | (2,467) | (2,053) |
| Reinsurers' share of incurred claims losses and expenses | 54,737 | 66,270 |
| Less: | | |
| Reinsurance recoveries received on claims incurred in current year | (36,658) | (45,797) |
| Reinsurance recoveries received on claims incurred in prior years | (20,386) | (17,595) |
| Reinsurance recoveries received in the year | (57,044) | (63,392) |
| Change in reinsurance asset | (2,307) | 2,878 |
| **Carrying amount at 31 December** | 35,729 | 38,037 |

| (ii) Reinsurers' share of the provision for unearned premiums | 2019 | 2018 |
|---|---|---|
| | **£000s** | **£000s** |
| **Carrying amount at 1 January** | 66,709 | 75,169 |
| Premiums ceded to reinsurers in the year | 121,951 | 126,563 |
| Less: | | |
| Reinsurers' share of premiums earned during the year | (119,415) | (118,104) |
| Change in reinsurance asset | (2,536) | (8,459) |
| **Carrying amount at 31 December** | 64,174 | 66,709 |

## 11. Receivables

| | 2019 | 2018 |
|---|---|---|
| | **£000s** | **£000s** |
| Amounts due from contract holders | 68,016 | 69,977 |
| Amounts due from intermediaries | 759 | 710 |
| Amounts due from reinsurers | 1,407 | 1,389 |
| Total | 70,182 | 72,076 |
| Expected to be recovered in less than one year | 70,182 | 72,076 |

### 12. Deferred acquisition costs

The movements in deferred acquisition costs, in respect of insurance contracts, during the year are:

| | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| **Carrying amount at 1 January** | 21,886 | 22,152 |
| Acquisition costs written during the year, gross of reinsurance | 49,417 | 48,466 |
| Amortisation | (49,936) | (48,732) |
| **Carrying amount at 31 December** | 21,367 | 21,886 |

Deferred acquisition costs on general insurance business are generally recoverable within one year.

### 13. Insurance liabilities

**(a) Carrying amount**

| Insurance liabilities (gross of reinsurance) at 31 December comprise: | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| Outstanding claims provisions | 26,247 | 27,578 |
| Provisions for claims incurred but not reported | 10,118 | 11,034 |
| **Insurance claims liabilities** | 36,365 | 38,612 |
| Provision for unearned premiums | 64,174 | 66,709 |
| Total | 100,539 | 105,321 |

**(b) General insurance liabilities**

*(i) Provisions for outstanding claims*

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves are based on information currently available; however, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Provisions for outstanding claims are established to cover the outstanding expected ultimate liability for losses and loss adjustment expenses ("LAE") in respect of all claims that have already occurred. The provisions established cover reported claims and associated LAE, as well as claims incurred but not yet reported and associated LAE.

When calculating reserves, the Company takes into account estimated future recoveries from salvage and subrogation, and a separate asset is recorded for expected future recoveries from reinsurers after considering their collectability. The future recoveries from salvage and subrogation offset against reserves is £779 thousand (2018: £914 thousand).

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires booked claims provisions to be calculated as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty.

*(ii) Discounting*

Outstanding claims provisions are based on undiscounted estimates of future claims payments, except for the following classes of business for which discounted provisions are held:

| **Structured settlements** | 2019 | 2018 |
|---|---|---|
| Rate | 1.0% - 2.5% | 1.0% - 3.0% |
| Mean term of liabilities | 34 years | 36 years |

## 13. Insurance liabilities (continued)

**(b) General insurance liabilities (continued)**

Bodily injury claims to be settled by a structured settlement by the Company, have been awarded by the Courts and these are reserved for on a discounted basis. The period of time which will elapse before the liability is settled has been estimated by modelling the settlement pattern of the underlying claim. The gross outstanding claims provisions for structured settlements before discounting are £10,227 thousand (2018: £10,649 thousand). Loss reserves are only established for losses that have already occurred.

**(c) Assumptions**

Outstanding claims provisions are estimated based on known facts at the date of estimation. Case estimates are set by skilled claims technicians and established case setting procedures. Claims technicians apply their experience and knowledge to the circumstances of individual claims. They take into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for estimate authorisation.

No adjustments are made to the claims technicians' case estimates included in booked claim provisions, except for rare occasions when the estimated ultimate cost of individual large or unusual claims may be adjusted, subject to internal Reserve and Projections Committee approval, to allow for uncertainty regarding, for example, the outcome of a court case.

The ultimate cost of outstanding claims is then estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claims numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident period, although underwriting or notification period is also used where this is considered appropriate.

Claims development is separately analysed for each geographic area, as well as each line of business. Certain lines of business are also further analysed by claims type or type of coverage. In addition, large claims are usually separately assessed, either by being reserved at the face value of loss adjuster estimates, or separately projected in order to reflect their future development.

The assumptions used in most non-life actuarial projection techniques, including future rates of claims inflation or loss ratio assumptions, are implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in the future, for example, to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures in order to arrive at the estimated ultimate cost of claims that represents the most likely outcome, from the range of possible outcomes, taking account of all the uncertainties involved. The range of possible outcomes does not, however, result in the quantification of a reserve range. The following explicit assumptions are made which could materially impact the level of booked net reserves:

***Interest rates used to discount structured settlements***

The discount rates used in determining structured settlements are based on the relevant swap curve in the relevant currency at the reporting date, having regard to the duration of the expected settlement of claims. The range of discount rates used is shown in section b (ii) above and depends on the duration of the claim and the reporting date. At 31 December 2019, it is estimated that a 1% fall in the discount rates used would increase net claim reserves by approximately £268 thousand (2018: £219 thousand), excluding the offsetting effect on asset values as assets are not hypothecated across classes of business.The impact has increased over the year due a reduction in the overall level of interest rates, making the discounted position relatively more sensitive to a 1% reduction in the assumed rate. The impact of a 1% fall in interest rates across all assets and liabilities is shown in note 21.

# Gresham Insurance Company Limited

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# Notes to the financial statements (continued)

## 13. Insurance liabilities (continued)

**(c) Assumptions (continued)**

***Allowance for risk and uncertainty***

The uncertainties involved in estimating loss reserves are allowed for in the reserving process and by the estimation of explicit reserve uncertainty distributions. The reserve estimation basis for non-life claims requires all non-life businesses to calculate booked claim provisions as the best estimate of the cost of future claim payments, plus an explicit allowance for risk and uncertainty. The allowance for risk and uncertainty is calculated in accordance with the requirements of the Company reserving policy, taking into account the risks and uncertainties specific to each line of business and type of claim in that territory. The requirements of the Company reserving policy also seek to ensure that the allowance for risk and uncertainty is set consistently across reporting periods.

Changes to claims development patterns can materially impact the results of actuarial projection techniques. However, allowance for the inherent uncertainty in the assumptions underlying reserving projections is automatically allowed for in the explicit allowance for risk and uncertainty included when setting booked reserves.

**(d) Movements**

The following changes have occurred in the claims outstanding provisions during the year:

| | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| **Carrying amount at 1 January** | 38,612 | 35,921 |
| Claims losses and expenses incurred related to the current year | 57,204 | 68,323 |
| Claims losses and expenses incurred related to prior years | (2,407) | (2,240) |
| Incurred claims losses and expenses | 54,797 | 66,083 |
| Payments made on claims incurred in the current year | (36,658) | (45,797) |
| Payments made on claims incurred in prior years | (20,386) | (17,595) |
| Claims payments made in the year | (57,044) | (63,392) |
| Change in gross claims | (2,247) | 2,691 |
| **Carrying amount at 31 December** | 36,365 | 38,612 |

**(e) Loss development tables**

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the accident years 2010 to 2019. The upper half of each table shows the cumulative amounts paid during successive years relating to each accident year. For example, with respect to the accident year 2010, by the end of 2019 £157,381 thousand gross had actually been paid in settlement of claims. In addition, as reflected in the lower section of the table, the original estimated ultimate cost of claims of £152,530 thousand was re-estimated to be £157,607 thousand at 31 December 2019. The original estimates will also be increased or decreased as more information becomes known about the individual claims and overall claims frequency and severity.

The Company aims to maintain strong reserves in respect of its general insurance business in order to protect against adverse future claims experience and development. The Company establishes reserves in respect of the current accident year (2019), where the development of claims is less mature, that allow for the greater uncertainty attaching to the ultimate cost of current accident claims. As claims develop and the ultimate cost of claims becomes more certain, the absence of adverse claims experience will result in a release of reserves from earlier accident years, as shown in the loss development tables and movements table above. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

# Gresham Insurance Company Limited

Registered in England and Wales: No. 00110410

## Notes to the financial statements (continued)

## 13. Insurance liabilities (continued)

**(e) Loss development tables (continued)**

| Accident Year | Prior years | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| **Gross cumulative claims payments** | | | | | | | | | | | | |
| At end of accident year | | (81,242) | (72,269) | (75,625) | (58,549) | (59,208) | (43,849) | (42,517) | (39,550) | (45,797) | (36,658) | |
| One year later | | (144,826) | (97,937) | (105,028) | (90,344) | (82,287) | (62,157) | (59,041) | (53,812) | (63,669) | | |
| Two years later | | (152,109) | (100,828) | (108,856) | (94,430) | (84,447) | (64,618) | (60,465) | (55,040) | | | |
| Three years later | | (154,096) | (102,433) | (111,019) | (95,707) | (85,994) | (64,899) | (60,921) | | | | |
| Four years later | | (155,557) | (102,930) | (111,785) | (96,076) | (86,591) | (65,153) | | | | | |
| Five years later | | (156,770) | (103,650) | (112,261) | (96,482) | (86,491) | | | | | | |
| Six years later | | (157,049) | (104,124) | (112,393) | (96,736) | | | | | | | |
| Seven years later | | (157,204) | (104,258) | (112,455) | | | | | | | | |
| Eight years later | | (157,257) | (104,386) | | | | | | | | | |
| Nine years later | | (157,381) | | | | | | | | | | |
| **Estimate of gross ultimate claims** | | | | | | | | | | | | |
| At end of accident year | | 152,530 | 107,448 | 127,877 | 100,169 | 88,472 | 72,953 | 63,099 | 59,521 | 68,323 | 57,204 | |
| One year later | | 151,904 | 102,437 | 117,421 | 95,415 | 87,098 | 65,779 | 62,912 | 56,936 | 67,613 | | |
| Two years later | | 155,119 | 101,863 | 116,432 | 96,541 | 86,770 | 65,800 | 62,345 | 56,301 | | | |
| Three years later | | 155,769 | 102,709 | 113,990 | 96,532 | 86,991 | 65,768 | 62,109 | | | | |
| Four years later | | 156,003 | 104,442 | 113,205 | 96,906 | 86,919 | 66,039 | | | | | |
| Five years later | | 157,086 | 104,646 | 112,785 | 96,887 | 86,468 | | | | | | |
| Six years later | | 157,401 | 104,446 | 112,696 | 96,973 | | | | | | | |
| Seven years later | | 157,298 | 104,450 | 112,718 | | | | | | | | |
| Eight years later | | 157,494 | 104,580 | | | | | | | | | |
| Nine years later | | 157,607 | | | | | | | | | | |
| **Estimate of ultimate claims** | | 157,607 | 104,580 | 112,718 | 96,973 | 86,468 | 66,039 | 62,109 | 56,301 | 67,613 | 57,204 | |
| **Cumulative payments** | | (157,381) | (104,386) | (112,455) | (96,736) | (86,491) | (65,153) | (60,921) | (55,040) | (63,669) | (36,658) | |
| **Undiscounted gross outstanding claims provisions** | 11,442 | 226 | 194 | 263 | 237 | (23) | 886 | 1,188 | 1,261 | 3,944 | 20,546 | 40,164 |
| **Effect of discounting** | (3,799) | - | - | - | - | - | - | - | - | - | - | (3,799) |
| **Discounted gross outstanding claims provisions recognised in the statement of financial position** | 7,643 | 226 | 194 | 263 | 237 | (23) | 886 | 1,188 | 1,261 | 3,944 | 20,546 | 36,365 |

# Notes to the financial statements (continued)

## 13. Insurance liabilities (continued)

**(e) Loss development tables (continued)**

| | Claims net of reinsurance 2009 and prior years £000s |
|---|---|
| Undiscounted net outstanding claims provisions | 1,480 |
| Effect of discounting | (844) |
| Discounted net outstanding claims provisions recognised in the statement of financial position | 636 |

**(f) Provision for unearned premiums**

The following changes have occurred in the provision for unearned premiums during the year:

| | 2019 £000s | 2018 £000s |
|---|---|---|
| **Carrying amount at 1 January** | 66,709 | 75,169 |
| Premiums written during the year | 128,088 | 133,306 |
| Less: Premiums earned during the year | (130,624) | (141,765) |
| Changes in provisions for unearned premiums recognised in income | (2,536) | (8,459) |
| **Carrying amount at 31 December** | 64,174 | 66,709 |

## 14. Tax liabilities

**(a) Current tax**

Current tax liabilities payable in more than one year are £887 thousand (2018: £1,068 thousand).

**(b) Deferred taxes**

The Company has no provided or unprovided deferred tax assets or liabilities at the year end (2018: £nil).

# Notes to the financial statements (continued)

## 15. Payables and other financial liabilities

| | 2019 | 2018 |
|---|---|---|
| | **£000s** | **£000s** |
| Payables arising out of direct insurance and assumed reinsurance | 6,624 | 3,290 |
| Reinsurance creditors | | |
| - Amount due to other Group companies (note 23(a)(i)) | 69,685 | 74,826 |
| - Other | 137 | 184 |
| Bank overdrafts (note 20 (c)) | 692 | 643 |
| Amounts due to other Group companies (note 23(a)(iii)) | 13,073 | 2,561 |
| Total | 90,211 | 81,504 |
| Expected to be settled within one year | 90,211 | 81,504 |

All payables and other financial liabilities are carried at amortised cost, which approximates to fair value.

## 16. Other liabilities

| | 2019 | 2018 |
|---|---|---|
| | **£000s** | **£000s** |
| Reinsurers' share of deferred acquisition costs (note 23(a)(i)) | 21,367 | 21,886 |
| Accruals and deferred income | 29,375 | 29,256 |
| Other liabilities | 4,932 | 6,345 |
| Total | 55,674 | 57,487 |
| Expected to be settled within one year | 55,674 | 57,487 |

## 17. Ordinary share capital

Details of the Company's ordinary share capital are as follows:

| | 2019 | 2018 |
|---|---|---|
| | **£000s** | **£000s** |
| **Allotted, called up and fully paid** | | |
| 10,000,000 (2018: 61,400,000) Ordinary shares of £1 each | 10,000 | 61,400 |

On 16 April 2019, it was resolved that the issued share capital be reduced from £61,400,000 to £10,000,000 by cancelling and extinguishing in full 51,400,000 ordinary shares of £1 each registered in the name of Aviva Insurance Limited.

## 18. Retained earnings

| | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| Balance at 1 January | 9,157 | 4,602 |
| Profit for the year | 3,780 | 4,555 |
| Capital reduction | 51,400 | - |
| Dividend paid | (50,000) | - |
| **Balance at 31 December** | 14,337 | 9,157 |

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to insurance companies imposed by the PRA. Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital requirements.

## 19. Contingent liabilities and other risk factors

**(a) Uncertainty over claims provisions**

Note 13(c) gives details of the estimation techniques used in determining the outstanding claims provisions. These approaches are designed to allow for a degree of prudence, to give a result within the normal range of outcomes. However, the actual cost of settling these liabilities may differ, for example because experience may be worse than that assumed, or future claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

**(b) Regulatory**

The Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) regulate and authorise the Company's UK business and in addition monitor the financial resources and organisation of the Company as a whole. The PRA and FCA have broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources. The Company's regulators outside the UK typically have similar powers, but in some cases they also operate a system of 'prior product approval'.

The directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that the regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current or potential customers. Regulatory action against the Company could result in adverse publicity for, or negative perceptions regarding, the Company, or could have a material adverse effect on the business of the Company, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

**(c) Other**

In the course of conducting insurance and investment business, the Company receives liability claims, and becomes involved in actual or threatened related litigation. In the opinion of the directors, adequate provisions have been established for such claims and no material loss will arise in this respect.

The Company pays contributions to levy schemes in several countries in which it operates. Given the economic environment, there is a heightened risk that the levy contributions will need to be increased to protect policyholders if an insurance company falls into financial difficulties. The directors continue to monitor the situation but are not aware of any need to increase provisions at the statement of financial position date.

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Notes to the financial statements (continued)

### 20. Statement of cash flows

| | 2019 | 2018 |
|---|---|---|
| | **£000s** | **£000s** |
| **(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:** | | |
| Profit before tax | 4,667 | 5,623 |
| Adjustments for: | | |
| Changes in working capital: | | |
| Decrease in reinsurance assets | 4,843 | 5,582 |
| Decrease in deferred acquisition costs | 519 | 266 |
| Decrease in receivables | 1,894 | 10,224 |
| Decrease in prepayments and accrued income | 7 | 1,704 |
| Decrease in insurance liabilities | (4,232) | (5,770) |
| Increase/(decrease) in payables and other financial liabilities | 7,590 | (33,242) |
| (Decrease)/increase in other liabilities | (2,363) | 6,700 |
| Revaluation of financial investments | 23 | (1,044) |
| Net purchases of operating assets: | | |
| Net sales of financial investments | - | 14,800 |
| Net cash inflow from operating activities | 12,948 | 4,843 |

Purchases and sales of financial investments are included in operating cash flows as the purchases are funded from cash flows associated with the origination of insurance contracts, net of payments of related claims.

Payables and other financial liabilities, excludes bank overdrafts and is stated after eliminating £1,068 thousand (2018: £788 thousand) of corporation tax settled or to be settled by group relief.

| | 2019 | 2018 |
|---|---|---|
| **(b) Financing activities** | **£000s** | **£000s** |
| Dividends paid | (50,000) | - |

| | 2019 | 2018 |
|---|---|---|
| **(c) Cash and cash equivalents in the statement of cash flows at 31 December comprise:** | **£000s** | **£000s** |
| Cash equivalents | 28,606 | 65,609 |
| Bank overdrafts (note 15) | (692) | (643) |
| | 27,914 | 64,966 |

## 21. Risk management

**Risk management framework**

The Company operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing.

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, general insurance and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit. They may also affect the performance of the products the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

To promote a consistent and rigorous approach to risk management across the business, the Company adopts the Group risk policies and business standards, which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The parent company Chief Executive Officer makes an annual declaration that the system of governance and internal controls were effective and fit for purpose for the business throughout the year; this declaration is supported by an opinion from the parent company Chief Risk Officer.

A regular top-down key risk identification and assessment process is carried out in the Risk Function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. The Company also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are submitted to the Board.

Risk models are an important tool in the measurement of risks and are used in conjunction with other assessment processes to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (where one risk factor, such as interest rates, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risks, the Company measures and monitors its risk profile on the basis of the Solvency II Solvency Capital Requirement ("SCR").

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels. Line management in the business are accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The Risk Function is accountable for quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the risk management framework. Internal Audit provides an independent assessment of the risk management framework and internal control processes.

Board oversight of risk and risk management across the Company is maintained on a regular basis. The Board has overall responsibility for determining risk appetite, which is an expression of the risk the business is willing to take. Risk appetites are set relative to capital and liquidity.

The Company's position against risk appetite is monitored and reported to the Board on a regular basis. Long-term sustainability depends upon the protection of franchise value and good customer relationships. As such, the Company has a risk preference that it will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity.

## Notes to the financial statements (continued)

## 21. Risk management (continued)

Further information on the types and management of specific risk types is given in sections (a) to (f) below.

### (a) Credit risk

Credit risk is the risk of financial loss as a result of the default or failure of third parties to meet their payment obligations to the Company, or variations in market values as a result of changes in expectations related to these risks.

The Company's approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The Company's credit risks arise principally through exposures to debt security investments, cash and cash equivalents, reinsurance counterparties and other receivables.

The Company's management of credit risk includes implementation of credit risk management processes (including limits frameworks), the operation of specific risk management committees, and detailed reporting and monitoring of exposures against pre-established risk management criteria.

Oversight of credit risk for the Company is undertaken by the Board.

*(i) Financial exposures by credit ratings*

Financial assets are graded according to current credit ratings issued. AAA is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as sub-investment grade.

The following table provides information regarding the aggregated credit risk exposure of the Company for financial assets with external credit ratings. "Not rated" assets capture assets not rated by external ratings agencies.

| | **Credit rating** | | | | |
|---|---|---|---|---|---|
| **31 December 2019** | **AA** | **AA-** | **A+/A-** | **Not rated** | **Carrying value** |
| | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| Financial investments | 50,597 | - | - | - | 50,597 |
| Reinsurance assets | - | 99,021 | 798 | 84 | 99,903 |

| | **Credit rating** | | | | |
|---|---|---|---|---|---|
| **31 December 2018** | **AA** | **AA-** | **A-** | **Not rated** | **Carrying value** |
| | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| Financial investments | 50,620 | - | - | - | 50,620 |
| Reinsurance assets | - | 103,987 | 759 | - | 104,746 |

# Gresham Insurance Company Limited

**Registered in England and Wales: No. 00110410**

## Notes to the financial statements (continued)

## 21. Risk management (continued)

### (a) Credit risk (continued)

The table below provides information regarding the aggregated credit risk exposure of the Company's financial assets that are considered to have contractual terms which are solely payments of principal and interest (SPPI), excluding amounts due from reinsurers, which are included above, and cash and cash equivalents. Cash and cash equivalents are held with highly rated banking institutions or liquidity funds.

| | Credit rating | | | | |
|---|---|---|---|---|---|
| **31 December 2019** | **AA-/AA/AA+** | **A-/A/A+** | **BB** | **Not rated** | **Carrying value** |
| | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| Receivables | 1,052 | 352 | - | 68,778 | 70,182 |
| **31 December 2018** | | | | | |
| Receivables | 690 | 476 | 2 | 70,908 | 72,076 |

The Company's maximum exposure to credit risk of financial assets is represented by the carrying value of the financial instruments in the statement of financial position. These comprise debt securities, reinsurance assets, and receivables. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 9), reinsurance assets (note 10) and receivables (note 11).

*(ii) Credit concentration risk*

The Company has significant financial exposure to amounts due from its parent company, arising from its reinsurance arrangement, as described in note 23(a)(i). The credit risk arising from its parent company failing to meet all or part of its obligations is considered remote.

*(iii) Impairment of financial assets*

Financial investments of £50,597 thousand (2018: £50,620 thousand) and reinsurance assets of £99,903 thousand (2018: £104,746 thousand) are neither impaired nor overdue.

Receivables of £70,182 thousand (2018: £72,076 thousand) primarily comprising amounts due from insurance contract holders (note 11) and cash and cash equivalents of £28,606 thousand (2018: £65,609 thousand) are not impaired.

The following table provides information regarding the ageing of receivables that are past due but not impaired.

| **31 December 2019** | Neither past due nor impaired | 0-3 months | 3-6 months | 6 months - 1 year | Greater than 1 year | Carrying value |
|---|---|---|---|---|---|---|
| | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| Amounts due from contract holders | 61,663 | 6,193 | 64 | 44 | 52 | 68,016 |
| Amounts due from intermediaries | 759 | - | - | - | - | 759 |
| Amounts due from reinsurers | 1,407 | - | - | - | - | 1,407 |
| | 63,829 | 6,193 | 64 | 44 | 52 | 70,182 |

| **31 December 2018** | Neither past due nor impaired | 0-3 months | 3-6 months | 6 months- 1 year | Greater than 1 year | Carrying value |
|---|---|---|---|---|---|---|
| | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| Amounts due from contract holders | 63,438 | 6,368 | 65 | 61 | 45 | 69,977 |
| Amounts due from intermediaries | 710 | - | - | - | - | 710 |
| Amounts due from reinsurers | 1,389 | - | - | - | - | 1,389 |
| | 65,537 | 6,368 | 65 | 61 | 45 | 72,076 |

### (b) Market risk

Market risk is the risk of adverse financial impact resulting directly or indirectly from fluctuations in interest rates, inflation, foreign currency exchange rates and equity and property prices. Market risk arises due to fluctuations in both the value of liabilities and the value of investments held. The Company seeks some market risk as part of its investment strategy. However, it has limited appetite for interest rate risk because it does not believe interest rate risk is adequately rewarded.

The Company manages market risk using its parent company market risk framework and within regulatory constraints. Market risk is managed in line with established Group policy, including established criteria for matching assets and liabilities to limit the impact of mismatches due to market movements.

## Notes to the financial statements (continued)

## 21. Risk management (continued)

### (b) Market risk (continued)

Interest rate risk arises primarily from the Company's investments in debt securities and their movement relative to the value placed on the insurance liabilities. The Company seeks to match assets to liabilities and uses interest rate derivatives to meet its interest rate appetite. Sensitivity of profit before tax and shareholders' equity to changes in interest rates is given in section (f) 'Risk and Capital management' below.

The Company operates within the UK and there is no exposure to foreign currency exchange rates.

Oversight of market risk for the Company is undertaken by the Board.

### (c) Liquidity risk

Liquidity risk is the risk of the Company not being able to make payments as they become due because there are insufficient liquid assets.

The Company seeks to ensure that it maintains sufficient financial resources to meet its obligations as they fall due through the application of a liquidity risk policy and business standard. The Company monitors its position relative to its agreed liquidity risk appetite.

*Maturity analysis*
The following tables show the maturities of the Company's insurance liabilities, payables and other financial liabilities and of the financial assets and reinsurance assets held to meet them.

*(i) Analysis of maturity of financial liabilities and insurance contract liabilities*
The following table shows the Company's financial liabilities and insurance contract liabilities analysed by duration:

| 31 December 2019 | Within 1 year | 1 to 5 years | 5 to 15 years | Over 15 years | Total |
|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s |
| Provisions for outstanding claims | 22,492 | 7,345 | 1,860 | 4,668 | 36,365 |
| Provision for unearned premiums | 51,838 | 11,833 | 503 | - | 64,174 |
| Payables and other financial liabilities | 90,211 | - | - | - | 90,211 |
| | 164,541 | 19,178 | 2,363 | 4,668 | 190,750 |

| 31 December 2018 | Within 1 year | 1 to 5 years | 5 to 15 years | Over 15 years | Total |
|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s |
| Provisions for outstanding claims | 22,423 | 9,021 | 2,120 | 5,048 | 38,612 |
| Provision for unearned premiums | 53,904 | 12,242 | 563 | - | 66,709 |
| Payables and other financial liabilities | 81,504 | - | - | - | 81,504 |
| | 157,831 | 21,263 | 2,683 | 5,048 | 186,825 |

*(ii) Analysis of maturity of financial assets and reinsurance assets*
The table below provides an analysis, by maturity date of the principal, of the carrying value of financial assets which are available to fund the repayment of liabilities as they crystallise. The table also includes the maturity of deposits received from reinsurers that represent the reinsurers' interest in the Company's financial assets / reinsurance assets (excluding reinsurers' share of provision for unearned premium).

## 21. Risk management (continued)

### (c) Liquidity risk (continued)

| 31 December 2019 | Within 1 year | 1 to 5 years | 5 to 15 years | Over 15 years | Total |
|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s |
| Financial investments | 50,597 | - | - | - | 50,597 |
| Reinsurers' share of claims provisions | 22,498 | 7,365 | 1,858 | 4,008 | 35,729 |
| Reinsurers' share of unearned premium provision | 51,838 | 11,833 | 503 | - | 64,174 |
| Receivables | 70,182 | - | - | - | 70,182 |
| Cash and cash equivalents | 28,606 | - | - | - | 28,606 |
| | 223,721 | 19,198 | 2,361 | 4,008 | 249,288 |

| 31 December 2018 | Within 1 year | 1 to 5 years | 5 to 15 years | Over 15 years | Total |
|---|---|---|---|---|---|
| | £000s | £000s | £000s | £000s | £000s |
| Financial investments | 50,620 | - | - | - | 50,620 |
| Reinsurers' share of claims provisions | 22,428 | 9,040 | 2,127 | 4,442 | 38,037 |
| Reinsurers' share of unearned premium provision | 53,904 | 12,242 | 563 | - | 66,709 |
| Receivables | 72,076 | - | - | - | 72,076 |
| Cash and cash equivalents | 65,609 | - | - | - | 65,609 |
| | 264,637 | 21,282 | 2,690 | 4,442 | 293,051 |

The reinsurance assets above are analysed using the estimated timing of future cash flows. The other assets are analysed in accordance with the earliest possible redemption date of the instrument at the initiation of the Company.

Oversight of liquidity risk for the Company is undertaken by the Board.

### (d) General insurance risk

General insurance risk in the Company arises from:

- Fluctuations in the timing, frequency and severity of claims and claim settlements relative to expectations;
- Unexpected claims arising from a single source or cause;
- Inadequate claims reserving assumptions;
- Inaccurate pricing of risks or inappropriate underwriting of risks when underwritten; and
- Inadequate reinsurance protection or other risk transfer techniques.

The general insurance business underwritten by the Company is predominantly of a short-tail nature such as household insurance.

The Group's underwriting strategy and appetite is communicated via specific policy statements, related business standards and guidelines. The Company sets its own underwriting strategy, consistent with the Group strategy. The vast majority of the Company's general insurance business is managed and priced in the same country as the domicile of the customer, predominantly in the UK.

Reserving processes are further detailed in note 13 "Insurance liabilities".

The adequacy of the Company's general insurance gross and net claims provisions is overseen by the Reserve and Projections Committee. Actuarial claims reserving is the responsibility of the Company's actuaries.

The Company's largest reinsurance arrangements include a 100% quota share reinsurance arrangement with its parent company, Aviva Insurance Limited, as described in note 23(a)(i), which has substantially reduced its net insurance risk exposure.

Oversight of insurance risks for the Company is undertaken by the Board.

## 21. Risk management (continued)

### (e) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible.

The Company has adopted the Group's Operational Risk and Control Management Framework which integrates the results of the risk identification and assurance activities carried out across the Company's three lines of defence. Operational risks are initially identified and assessed against implemented controls. Residual risk outside tolerance is given prioritised management action to reduce it within tolerance.

Operational risk is quantitatively assessed on the basis of financial loss and misstatement. Potential reputational and conduct impacts are qualitatively assessed. Management use key indicator data to help monitor the status of the risk and control environment. They also identify and capture loss events, taking appropriate action to address actual control breakdowns and promote internal learning.

Oversight of operational risk for the Company is undertaken by the Board.

### (f) Risk and capital management

The Company uses a number of risk management tools to understand the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on financial performance measurements to inform the Company's decision-making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

*(i) General insurance and health*

General insurance claims liabilities are estimated by using standard actuarial claims projection techniques. These methods extrapolate the claims development for each accident year based on the observed development of earlier years. As such in the analysis below, the sensitivities of general insurance claims liabilities are primarily based on the financial impact of changes to the reported loss ratio.

*(ii) Sensitivity results*

Some results of IFRS sensitivity testing for the Company's business are set out below. For each sensitivity test, the impact of a change in a single factor is shown, with other assumptions left unchanged.

| Sensitivity factor | Description of sensitivity factor applied |
|---|---|
| Expenses | The impact of an increase in expenses by 10%. |
| Gross loss ratios | The impact of an increase in gross loss ratios for general insurance by 5%. |
| Interest rate | The impact of a change in market interest rates by +/- 1%. |

The above sensitivity factors are applied using actuarial and statistical models. The impacts are shown in the tables overleaf.

# Notes to the financial statements (continued)

## 21. Risk management (continued)

### (f) Risk and capital management (continued)

(i) Impact on profit before tax (£000s)

| | | | | 2019 |
|---|---|---|---|---|
| | Interest rates +1% | Interest rates -1% | Expenses +10% | Gross loss ratios +5% |
| Gross of reinsurance | 465 | (1,277) | (2,163) | (2,860) |
| Net of reinsurance | (1,005) | 872 | (554) | - |

| | | | | 2018 |
|---|---|---|---|---|
| | Interest rates +1% | Interest rates -1% | Expenses +10% | Gross loss ratios +5% |
| Gross of reinsurance | (721) | 119 | (2,159) | (3,416) |
| Net of reinsurance | (1,906) | 1,841 | (578) | - |

(ii) Impact before tax on shareholder's equity (£000s)

| | | | | 2019 |
|---|---|---|---|---|
| | Interest rates +1% | Interest rates -1% | Expenses +10% | Gross loss ratios +5% |
| Gross of reinsurance | 465 | (1,277) | (2,163) | (2,860) |
| Net of reinsurance | (1,005) | 872 | (554) | - |

| | | | | 2018 |
|---|---|---|---|---|
| | Interest rates +1% | Interest rates -1% | Expenses +10% | Gross loss ratios +5% |
| Gross of reinsurance | (721) | 119 | (2,159) | (3,416) |
| Net of reinsurance | (1,906) | 1,841 | (578) | - |

The sensitivities in the above tables are based on balances included in the 2019 income statement and statement of financial position as at 31 December 2019.

Due to the importance of reinsurance, the impact of sensitivities on profit and equity is shown gross and net of reinsurance. For general insurance, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the LAE provision.

The sensitivity analyses do not take into account that the assets and liabilities are actively managed and may vary at the time that any actual market movement occurs. For example, the Company's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risks that only represent the Company's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

Assets are held at fair value in accordance with the relevant accounting policy. All of such assets are valued based on quoted market information or observable market data.

## 21. Risk management (continued)

### (f) Risk and capital management (continued)

#### (iii) Coronavirus

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

As an insurer the Company is impacted by the Covid-19 pandemic through its general insurance products and the impact on investment returns. The Company's balance sheet exposure has been reviewed, the Company continues to maintain strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained and IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.

## 22. Capital structure

The Company maintains an efficient capital structure from equity shareholder's funds, consistent with the Company's overall risk profile and the regulatory and market requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

### (a) General

IFRS underpins the Company's capital structure and accordingly, the capital structure is analysed on this basis. The Company measures its capital requirements under the Solvency II regime.

### (b) Capital management

In managing its capital, the Company seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;
(ii) maintain financial strength to satisfy the requirements of its policyholders and regulators;
(iii) retain financial flexibility by maintaining strong liquidity; and
(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance, as appropriate, when assessing its deployment and usage of capital.

### (c) Different measures of capital

The Company measures its capital on a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

#### (i) Accounting basis

The Company is required to report its results on an IFRS basis.

## Notes to the financial statements (continued)

## 22. Capital structure (continued)

**(ii) Regulatory bases**

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the regulatory requirements under Solvency II. The regulatory capital tests verify that the Company retains an excess of solvency capital above the required minimum level calculated using a risk-based capital model. The risk management note 21 gives further details.

Solvency II "own funds" represents the amount of regulatory capital resources that are available to meet regulatory capital requirements under the Solvency II regime, and is a closely monitored metric. At 31 December 2019, the Company's estimated Solvency II own funds were £25,504 thousand (2018: £71,646 thousand). The Company's own funds are sufficient to meet its capital requirements under Solvency II. The Company fully complied with the relevant regulatory requirements during the year.

### (d) Company capital structure

| | IFRS net assets 2019 | IFRS net assets 2018 |
|---|---|---|
| | £000s | £000s |
| General insurance | 24,337 | 70,557 |
| **Total capital employed** | 24,337 | 70,557 |
| **Financed by** | | |
| Equity shareholder's funds | 24,337 | 70,557 |

## 23. Related party transactions

(a) The Company had the following related party transactions in 2019 and 2018.

The Company has the following transactions with related parties which include parent companies, and fellow subsidiaries in the normal course of business.

**(i) Quota share arrangement**

The Company has a quota share reinsurance arrangement with Aviva Insurance Limited, with effect from 1 January 2006.

The key terms of the agreement remain:

- a 100% cession rate on premiums, claims costs and underwriting expense costs is applied in respect of the underwriting year; and

- a requirement for the Company to retain a percentage in relation to the Financial Services Compensation Scheme levy.

The premiums, claims and expenses which have been reinsured to Aviva Insurance Limited under the arrangement are:

| **Quota share** | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| Premiums earned | 114,842 | 124,501 |
| Claims incurred | (53,315) | (66,267) |
| Fee and commission expenses and operating expenses | (58,188) | (56,053) |
| **Profit ceded** | 3,339 | 2,181 |

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

| | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| Reinsurance assets | 92,464 | 98,183 |
| Payable arising out of ceded reinsurance | (69,685) | (74,826) |
| Reinsurers' share of deferred acquisition costs | (21,367) | (21,886) |

## Notes to the financial statements (continued)

### 23. Related party transactions (continued)

**(ii) Structured settlements arrangement**

The Company has an arrangement with Aviva Life & Pensions UK Limited, a fellow Group company, for the outwards reinsurance of its obligations in respect of structured settlements, also known as periodic payment orders. The amounts charged to the income statement for the year under the arrangement are:

| | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| Change in reinsurance assets | 989 | (676) |
| Net result ceded | 989 | (676) |

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

| | 2019 | 2018 |
|---|---|---|
| | £000s | £000s |
| Reinsurance assets (including unearned premium provision) | 5,678 | 4,689 |

**(iii) Other services provided by related parties**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Expense incurred in year | Payable at year end | Expense incurred in year | Payable at year end |
| | £000s | £000s | £000s | £000s |
| Parent | 22,461 | (13,073) | 21,834 | (2,561) |

Expense incurred in the year of £17,965 thousand (2018: £21,834 thousand) represents recharges of costs payable to Aviva Insurance Limited, the Company's parent.

Amounts payable to group undertakings includes tax liabilities of prior years, amounting to £1,068 thousand (2018: £788 thousand), which are expected to be settled by way of group relief with other Aviva Group companies within one year.

**(iv) Key management compensation**

The key management of the Company are considered to be the statutory directors of the Company. Note 4, Directors' remuneration, gives details of their compensation as directors of the Company.

**(b) Immediate parent company**

The Company's immediate parent company is Aviva Insurance Limited, registered in Scotland.

## Notes to the financial statements (continued)

## 23. Related party transactions (continued)

**(c) Ultimate controlling entity**

The ultimate controlling entity, and parent of the largest and smallest group which consolidates the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

## 24. Subsequent events

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. Governments in affected areas have imposed a number of measures designed to contain the outbreak, including business closures, travel restrictions, stay at home orders and cancellations of gatherings and events. The spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets. If the pandemic is prolonged, or further diseases emerge that give rise to similar effects, the adverse impact on the global economy could be deepened and result in further declines in financial markets.

As an insurer the Company is impacted by the Covid-19 pandemic through its general insurance products and the impact on investment returns. The Company's balance sheet exposure has been reviewed, the Company continues to maintain strong solvency levels and expects to continue to meet its capital requirements. Since the onset of the pandemic the Company has remained operational, with key activities such as cash payments and transaction processing being maintained and IT systems remaining operational, and employees including frontline customer facing staff being supported to ensure that that we are there to support our customers when they need us most. Notwithstanding the Company's strong capital and liquidity position and the operational and financial actions that are being taken, deterioration in the situation could have further adverse implications arising from the impacts on financial markets, insurance exposures and operations. As the situation is rapidly evolving it is not practicable to quantify the potential financial impact of the outbreak on the Company at this stage.