



Companies House

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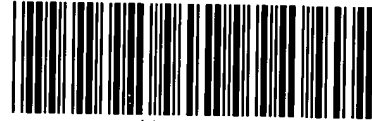
OS AA01

Statement of details of parent law and other
information for an overseas company

✓ What this form is for
You may use this form to
accompany your accounts
disclosed under parent law.

✗ What this form is for
You cannot use this form to
an alteration of accounts
with accounts.

THURSDAY



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21/10/2021

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COMPANIES HOUSE

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t
house**Part 1 Corporate company name**Corporate name of
overseas company ①AVIVA INSURANCE IRELAND DESIGNATED ACTIVITY
COMPANYUK establishment
number

B R 0 2 0 5 9 6

→ Filling in this form

Please complete in typescript or in
bold black capitals.All fields are mandatory unless
specified or indicated by *① This is the name of the company in
its home state.**Part 2 Statement of details of parent law and other
information for an overseas company****A1 Legislation**Please give the legislation under which the accounts have been prepared and
audited.

Legislation ②

Companies Act 2014

② This means the relevant rules or
legislation which regulates the
preparation of accounts.**A2 Accounting principles**

Accounts

Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?

Please tick the appropriate box.

☐ No. Go to Section A3.☒ Yes. Please enter the name of the organisation or other
body which issued those principles below, and then go to Section A3.③ Please insert the name of the
appropriate accounting organisation
or body.Name of organisation
or body ③

International Financial Reporting Standards (IFRS)

OS AA01

Statement of details of parent law and other information for an overseas company


A3

Audited accounts

Audited accounts	<p>Have the accounts been audited in accordance with a set of generally accepted auditing standards?</p> <p>Please tick the appropriate box.</p> <p><input type="checkbox"/> No. Go to Part 3 'Signature'.</p> <p><input checked="" type="checkbox"/> Yes. Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'.</p>	<p>❶ Please insert the name of the appropriate accounting organisation or body.</p>
Name of organisation or body ❶	International Standards on Auditing (Ireland)	

Part 3

Signature

Signature	I am signing this form on behalf of the overseas company.	
	Signature	
	<p>X</p>  <p>X</p>	
This form may be signed by: Director, Secretary, Permanent representative.		

OS AA01

Statement of details of parent law and other information for an overseas company



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	RONAN MARTIN
Company name	AVIVA INSURANCE IRELAND
	DESIGNATED ACTIVITY COMPANY
Address	ONE PARK PLACE
	HATCH STREET
Post town	DUBLIN 2
County/Region	
Postcode	D 0 2 E 6 5 1
Country	IRELAND
DX	
Telephone	



Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.



Important information

Please note that all this information will appear on the public record.



Where to send

You may return this form to any Companies House address:

England and Wales:

The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ.
DX 33050 Cardiff.

Scotland:

The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1

Northern Ireland:

The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG.
DX 481 N.R. Belfast 1.



Further information

For further information, please see the guidance notes on the website at www.gov.uk/companieshouse or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.gov.uk/companieshouse

Aviva Insurance Ireland designated activity company

Registered in the Republic of Ireland No. 605769

Annual Report and Financial Statements 2019

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Directors and officer

Directors

L Caslin (Independent Non-Executive Director)
P Dixneuf
E Galicier
T O'Rourke (Independent Non-Executive Director)
J Quinlan (Chief Executive Officer)
C Scott (Independent Non-Executive Director)
M Shaw (Chairman - Non-Executive Director)
P Tiernan

Officer – Company Secretary

R Martin

Independent Auditors

PricewaterhouseCoopers
One Spencer Dock
North Wall Quay
Dublin 1
Ireland

Registered office

One Park Place
Hatch Street
Dublin 2
D02 E651

Company number

Registered in the Republic of Ireland ("Ireland") no. 605769

Other information

Aviva Insurance Ireland designated activity company ("the Company") is a member of Insurance Ireland and covered by the Financial Services and Pensions Ombudsman and is authorised and regulated by the Central Bank of Ireland ("CBI").

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

Directors' report

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

Review of the Company's business

Principal activities

From 1 February 2019, the principal activity of the Company is the transaction of general insurance business in Ireland. The major classes of business underwritten are personal lines (motor, home and other) and commercial lines (property, liability, motor and other).

The Company's strategy positions the Company for future profitable growth by meeting our customers' changing needs. The Company is building an increasingly digital general insurance business, through the Company's strong direct brand and our partnerships with brokers and banks.

The Company's strategy is supported by the aim to continue to improve cash generation and deliver profitable growth.

Significant events

On 20 August 2018, the Company approved the transfer of a subset of the general insurance business of Aviva Insurance Limited ("AIL"), the Company's immediate parent undertaking, to the Company under an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The UK Court approved the scheme on 22 January 2019 and on 1 February 2019 the transfer of AIL's business to the Company came into effect.

The consideration receivable by the Company from AIL as a result of the transfer was €919m which comprised total net liabilities transferred of €716m and capital contributions of €203m. The Company issued ordinary shares with a nominal value of €15m to AIL in part consideration for the capital contributed.

On 1 February 2019, following the general insurance business transfer, the Company entered into a retrospective (both expired and in-force business) outwards quota share reinsurance arrangement with AIL in consideration of a premium of €925m payable by the Company to AIL. This arrangement provides proportional reinsurance to the Company as follows:

- 85% quota share arrangement in respect of the transferring Ireland general insurance branch risks that are situated in the European Economic Area (excluding the United Kingdom ("UK")) and European Mobile Device Insurance ("MDI") business; and
- 100% quota share arrangement covering all other transferring business.

On 24 June 2019, the Company issued a further 10 million ordinary shares of €1.00 each at nominal value to AIL, settled in cash.

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, as a result of disruption to travel and businesses insured by the Company. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investment returns. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. 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, 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 22, with the trading results shown in the income statement on page 19 and the statement of cash flows on page 23.

The Company's net assets have increased by €218 million (2018: increased by €5 million). Consideration receivable net of liabilities transferred in respect of the general insurance business transferred was €203 million, additional shares were issued to AIL for €10 million and retained profit was €5 million.

The profit after tax for the year was €5 million (2018: €nil). The Company commenced writing insurance business on 1 February 2019 that, along with the general insurance business transferred and the impact of the quota share arrangement with AIL, drove profitability in the year.

The Company's net written premiums were a net expense of €856 million (2018: €nil) due to the immediate impact of the quota share arrangement with AIL of €925 million, offset by underlying net written premiums of €69 million (2018: €nil), predominantly personal motor insurance.

The combined operating ratio was 96.4%. Drivers of COR are described in the key performance indicators section below.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2019 Annual Report and Accounts. The Company will work with the Group to support the implementation of these strategies.

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 by leveraging the power of Aviva's breadth of offering within Ireland to deliver compelling propositions to meet our customer needs, alongside driving digitisation through customer services, propositions and ensuring we are easy for customers to do business with, however they choose.

Directors' report (continued)

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 29 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.
- 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.

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- Exit of the UK from the EU & UK-EU Free Trade Agreement ("FTA") negotiations: In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, we have already taken the operational measures necessary to ensure continuous service to our customers irrespective of the outcome of UK-EU FTA negotiations. However, beyond 2020 the consequences of the UK's withdrawal from the EU on future financial services regulation and the Irish economy will require careful monitoring.

Key performance indicators

The directors consider that the Company's key performance indicators ("KPIs") that communicate the financial performance are as follows:

	2019	2018
Capital Metrics		
Capital surplus €m	37	1
Capital surplus ratio	150%	666%
Financial Performance Metrics		
Gross written premiums €m	523	—
Net written premiums €m	(856)	—
Profit for the year after tax €m	5	—
Increase in shareholders equity €m	218	5
Alternative Performance metrics		
Combined operating ratio	96.4%	n/a
Net incurred claims ratio	57.7%	n/a
Net earned commission ratio	24.5%	n/a
Net earned expenses ratio	14.2%	n/a
Non-Financial Metrics		
Relational net promoter score	Upper quartile	n/a

The Company's Solvency II capital surplus of €37 million (2018: €1 million) increased by €36 million following the general insurance business transfer from AIL on 1 February 2019 and commensurate quota share reinsurance arrangement with AIL. The decrease in the capital surplus ratio similarly reflects the Company writing insurance business from 1 February 2019. The Company became a regulated Insurance Company on 27 July 2018 but did not transact any insurance business prior to 1 February 2019.

Directors' report (continued)

COR is calculated as claims incurred, earned commission and earned expenses as a percentage of gross earned premiums. The immediate impact of the quota share arrangement with AIL has been excluded from COR in order to provide a more appropriate indication of underlying operating performance. The expenses included in COR excludes a credit of €3 million relating to net gains on foreign currencies.

The Company's principal non-financial KPI is the 'relational net promoter score' for the Ireland general insurance business. This measures the likelihood of a customer recommending Aviva, relative to the market. The score is determined through third party collation of customer feedback and a scoring system that gives greater weighting to lower scores ('detractors') than higher scores ('promoters'). The results are benchmarked against a representative sample of competitors' customers in order to determine a quartile score against the market.

Directors

The names of the current directors of the Company are shown on page 3.

Details of Board appointments and resignations during the year and since the year end are shown below:

M Noble resigned as a director of the Company on 31 March 2019
L Caslin was appointed as a director of the Company on 25 June 2019
P Raleigh resigned as a director of the Company on 25 June 2019
P Tiernan was appointed as a director of the Company on 31 July 2019
T Howard resigned as a director of the Company on 20 September 2019
P Dixneuf was appointed as a director of the Company on 18 November 2019
M Shaw was appointed as a director of the Company on 28 November 2019
E Galicier was appointed as a director of the Company on 2 December 2019
M White resigned as a director of the Company on 6 December 2019
D Elliot resigned as a director of the Company on 11 February 2020

The directors and their families had no interest in the share capital of the Company at 31 December 2019.

The directors and secretary who held office at the year end did not have any interests in excess of 1% of the issued shares of the Company or any other Group company at the year end (2018: no interests in excess of 1%). No gains were realised by the directors who held office at any stage during the year by way of the exercise of share options in relation to shares of the Company's ultimate parent, Aviva plc (2018: no gains).

Company Secretary

The name of the company secretary of the Company is shown on page 3.

Overseas branches

During the year, the Company had one branch office outside Ireland, in the UK.

Dividends

No interim ordinary dividend on the Company's ordinary shares was declared or paid during 2019 (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's business activities, together with the factors likely to affect its future development, performance and position are set out in the principal risks and uncertainties section above. In addition, the financial statements include notes on: the Company's payables and other financial liabilities (note 24); its contingent liabilities and other risk factors (note 26); its capital structure (note 28); management of its major risks including market, credit and liquidity risk (note 29); and derivative financial instruments (note 30).

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The directors believe that the Company is well placed to manage its business risks successfully.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Important events since the financial year end

Details of any significant post balance sheet events that have occurred subsequent to 31 December 2019 are disclosed on page 4 and note 32.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including those relating to foreign currency exchange and interest rates. Details of the objectives and management of these instruments are contained in note 29 on risk management.

Employees

The Company has no employees. The majority of employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited and Aviva Group Services Ireland Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies. The Company is recharged with the costs of the staff provided by these companies.

Directors' report (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with Irish law.

Irish 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 as adopted by the European Union (IFRS).

Under Irish law the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Company for the financial year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS and ensure that they contain the additional information required by the Companies Act 2014; 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 responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Company;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

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.

Directors' compliance statement

The directors of the Company acknowledge that they are responsible for securing the Company's compliance with its relevant obligations (as defined in the Companies Act 2014 (the 2014 Act) and as required by section 255 of the 2014 Act, the directors confirm that:

- a compliance policy statement setting out the Company's policies with regard to complying with the relevant obligations under the 2014 Act has been prepared;
- arrangement and structures have been put in place that they consider sufficient to secure material compliance with the Company's relevant obligations;
- a review of the arrangements and structure has been conducted during the financial year to which this directors' report relates.

Disclosure of information to the auditors

The directors in office at the date this report is approved have each confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's statutory auditors are unaware, and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's statutory auditors are aware of that information.

Accounting records

The measures taken by the directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at One Park Place, Hatch Street, Dublin 2.

Political donations

The Company did not make any political donations during the year (2018: €nil).

Supplier payment policy

The directors are responsible for ensuring that the Company is compliant with the Prompt Payment of Accounts Act 1997, as amended by the European Communities (Late Payment in Commercial Transactions) Regulations 2002. It is the policy of the Company to pay for goods and services on presentation of an invoice by the supplier. Statements from suppliers showing amounts outstanding in excess of 30 days are immediately investigated and resolved as soon as possible.

By order of the Board on 6 April 2020



Director

06/04/2020 20:41



Director

06/04/2020 20:17



Independent auditors' report to the members of Aviva Insurance Ireland Designated Activity Company

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Insurance Ireland Designated Activity Company's financial statements:

- give a true and fair view of the company's assets, liabilities and financial position 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 properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the Annual Report and Financial Statements, which comprise:

- the statement of financial position as at 31 December 2019;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) 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

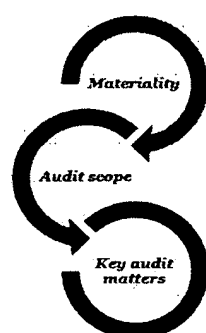
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

Other than those disclosed in note 7 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



Materiality

- €4.9m – based on 1% of combined operating ratio ("COR"), before quota share reinsurance arrangement

Audit scope

- We performed a full scope audit of the company's financial statements, based on materiality levels.

Key audit matters

- Accounting for the Part VII business transfer
- Valuation of outstanding claims provisions

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.



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
<p><i>Accounting for the Part VII business transfer</i></p> <p><i>Refer to Accounting policy Z (Insurance business transfer) and Note 1 (General insurance business transfer) to the financial statements).</i></p> <p>During the year the company acquired new business by means of a Part VII transfer from Aviva Insurance Limited, another Aviva Group entity. As the company had not traded until this point, this was a significant change in its operations and therefore we have focussed on this as the treatment of the transfer in the financial statements is a material matter during the year.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Reviewing management's accounting papers setting out the rationale for the treatment of the Part VII transaction in the financial statements. • Agreeing the valuation of the assets and liabilities transferred under the Part VII arrangement to underlying supporting documentation. • Testing the capital contributions received as part of the transaction. • Assessing the adequacy of related disclosures in the financial statements. <p>Based on the work performed and evidence obtained, we were satisfied with the accounting for the Part VII business transfer.</p>
<p><i>Valuation of outstanding claims provisions</i></p> <p><i>Refer to Accounting Policy B (Critical accounting policies and the use of estimates), Accounting Policy I (Insurance contract liabilities) and Note 19 (Insurance contract liabilities) to the financial statements.</i></p> <p>The estimation of non life claims outstanding involves a significant degree of judgement. The liabilities are based on the estimated total cost of all claims incurred but not settled at 31 December 2019, whether reported or not and the related handling costs.</p> <p>A range of standard actuarial claims projection techniques may be used to determine these provisions. Underlying these methods are a number of explicit or implicit assumptions relating to the expected settlement amount and settlement patterns of claims.</p> <p>Key drivers of risk in the valuation of outstanding claims provisions include:</p> <ul style="list-style-type: none"> • assumptions relating to the settlement of personal injury compensation claims; • the estimation of reserves for larger lines of business, such as motor, where small changes in assumptions can lead to large changes in the level of estimates held and reported COR; • the risk of reserves in respect of large losses being inappropriate; and • the risk of inappropriate assumptions used in the estimation of current years reserves. <p>We focussed on this matter because of the high degree of judgment and the range of assumptions used in arriving at the provision at year end.</p>	<p>In performing our audit over outstanding claims provisions, we assessed the calculation of the claims provisions by performing the following procedures:</p> <ul style="list-style-type: none"> • we understood and tested the governance process in place to determine the outstanding claims provisions, including testing the associated financial reporting control framework; • we tested the underlying data to source documentation on a sample basis; • using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodologies and assumptions used against recognised actuarial practices; • using our actuarial specialist team members, we independently estimated the reserves on selected classes of business, particularly focusing on the largest and most uncertain reserves. For these classes we compared our estimated reserves to those booked by management, and sought to understand any significant differences; • for the remaining classes we evaluated the methodology and assumptions applied to derive the year end provisions and investigated any anomalies; • we considered whether any of our audit procedures gave rise to an indication of management bias; and • we assessed the disclosures in the financial statements. <p>Based on the work performed and evidence obtained, we consider the methodologies and assumptions used to value the outstanding claims provisions to be appropriate.</p>



How we tailored the audit scope

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

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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	€4.9m
How we determined it	1% of combined operating ratio ("COR"), before quota share reinsurance arrangement
Rationale for benchmark applied	We believe COR is a key profit related benchmark used by the directors and is central to the Company's communications on the performance of this business.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €490k 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 (Ireland) 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 and Financial Statements 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 Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below:

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the period ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the 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 set out on page 7, 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 (Ireland) 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 IAASA website at:

https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

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 section 391 of the Companies Act 2014 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 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 27 July 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2018 to 31 December 2019.

Shane McDonald
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

8 April 2020

Accounting policies

The Company, a private limited company incorporated and domiciled in Ireland, transacts general insurance business in Ireland. 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 (IFRSs) as endorsed by the European Union (EU), and those parts of the Companies Act 2014 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 6.

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

Items included in the financial statements of each of the Company's branches are measured in the currency of the primary economic environment in which that entity operates (the functional currency). The Company's financial statements are stated in euros, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in millions of euros (€m).

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

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

(i) IFRS 16, Leases

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

The adoption of this standard did not have an impact on the Company's financial statements as the Company had not entered into any lease arrangements until after 1 January 2019. Further details of these lease arrangements are given in note 11.

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 beginning on or after 1 January 2019.

(iii) Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*. The amendments are effective for annual reporting beginning on or after 1 January 2019.

(iv) Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements consist of amendments to four 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.

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 at each reporting period (the fulfilment cash flows); a contractual service margin 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 Ireland.

Accounting policies (continued)

The following new standards and 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:

(ii) 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 has been endorsed by the EU.

(iii) Amendment to IFRS 3 Business Combinations

Published by the IASB in October 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) Amendment to IAS 1 and IAS 8: Definition of material

Published by the IASB in October 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and has been endorsed by the EU.

(v) 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 been endorsed by the EU.

(vi) 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 considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy and note disclosures.

Item	Critical accounting estimates	Accounting policy	Note
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 structures 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).	I	19
Goodwill	Goodwill is recognised and tested for impairment using an income approach method. Significant estimates include forecast cash flows and discount rates.	K	10
Fair value of financial instruments, derivative financial instruments and investment property	Where quoted market prices are not available, valuation techniques are used to value financial instruments and investment property. These include broker quotes and models using both observable and unobservable market inputs. The valuation techniques involve judgement with regard to the valuation models used and the inputs to these models can lead to a range of plausible valuation for financial investments.	D, N & Q	12, 13, 30
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.	S	15

(C) Foreign currency translation

Income statements and cash flows of foreign branches are translated into the Company's presentation currency at average exchange rates for the year while their statements of financial position are translated at the year-end exchange rates. Exchange differences arising from the translation of the net investment in foreign branches are recognised in other comprehensive income and taken to retained earnings. On disposal of a foreign branch, such exchange differences are transferred out of this reserve and are recognised in the income statement as part of the gain or loss on sale.

Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Accounting policies (continued)

Translation differences on debt securities and other monetary financial assets measured at fair value and designated as held at fair value through profit or loss ("FVTPL") (see accounting policy N) are included in foreign exchange gains and losses in the income statement. Translation differences on non-monetary items, such as equities which are designated as FVTPL, are reported as part of the fair value gain or loss in the income statement. Translation differences on assets held at amortised cost are included in foreign exchange gains and losses in the income statement.

(D) 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.

(E) Product classifications

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 above, insurance contracts continue to be measured and accounted for under existing accounting practices at 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 was grandfathered at the date of transition to IFRS.

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 then the financial statements of that year will have disclosed the impacts accordingly.

(F) Premiums earned

General insurance premiums written reflect business incepted during the year, and exclude any sales-based taxes, 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 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.

(G) Other fee and commission income

Other fee and commission income consists primarily of commissions on reinsurance ceded. Reinsurance commissions receivable are deferred in the same way as acquisition costs, as described in accounting policy S. All other fee and commission income are recognised over time as the services are provided.

(H) Net investment income

Investment income consists of dividends, interest and rents for the year, movements in amortised cost on debt securities, realised gains and losses, and unrealised gains and losses on fair value through profit or loss investments (as defined in accounting policy N). Dividends on equity securities are recorded as revenue on the ex-dividend date. Dividends from investments in subsidiaries are recorded as revenue on the date the dividends are declared. Interest income is recognised as it accrues, taking into account the effective yield on the investment. It includes the interest rate differential on forward foreign exchange contracts.

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.

(I) Insurance contract liabilities

Claims

General 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.

Accounting policies (continued)

Outstanding claims provisions

General 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 costs. Significant delays are experienced in the notification and settlement of certain types of general insurance claims, particularly in respect of liability business, including environmental and pollution exposures, the ultimate cost of which cannot be known with certainty at the statement of financial position date. As such, booked claim provisions for general insurance are based on the best estimate of the cost of future claim 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 are given in note 19.

Provisions for latent claims and claims that are settled on an annuity type basis 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 below as a change in insurance liabilities. The range of discount rates used is described in note 19.

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 as recognition of revenue over the period of risk.

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 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.

(J) Reinsurance

The Company assumes and cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies, using assumptions consistent with those used to account for these policies.

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

Gains or losses on buying retroactive reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and statement of financial position as appropriate.

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.

Reinsurance contracts that principally transfer financial risk are accounted for directly through the statement of financial position and are not included in reinsurance assets or liabilities. A deposit asset or liability is recognised, based on the consideration paid or received less any explicitly identified premiums or fees to be retained by the reinsured.

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.

(K) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of the net assets of the acquired entity at the date of acquisition.

Impairment

The carrying amount of goodwill is reviewed at least annually or when circumstances or events indicate there may be uncertainty over this value. Goodwill is written down for impairment where the recoverable amount is insufficient to support its carrying value. Further details on goodwill impairment testing are given in note 10. Any impairments are charged as expenses in the income statement.

(L) Impairment of non-financial assets

Property and equipment and other non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Non-financial assets except goodwill which have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Accounting policies (continued)

(M) 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:

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

A financial liability is derecognised when the obligation under the liability is discharged or 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 the ability and intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(N) Financial investments

The Company classifies its investments as financial assets at FVTPL based on a business model assessment and the extent to which the contractual cash flows associated with financial assets are solely payments of principle and interest. 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.

In general, the Company's investment or risk management strategy is to manage its financial investments on a fair value basis.

Debt and equity securities, which the Company manage and evaluate performance on a fair value basis, are classified as mandatorily held at FVTPL as are non-hedge derivatives (refer to accounting policy Q).

Investments carried at fair value are measured using the methodology outlined in note 12, with values based on the quoted price within the bid-ask spread that is most representative of fair value or based on cash flow models using market observable inputs or unobservable inputs.

(O) Receivables and other financial assets

Receivables and other financial assets are recognised initially at their fair value. Subsequent to initial measurement receivables are measured at amortised cost using the effective interest rate method, less expected credit losses.

(P) Payables and other financial liabilities

Payables and other financial liabilities, excluding derivatives, are recognised initially at their fair value and are subsequently measured at amortised cost using the effective interest rate method. Derivative liabilities are carried at fair value (refer to accounting policy Q).

(Q) Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate and inflation linked swaps and currency and equity options that derive their value mainly from underlying interest rates, inflation rates, foreign exchange rates, credit or equity instruments or indices.

All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value, with the method of recognising movements in this value depending on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. The Company has not designated any derivatives as hedging instruments and they are therefore treated as derivatives held for trading. Their fair value gains and losses are recognised immediately in net investment income.

Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts may be traded on an exchange or over-the-counter (“OTC”). Exchange-traded derivatives are standardised and include certain futures and option contracts and foreign exchange contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Company's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 30.

The Company has collateral agreements in place with relevant counterparties. Accounting policy R below covers collateral, both received and pledged, in respect of these derivatives.

Interest rate, inflation rate and currency swaps

Interest rate and inflation rate swaps are contractual agreements between two parties to exchange fixed rate and floating rate amounts by means of periodic payments, calculated on a specified notional amount and defined interest or inflation rates. Most interest and inflation rate swap payments are netted against each other, with the difference between the fixed and floating rate interest payments paid by one party.

Currency swaps, in their simplest form, are contractual agreements that involve the exchange of both periodic and final amounts in two different currencies. Both types of swap contracts may include the net exchange of principal. Exposure to gain or loss on these contracts will increase or decrease over their respective lives as a function of maturity dates, interest and foreign exchange rates, and the timing of payments.

Accounting policies (continued)

(R) Collateral

The Company receives and pledges collateral in the form of cash or non-cash assets in respect of stock lending transactions, certain derivative contracts and loans, in order to reduce the credit risk of these transactions. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment in financial liabilities. However, where the Company has a currently enforceable legal right of set-off and the ability and intent to net settle, the collateral liability and associated derivative balances are shown net. Non-cash collateral received is not recognised in the statement of financial position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor. Such collateral is typically recognised when the Company either (a) sells or re-pledges these assets in the absence of a default, at which point the obligation to return this collateral is recognised as a liability; or (b) the counterparty to the arrangement defaults, at which point the collateral is seized and recognised as an asset.

Collateral pledged in the form of cash, which is legally segregated from the Company, is derecognised from the statement of financial position with a corresponding receivable recognised for its return. Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of financial position within the appropriate asset classification.

(S) Deferred acquisition costs

Costs relating to the acquisition of new business for insurance and participating investment contracts are deferred in line with existing local accounting practices, to the extent that they are expected to be recovered 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.

(T) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at bank 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.

(U) Leases

Where the Company is the lessee, a lease liability equal to the present value of outstanding lease payments and a corresponding right-of-use asset equal to cost are initially recognised. The right-of-use asset is subsequently measured at amortised cost and depreciated on a straight-line basis over the length of the lease term. Depreciation on lease assets and interest on lease liabilities is recognised in the income statement.

The Company has made use of the election available under IFRS 16 to not recognise any amounts on the balance sheet associated with leases that are either deemed to be short term, or where the underlying asset is of low value. A short-term lease in this context is defined as any arrangement which has a lease term of 12 months or less. Lease payments associated with such arrangements are recognised in the income statement as an expense on a straight-line basis.

(V) Provisions and contingent liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recorded as a provision is the best estimate of the expenditure required to settle the present obligation at the date of the statement of financial position. Where the effect of the time value of money is material, the provision is the present value of the expected expenditure. Provisions are not recognised for future operating losses.

Restructuring provisions include lease termination penalties and employee termination payments. They comprise only the direct expenses arising from the restructuring, which are those that are necessarily entailed by the restructuring; and not associated with the ongoing activities of the entity.

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Company recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

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 reasonably estimated.

Accounting policies (continued)

(W) 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.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to any fair value remeasurement of amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(X) 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 Company'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.

(Y) Pensions

The Company has no employees. However, it is one of a number of companies in the Group being charged for staff participating in pension schemes in the UK and Ireland, and its contributions are affected by the financial position of these schemes. In the absence of any contractual arrangements to allocate the net defined benefit cost for these schemes, measured in accordance with IAS 19, to individual businesses, it is the Group's policy to allocate this cost fully to the main trading companies. The Company therefore recognises a pension expense in the income statement equal to its contributions payable in the year. Full disclosure of the Group's pension schemes is given in the Aviva plc Annual Report and Accounts 2019.

(Z) Insurance business transfer

An insurance business transfer between Group companies is considered to be a transfer made of a business combination under common control. There is no guidance in IFRS 3 *Business Combinations* or IFRS 4 *Insurance Contracts* covering such contracts. In the absence of specific guidance, the assets and liabilities transferred are recorded at predecessor carrying value which is a basis consistent with previous accounting for such transactions and pooling accounting which is widely used for common control business transactions.

Exchange rate

Assets and liabilities denominated in sterling by the parent company have been translated into euros using the exchange rate at the date of transfer.

Income statement

For the year ended 31 December 2019

	Note	2019 €m	2018 €m
Income	3		
Gross written premiums		523	—
Premiums ceded to reinsurers		(1,379)	—
Premiums written net of reinsurance		(856)	—
Net change in provision for unearned premiums		235	—
Net earned premiums	F & J	(621)	—
Fee and commission income, net of reinsurance	G	75	—
Net investment income	H	1	—
		(545)	—
Expenses	4		
Claims and benefits paid, net of recoveries from reinsurers	I	(38)	—
Change in insurance liabilities, net of reinsurance	I	723	—
Fee and commission expense, net of reinsurance		(128)	—
Other expenses, net of reinsurance		(6)	—
		551	—
Profit for the year before tax		6	—
Tax charge	W & 8	(1)	—
Profit for the year after tax		5	—

The accounting policies (identified alphabetically) on pages 12 to 18 and notes (identified numerically) on pages 24 to 52 are an integral part of the financial statements.

Statement of comprehensive income

For the year ended 31 December 2019

	Note	2019	2018
		€m	€m
Profit for the year after tax		5	—
Other comprehensive income:			
<i>Items that may be reclassified subsequently to income statement:</i>			
Foreign exchange rate movements	C	—	—
Total other comprehensive expense, net of tax		—	—
Total comprehensive income for the year		5	—

The accounting policies (identified alphabetically) on pages 12 to 18 and notes (identified numerically) on pages 24 to 52 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2019

					2019
	Note	Ordinary share capital	Capital contribution reserve	Retained earnings	Total equity
		€m	€m	€m	€m
Balance at 1 January		5	—	—	5
Profit for the year		—	—	5	5
Other comprehensive income		—	—	—	—
Total comprehensive income for the year		—	—	5	5
Shares issued	1 & 16	25	—	—	25
General insurance business transfer	1 & 17	—	188	—	188
Balance at 31 December		30	188	5	223

					2018
	Note	Ordinary share capital	Capital contribution reserve	Retained earnings	Total equity
		€m	€m	€m	€m
Balance at 1 January		—	—	—	—
Profit for the year		—	—	—	—
Other comprehensive income		—	—	—	—
Total comprehensive income for the year		—	—	—	—
Shares issued	16	5	—	—	5
Balance at 31 December		5	—	—	5

The accounting policies (identified alphabetically) on pages 12 to 18 and notes (identified numerically) on pages 24 to 52 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2019

	Note	2019 €m	2018 €m
Assets			
Goodwill	K & 10	110	—
Lease assets	U & 11	5	—
Financial investments	N & 13	203	—
Reinsurance assets	J & 20	992	—
Receivables and other financial assets	O & 14	103	—
Deferred acquisition costs	S & 15	44	—
Prepayments and accrued income	15	24	—
Current tax assets	W & 21	1	—
Cash and cash equivalents	T & 27	59	5
Total assets		1,541	5
Equity			
Ordinary share capital	X & 16	30	5
Capital contribution reserve	17	188	—
Retained earnings	18	5	—
Total equity		223	5
Liabilities			
Gross insurance liabilities	I & 19	1,162	—
Provisions	V & 22	8	—
Payables and other financial liabilities	P & 24	56	—
Other liabilities	25	92	—
Total liabilities		1,318	—
Total equity and liabilities		1,541	5

The financial statements on pages 12 to 52 were approved by the Board of Directors on 6 April 2020 and signed on its behalf by:



Director

06/04/2020 20:41



Director

06/04/2020 20:17

The accounting policies (identified alphabetically) on pages 12 to 18 and notes (identified numerically) on pages 24 to 52 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2019

	Note	2019 €m	2018 €m
Cash flows from operating activities			
Cash used in operating activities	27(a)	(156)	—
Tax paid		(2)	—
Total net cash used in operating activities		(158)	—
Cash flows from financing activities			
Settlement of lease liabilities		(2)	—
Capital contribution received under the general insurance business transfer	1	188	—
Issue of ordinary shares	1 & 16	25	5
Total net cash generated from financing activities		211	5
Total net increase in cash and cash equivalents		53	5
Cash and cash equivalents at 1 January		5	—
Cash and cash equivalents at 31 December	27(b)	58	5

The accounting policies (identified alphabetically) on pages 12 to 18 and notes (identified numerically) on pages 24 to 52 are an integral part of the financial statements.

Notes to the financial statements

1. General insurance business transfer

On 1 February 2019, a subset of AIL's general insurance business, and relevant assets and liabilities, were transferred to the Company by way of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000.

The assets and liabilities transferred were as follows:

	Note	Total €m
Assets		
Goodwill	10	110
Financial investments		75
Reinsurance assets	20	7
Receivables and other financial assets		1,024
Deferred acquisition costs, prepayments and accrued income	15	65
Cash and cash equivalents		124
Total assets		1,405
Liabilities		
Gross insurance liabilities	19	1,133
Provisions	22	9
Payables and other financial liabilities		9
Other liabilities		51
Total liabilities		1,202
Total net assets transferred		203

All assets and liabilities were carried at carrying value; financial assets and liabilities were transferred at fair value and insurance liabilities were transferred at a value consistent with IFRS 4.

In consideration for the net assets transferred from AIL, the Company's immediate parent undertaking, the Company issued ordinary shares with a nominal value of €15m to AIL and reflected a further capital contribution of €188m. The impact of these capital contributions is shown on the Company's statement of changes in equity.

On 1 February 2019, following the general insurance business transfer, the Company entered into an outwards quota share reinsurance arrangement with AIL in consideration of a premium of €925 million payable by the Company to AIL. The immediate impact of this transaction on the Company's statement of financial position at this date was as follows:

	Total €m
Reinsurance assets	957
Reinsurer's share of deferred acquisition costs	(32)
Premium payable by the Company to AIL	925

Refer to note 31(a)(i) & (ii) for further details.

2. Exchange rates

Assets and liabilities have been translated at the following year end rates:

	2019	2018
Pound Sterling	0.8473	—
US Dollar	1.1224	—

Notes to the financial statements (continued)**3. Details of income**

	Note	2019 €m	2018 €m
Gross written premiums	19(d)	523	—
Less: premiums ceded to reinsurers	20(c)(ii)	(1,379)	—
Gross change in provision for unearned premiums	19(d)	(5)	—
Reinsurers' share of change in provision for unearned premiums	20(c)(ii)	240	—
Net change in provision for unearned premiums		235	—
Net earned premiums		(621)	—
Fee and commission income		75	—
Total revenue		(546)	—
Net gains and losses			
From financial instruments mandatorily held at FVTPL		1	—
Net investment income		1	—
Total income		(545)	—

Net earned premiums includes €1,117 million (2018: €nil) premiums ceded in respect of a quota share reinsurance arrangement with AIL (see note 31(a)(ii)).

Notes to the financial statements (continued)**4. Details of expenses**

	Note	2019 €m	2018 €m
Claims & benefits paid			
Claims and benefits paid to policyholders	19(b)(iv)	263	—
Less: Claim recoveries from reinsurers	20(c)(i)	(225)	—
Claims and benefits paid, net of recoveries from reinsurers		38	—
Change in insurance liabilities			
Change in insurance liabilities	19(b)(iv)	21	—
Change in reinsurance asset for insurance provisions	20(c)(i)	(744)	—
Change in insurance liabilities, net of reinsurance		(723)	—
Fee and commission expense, net of reinsurance			
Acquisition costs			
Commission expenses	15	100	—
Change in deferred acquisition costs		(1)	—
Other acquisition costs		17	—
Less: Fee and commission expense ceded to reinsurers		12	—
		128	—
Other expenses			
Net foreign exchange gains		(3)	—
Other expenses		57	—
Less: Other expenses ceded to reinsurers		(48)	—
		6	—
Total expenses		(551)	—

Net claims and benefits paid and change in insurance liabilities include €974 million (2018: *€nil*) claims recoveries in respect of a quota share reinsurance arrangement with AIL (see note 31(a)(ii)).

5. Employee information

The Company has no employees (2018: *none*). The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc: Aviva Employment Services Limited and Aviva Group Services Ireland Limited. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of these companies respectively. The Company is recharged with the costs of the staff provided by these companies.

Notes to the financial statements (continued)

6. Directors' remuneration

Directors' emoluments comprise the total amounts paid to each director by the Company for their services as a director of the Company. The executive directors of the Company were remunerated by Aviva Employment Services Limited and Aviva Group Services Ireland Limited, fellow subsidiaries of Aviva plc, for their services to the Group as a whole. They were not remunerated directly for their service as directors of the Company and the amount of time spent performing their duties was incidental to their roles across the Group.

Mr Scott received fees in respect of his services as non-executive director of AIL and these are disclosed in the financial statements of that company.

Certain executive directors direct remuneration is disclosed within the aggregate of key management compensation in note 31.

The emoluments in respect of the directors are shown in the table below:

	2019	2018
	€'000	€'000
Aggregate emoluments	100	42
	100	42

7. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers is as follows:

	2019	2018
	€'000	€'000
Fees payable to PwC for the statutory audit of the Company's financial statements	220	17
Audit related assurance	79	8
	299	25

Fees payable for audit-related assurance services include fees in relation to the audit of the Solvency II for 2019 and 2018, and the Motor Insurers Bureau of Ireland regulatory returns for 2019.

There were no other services provided to the Company.

Notes to the financial statements (continued)

8. Tax expense

(a) Tax charge to the income statement

(i) The total tax charge comprises:

	2019 €m	2018 €m
Current tax		
For this year	(1)	—
Prior period adjustments	—	—
Total current tax	(1)	—
Total tax charged to the income statement	(1)	—
Ireland tax	(1)	—
Overseas tax	—	—
	(1)	—

(b) Tax credited/(charged) to other comprehensive income

There was no tax credited or charged to other comprehensive income in either 2019 or 2018.

(c) Tax reconciliation

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate in Ireland as follows:

	Note	2019 €m	2018 €m
Total profit before tax		6	—
Tax calculated at standard Irish corporation tax rate of 12.5% (2018: 12.5%)		(1)	—
Total tax charge to income statement	8(a)(i)	(1)	—

9. Dividends

No interim or final ordinary dividends on the Company's ordinary shares was declared or paid during 2019 (2018: €nil).

10. Goodwill

	Note	2019 €m	2018 €m
Carrying amount at 1 January		—	—
General insurance business transfer	1	110	—
Carrying amount at 31 December		110	—

Goodwill historically arose on acquisitions of insurance businesses. Goodwill was transferred from AIL on 1 February 2019 as part of the general insurance business transfer (refer note 1).

As explained in accounting policy K, the carrying amount of goodwill is reviewed at least annually or when circumstances or events indicate that there may be uncertainty over this value. The review compares the carrying value of the cash generating unit to which the goodwill relates to the recoverable value of that cash generating unit. The recoverable amount is the fair value less costs to sell of the cash generating unit.

Fair value less costs to sell is calculated as the discounted value of expected future profits of the business. The calculation uses cash flow projections based on business plans approved by management covering a three-year period. These plans reflect management's best estimate of future profits based on both historical experience and expected growth rates. Cash flows beyond that three-year period are extrapolated using a steady growth rate. Growth rates and expected future profits are set with regards to past experience and relevant available market statistics. Future profits are discounted using a risk-adjusted discount rate.

The carrying value of goodwill was reviewed at 31 December 2019. Key assumptions include a growth rate of 0% and a risk-adjusted pre-tax discount rate of 10%. No impairment was required as the recoverable amount exceeded the carrying value. Furthermore, a reasonably possible change in assumptions would have not caused the carrying amount to exceed its recoverable amount.

Notes to the financial statements (continued)**11. Lease assets and liabilities**

On 1 February 2019, certain Irish properties occupied by the Company were subleased from AIL (holder of the respective headleases). Each sublease is reflected on the balance sheet as a right-of-use asset and a lease liability.

(i) There were no material amounts in respect of lease liabilities recognised in the Company's income statement. Expenses recognised in the income statement in relation to short-term and low-value leases were €nil (2018: €nil). Variable lease payments not included in the measurement of lease liabilities were €nil (2018: €nil).

Total cash outflows recognised in the period in relation to leases were €2 million (2018: €nil).

(ii) The following table analyses the right-of-use assets relating to leased properties occupied by the Company.

	2019	2018
	€m	€m
Carrying amount at 1 January	—	—
Additions	8	—
Depreciation	(3)	—
Carrying amount at 31 December	<u>5</u>	<u>—</u>

(iii) Future contractual aggregate minimum lease payments are as follows:

	2019	2018
	€m	€m
Within 1 year	2	—
Later than 1 year and not later than 5 years	3	—
Total undiscounted lease liabilities	<u>5</u>	<u>—</u>

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

12. Fair value methodology**(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 market;
- 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 spreads); 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, the investment is classified 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.

Notes to the financial statements (continued)**12. Fair value methodology (continued)****(a) Basis for determining fair value hierarchy of financial instruments (continued)****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.

The majority of the Company's assets and liabilities measured at fair value are based on quoted market information or observable market data. Where estimates are used, these are based on a combination of independent third-party evidence and internally developed models, calibrated to market observable data where possible. Third-party valuations using significant unobservable inputs validated against Level 2 internally modelled valuations are classified as Level 3, where there is a significant difference between the third-party price and the internally modelled value. Where the difference is insignificant, the instrument would be classified as Level 2.

(b) Changes to valuation techniques

No changes were made to the valuation techniques during the year compared to those described in the Company's 2018 annual report and financial statements.

(c) Comparison of the carrying amount and fair values of financial instruments

The fair value of all the Company's financial investments, investment properties, deposits received from insurers and derivative liabilities is equal to their carrying amounts. The fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables and other financial assets
- Prepayments and accrued income
- Cash and cash equivalents
- Payables and other financial liabilities
- Other liabilities

(d) Fair value hierarchy

An analysis of assets and liabilities measured at fair value categorised by fair value hierarchy is given below:

	Note	Level 1 €m	Level 2 €m	Level 3 €m	2019 Total €m
Recurring fair value measurements					
Financial investments		23	180	—	203
Debt securities	13	11	178	—	189
Derivative assets	13 & 30	—	2	—	2
Other investments	13	12	—	—	12
Total		23	180	—	203
Financial liabilities					
Derivative liabilities	30	—	(1)	—	(1)
Total		—	(1)	—	(1)
	Note	Level 1 €m	Level 2 €m	Level 3 €m	2018 Total €m
Recurring fair value measurements					
Financial investments		—	—	—	—
Debt securities	13	—	—	—	—
Derivative assets	13 & 30	—	—	—	—
Other investments	13	—	—	—	—
Total		—	—	—	—
Financial liabilities					
Derivative liabilities	30	—	—	—	—
Total		—	—	—	—

Notes to the financial statements (continued)**12. Fair value methodology (continued)****(e) Transfers between levels of the fair value hierarchy**

For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

There were no material transfers between levels of the fair value hierarchy during 2019 (2018: none).

(f) Valuation approach for fair value assets and liabilities classified as Level 2

Refer to note 12(a) for a description of typical Level 2 inputs.

Debt securities, in line with market practice, are generally valued using an independent pricing service. These valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls, such as monthly price variances, stale price reviews and variance analysis. Pricing services, where available, are used to obtain the third-party broker quotes. Where pricing services providers are used, a single valuation is obtained and applied. When prices are not available from pricing services, quotes are sourced from brokers. Over-the-counter derivatives are valued using broker quotes or models such as option pricing models, simulation models or a combination of models. The inputs for these models include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of the underlying instruments.

Unit trusts and other investment funds included under the other investments category are valued using net asset values which are not subject to a significant adjustment for restrictions on redemption or for limited trading activity.

13. Financial investments**(a) Carrying amount**

Financial investments comprise:

	2019 €m	2018 €m
Financial assets mandatorily held at FVTPL		
Fixed maturity securities		
<i>Debt securities</i>		
Government	135	—
Corporate	54	—
	189	—
Other investments		
Unit trusts and other investment vehicles	12	—
Derivative financial instruments	2	—
	14	—
Total financial investments	203	—
Expected to be recovered in more than one year	203	—
Total financial investments	203	—

(b) Cost, unrealised gains and fair value

The following is a summary of the cost/amortised cost, gross unrealised gains and losses and fair value of financial investments.

	2019				2018			
	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value	Cost/ amortised cost	Unrealised gains	Unrealised losses and impairments	Fair value
	€m	€m	€m	€m	€m	€m	€m	€m
Fixed maturity securities	188	2	(1)	189	—	—	—	—
Unit trusts and other investment vehicles	11	1	—	12	—	—	—	—
Derivative financial instruments	—	2	—	2	—	—	—	—
	199	5	(1)	203	—	—	—	—

All unrealised gains and losses and impairments on financial investments classified as fair value through profit or loss have been recognised in the income statement.

Unrealised gains and losses on financial investments classified as at fair value through profit or loss, recognised in the income statement in the year, were a net gain of €4 million (2018: €nil).

The movement in the unrealised gain/loss position reported in the statement of financial position during the year, shown in the table above, includes transfers due to the realisation of gains and losses on disposal and the recognition of impairment losses.

Notes to the financial statements (continued)

13. Financial investments (continued)

(c) Impairment of financial investments

There were no impairments in 2019 (2018: €nil).

14. Receivables and other financial assets

	Notes	2019 €m	2018 €m
Amounts owed by contract holders		38	—
Amounts owed by intermediaries		51	—
Amounts due from reinsurers		4	—
Amounts due from other Group companies	31(a)(iii)	10	—
Total as at 31 December		103	—
Expected to be recovered in less than one year		93	—
Expected to be recovered in more than one year		10	—
Total as at 31 December		103	—

Financial assets within receivables and other financial assets are held to collect on the contractual cash flows due to the Company and are deemed to be solely payments of principal and interest. As a result of this business model and the assessment of the contractual cash flows, these instruments have been measured at amortised cost, which approximates to fair value.

15. Deferred acquisition costs, prepayments and accrued income

(a) The carrying amount comprises:

	2019 €m	2018 €m
Deferred acquisition costs	44	—
Prepayments and accrued income	24	—
Total as at 31 December	68	—

(b) The movement in deferred acquisition cost during the year are:

	2019 €m	2018 €m
Carrying amount at 1 January	—	—
General insurance business transfer	43	—
Acquisition costs deferred during the year	92	—
Amortisation	(91)	—
Carrying amount as at 31 December	44	—

Deferred acquisition costs are generally recoverable within one year of the statement of financial position date.

(c) Prepayments and accrued income

Prepayments and accrued income are expected to be recovered within one year of the statement of financial position date.

Notes to the financial statements (continued)**16. Ordinary share capital****(a) Details of the Company's ordinary share capital are as follows:**

	2019	2018
	€m	€m
Allotted, called up and fully paid		
30,000,000 (2018: 5,000,000) ordinary shares of €1 each	30	5

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

(b) Movements in the year comprise:

	2019		2018	
	Share capital		Share capital	
	Number of shares	€m	Number of shares	€m
At 1 January	5,000,000	5	1	—
Shares issued	25,000,000	25	4,999,999	5
At 31 December	30,000,000	30	5,000,000	5

On 1 February 2019, the Company issued 15 million ordinary shares of €1.00 each at nominal value to AIL in part consideration for the net assets transferred under the general insurance business transfer from AIL (see note 1).

On 24 June 2019, the Company issued a further 10 million ordinary shares of €1.00 each at nominal value to AIL, settled in cash.

17. Capital contribution reserve

	Note	2019	2018
		€m	€m
Balance at 1 January		—	—
General insurance business transfer	1	188	—
Balance at 31 December		188	—

On 1 February 2019, a subset of AIL's general insurance business, and relevant assets and liabilities, were transferred to the Company by way of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. In consideration for the net assets transferred from AIL, the Company's immediate parent undertaking, the Company issued ordinary shares with a nominal value of €15m to AIL and reflected a further capital contribution of €188m.

18. Retained earnings

	Note	2019	2018
		€m	€m
Balance at 1 January		—	—
Profit for the year		5	—
Balance at 31 December		5	—

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

Notes to the financial statements (continued)**19. Insurance liabilities****(a) Carrying amount:**

(i) Insurance liabilities (gross of reinsurance) at 31 December comprised:

	2019	2018
	€m	€m
Outstanding claims provisions	742	—
Provision for claims incurred but not reported	140	—
	882	—
Provision for unearned premiums	280	—
Total at 31 December	1,162	—

(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 for general insurance business 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.

The Company only establishes loss reserves for losses that have already occurred. The Company therefore does not establish catastrophe equalisation reserves that defer a share of income in respect of certain lines of business from years in which a catastrophe does not occur to future periods in which catastrophes may occur. 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 €3 million (2018: €nil).

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 claim payments, except for latent claims for which discounted provisions are held. At 31 December 2019, latent claims discount rates ranged from -0.3% to 0.7% and the mean term of liabilities was 7 years.

The gross outstanding claims provision before discounting was €883 million (2018: €nil). The period of time which will elapse before the liabilities are settled has been estimated by modelling the settlement patterns of the underlying claims.

The discount rate that has been applied to latent claims reserves is based on the relevant swap curve in the relevant currency having regard to the expected settlement dates of the claims. The range of discount rates used depends on the duration of the claims and is given above.

(iii) 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 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 a 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 claim 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 claim 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 a point estimate for the ultimate cost of claims that represents the likely outcome, from a 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:

Notes to the financial statements (continued)**19. Insurance liabilities (continued)****(b) General insurance liabilities (continued)****(iii) Assumptions (continued)****Discount rates applied to latent claim liabilities**

The discount rates used in determining latent claim liabilities 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 (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 not have a material impact on net claim reserves (2018: €nil).

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.

(iv) Movements

The following movements have occurred in the claims provisions during the year:

	Note	2019 €m	2018 €m
Carrying amount at 1 January		—	—
Claim losses and expenses incurred in the current year		297	—
Decrease in estimated claims losses and expenses occurred in prior periods		(13)	—
Incurred claims losses and expenses		284	—
Less:			
Payments made on claims incurred in the current year		(109)	—
Payments made on claims occurred in the prior year		(154)	—
Claims payments made in the year	4	(263)	—
Changes in claims reserve recognition as expense		21	—
Foreign exchange rate movements		(1)	—
General insurance business transfer	1	862	—
Carrying amount at 31 December		882	—

(c) Loss development tables**(i) Analysis of general insurance claims development**

The tables that follow present the development of claim payments and the estimated ultimate cost of claims, including the development prior to 1 February 2019 of both the claims reserves transferred from AIL under the general insurance business transfer (note 1), for the accident years 2010 to 2019. The upper half of the tables shows the cumulative amounts paid during successive years related to each accident year. For example, with respect to the accident year 2010, by the end of 2019, £391 million 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 £436 million was re-estimated to be £399 million at 31 December 2019.

The original estimates increase or decrease, as more information becomes known about the individual claims and overall claim frequency and severity.

The Company aims to maintain reserves in respect of its general insurance business that 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 in notes (c)(ii) and (c)(iii) below. Releases from prior accident year reserves are also due to an improvement in the estimated cost of claims.

Key elements of the release from prior accident year general insurance gross of reinsurance provisions during 2019 were the favourable development of large personal injury claims for personal and commercial motor. Similar drivers of the releases in gross of reinsurance provisions were also present during 2018. On a net of reinsurance basis, the drivers of the release from prior accident year provisions during 2019 are the same as those on a gross of reinsurance basis.

Notes to the financial statements (continued)**19. Insurance liabilities (continued)****(c) Loss development tables (continued)****(ii) Gross of reinsurance**

Before the effect of reinsurance, the loss development table, including the historical development of claims reserves transferred from AIL under the general insurance business transfer (note 1) as though always held by the Company, is:

Accident year	All prior years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Gross cumulative claim payments												
At end of accident year		(130)	(104)	(89)	(86)	(121)	(97)	(110)	(108)	(122)	(112)	
One year later		(234)	(171)	(141)	(137)	(164)	(147)	(151)	(163)	(173)		
Two years later		(268)	(202)	(180)	(168)	(191)	(176)	(181)	(195)			
Three years later		(301)	(233)	(216)	(195)	(226)	(203)	(209)				
Four years later		(333)	(263)	(244)	(218)	(245)	(221)					
Five years later		(360)	(282)	(261)	(237)	(259)						
Six years later		(375)	(302)	(270)	(247)							
Seven years later		(385)	(313)	(278)								
Eight years later		(389)	(318)									
Nine years later		(391)										
Estimate of gross ultimate claims												
At end of accident year		436	367	336	290	297	306	314	335	355	326	
One year later		440	349	330	286	307	308	347	352	359		
Two years later		428	355	314	284	302	291	321	344			
Three years later		414	347	314	278	299	287	322				
Four years later		411	346	309	281	295	295					
Five years later		415	339	306	276	294						
Six years later		412	336	305	277							
Seven years later		410	336	306								
Eight years later		407	332									
Nine years later		399										
Estimate of gross ultimate claims		399	332	306	277	294	295	322	344	359	326	
Cumulative payments		(391)	(318)	(278)	(247)	(259)	(221)	(209)	(195)	(173)	(112)	
Gross outstanding claims provisions	32	8	14	28	30	35	74	113	149	186	214	883
Effect of discounting	(1)	—	—	—	—	—	—	—	—	—	—	(1)
Present value recognised in the statement of financial position												
	31	8	14	28	30	35	74	113	149	186	214	882

Notes to the financial statements (continued)**19. Insurance liabilities (continued)****(c) Loss development tables (continued)****(iii) Net of reinsurance**

After the effect of reinsurance, the loss development table, including both the historical development of claims reserves transferred from AIL under the general insurance business transfer and the implied historical impact of the quota share reinsurance arrangement with AIL (note 1) as though always held by the Company, is:

Accident year	All prior years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Net cumulative claim payments												
At end of accident year		(19)	(16)	(13)	(13)	(18)	(15)	(16)	(16)	(18)	(16)	
One year later		(35)	(24)	(21)	(21)	(25)	(22)	(23)	(24)	(25)		
Two years later		(40)	(29)	(27)	(25)	(28)	(27)	(27)	(29)			
Three years later		(45)	(33)	(32)	(29)	(34)	(30)	(31)				
Four years later		(50)	(38)	(36)	(33)	(37)	(32)					
Five years later		(54)	(41)	(39)	(35)	(39)						
Six years later		(56)	(44)	(40)	(37)							
Seven years later		(57)	(46)	(41)								
Eight years later		(58)	(46)									
Nine years later		(58)										
Estimate of net ultimate claims												
At end of accident year		65	54	50	43	44	45	47	50	52	47	
One year later		65	50	49	43	46	46	52	53	53		
Two years later		64	52	47	42	45	43	48	51			
Three years later		61	50	47	42	45	42	47				
Four years later		61	50	46	42	44	43					
Five years later		62	49	45	41	44						
Six years later		61	49	45	42							
Seven years later		61	49	45								
Eight years later		61	48									
Nine years later		59										
Estimate of net ultimate claims		59	48	45	42	44	43	47	51	53	47	
Cumulative payments		(58)	(46)	(41)	(37)	(39)	(32)	(31)	(29)	(25)	(16)	
Net outstanding claims provisions	6	1	2	4	5	5	11	16	22	28	31	131
Effect of discounting	—	—	—	—	—	—	—	—	—	—	—	—
Present value recognised in the statement of financial position												
	6	1	2	4	5	5	11	16	22	28	31	131

In the loss development tables shown above, the cumulative claim payments and estimates of cumulative claims for each accident year are translated into euros at the exchange rates that applied at the end of that accident year. Disposals are dealt with by treating all outstanding and incurred by not reported claims of the disposed entity as 'paid' at the date of disposal.

Notes to the financial statements (continued)**19. Insurance liabilities (continued)****(d) Provision for unearned premium**

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

	Note	2019 €m	2018 €m
Carrying amount at 1 January		—	—
General insurance business transfer	1	271	—
Premiums written during the year	3	523	—
Less: Premiums earned during the year		(518)	—
Changes in provisions for unearned premiums recognised in income	3	5	—
Foreign exchange rate movements		1	—
Other insurance business transfers		3	—
Carrying amount at 31 December		280	—

20. Reinsurance assets**(a) Carrying amounts**

The reinsurance assets at 31 December comprised:

	2019 €m	2018 €m
Outstanding claims provisions	633	—
Provision for claims incurred but not reported	118	—
	751	—
Provisions for unearned premiums	241	—
Total at 31 December	992	—
Expected to be recovered in less than one year	344	—
Expected to be recovered in more than one year	648	—
Total at 31 December	992	—

The reinsurers' share of outstanding claims provisions and provisions for claims incurred but not reported is reduced by €1 million (2018: €nil) as a result of the discounting of latent claims.

(b) Assumptions

The assumptions, including discount rates, used for reinsurance contracts follow those used for insurance contracts. Reinsurance assets are valued net of an allowance for their recoverability.

(c) Movements

The following movements have occurred in the reinsurance assets during the year:

(i) Reinsurers' share of claims provisions

	Note	2019 €m	2018 €m
Carrying amount at 1 January		—	—
Incurred in current year		272	—
Occurred in prior years		697	—
Reinsurers' share of incurred claim losses and expenses		969	—
Less:			
Reinsurance recoveries received on claims			
Incurred in current year		(92)	—
Occurred in prior years		(133)	—
Reinsurance recoveries received in the year	4	(225)	—
Change in reinsurance asset recognised as income		744	—
General insurance business transfer	1	7	—
Carrying amount at 31 December		751	—

Notes to the financial statements (continued)**20. Reinsurance assets (continued)****(c) Movements (continued)**(ii) *Reinsurers' share of the provision for unearned premiums*

	Note	2019 €m	2018 €m
Carrying amount as at 1 January		—	—
Premiums ceded to reinsurers in the year	3	1,379	—
Less: Reinsurers' share of premiums earned during the year		(1,139)	—
Changes in reinsurance' asset recognised as income	3	240	—
Foreign exchange rate movements		1	—
Carrying amount at 31 December		241	—

21. Tax assets and liabilities

Current tax asset is €1 million, recoverable in less than one year (2018: none).

22. Provisions**(a) Carrying amounts**

	2019 €m	2018 €m
Property and other provisions	8	—
Total provisions	8	—

Provisions predominantly relate to property provisions that were transferred to the Company from AIL under the general insurance business transfer on 1 February 2019 and compliance related costs. The property provisions relate to expected settlement of costs associated with Irish properties where AIL is lessee under headlease arrangements.

(b) Movements in restructuring and other provisions

	Note	2019 €m	2018 €m
Carrying amount at 1 January		—	—
General insurance business transfer	1	9	—
Additional provisions		1	—
Release to the income statement		(2)	—
Carrying amount at 31 December		8	—
Expected to be settled in more than one year		8	—
Carrying amount at 31 December		8	—

23. Pension obligations**(a) Introduction**

The Group operates a number of defined benefit and defined contribution pension schemes. Staff whose costs are recharged to the Company are either members of the Aviva Staff Pension Scheme in the UK, or the Aviva Ireland Staff Defined Contribution Plan in the Republic of Ireland. They receive benefits on either a defined benefit or a defined contribution basis. New entrants join the defined contribution section of the schemes, as the defined benefit sections for both schemes are now closed.

Full details of the Group's pension arrangements are given in note 52 of the Aviva plc Annual Report and Accounts 2019.

(b) Charges to the income statement

The total costs of pension schemes recharged to the Company gross of reinsurance were:

	2019 €m	2018 €m
Defined contribution scheme	4	—
Total pension costs	4	—

There were no significant contributions outstanding or prepaid as at either 31 December 2019 or 2018.

Notes to the financial statements (continued)**24. Payables and other financial liabilities**

	Note	2019 €m	2018 €m
Payables arising out of reinsurance operations		3	—
Bank overdrafts	27(b)	1	—
Derivative liabilities	30	1	—
Amounts due to parent	31(a)(iii)	26	—
Amounts due to other Group companies	31(a)(iii)	20	—
Lease liabilities		5	—
Total as at 31 December		56	—
Expected to be settled within one year		53	—
Expected to be settled in more than one year		3	—
Total as at 31 December		56	—

All payables arise in the ordinary course of business and are both non-interest bearing and repayable on demand. All payables and other financial liabilities are carried at amortised cost, which approximates to fair value.

25. Other liabilities

	2019 €m	2018 €m
Reinsurers' share of deferred acquisition costs	38	—
Accruals	39	—
Other liabilities	15	—
Total as at 31 December	92	—
Expected to be settled within one year	92	—
Total as at 31 December	92	—

26. Contingent liabilities and other risk factors**(a) Uncertainty over claims provisions**

Note 19 gives details of the estimation techniques used in determining the general business 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 general insurance business claims inflation may differ from that expected, and hence there is uncertainty in respect of these liabilities.

(b) Asbestos, pollution and social environmental hazards

In the course of conducting insurance business, the Company receives general insurance liability claims, and becomes involved in actual or threatened litigation arising therefrom, including potential claims in respect of pollution and other environmental hazards. Amongst these are claims in respect of asbestos handling and other industrial diseases in Ireland. Given the significant delays that are experienced in the notification of these claims, the potential number of incidents which they cover and the uncertainties associated with establishing liability and the availability of reinsurance, the ultimate cost cannot be determined with certainty. However, on the basis of current information having regard to the level of provisions made for general insurance claims and substantial reinsurance cover now in place, the directors consider that any additional costs arising are not likely to have a material impact on the financial position of the Company.

(c) Regulatory compliance

The CBI regulates and authorises the Company's Irish business and in addition monitor the financial resources and organisation of the Company as a whole. The CBI has 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 Ireland 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.

Notes to the financial statements (continued)**26. Contingent liabilities and other risk factors (continued)****(d) 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.

From time to time, the Company directly or indirectly receives liability claims, and becomes directly or indirectly involved in actual or threatened related litigation. In the opinion of the directors, it is unlikely that the Company will suffer material financial loss in this respect.

27. Statement of cash flows**(a) The reconciliation of profit before tax to the net cash out flow from operating activities is:**

	Note	2019 €m	2018 €m
Profit before tax		6	—
Adjustments for:			
Fair value gains on investments	3	(1)	—
Amortisation of premium / discount on debt securities		3	—
Depreciation of lease assets	11(ii)	3	—
Foreign currency exchange losses		(3)	—
		2	—
Changes in working capital:			
Increase in reinsurance assets		(39)	—
Increase in deferred acquisition costs and prepayments		(68)	—
Increase in insurance liabilities		1,161	—
Decrease in other assets and liabilities		(1,015)	—
		39	—
Net purchases of operating assets:			
Net purchases of financial investments		(203)	—
		(203)	—
Total cash used in operating activities		(156)	—

Purchases and sales of investment property and 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.

The changes in working capital reflect the impact of the general insurance business transfer referred to in note 1.

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	Note	2019 €m	2018 €m
Cash at bank and in hand		12	5
Cash equivalents		47	—
		59	5
Bank overdrafts	24	(1)	—
		58	5

Notes to the financial statements (continued)**28. Capital structure**

The Company maintains an efficient capital structure from equity shareholders' 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 support new business growth and 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 traditional sources of capital funding but 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.

(ii) Regulatory basis

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 (note 29) 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 own funds under Solvency II were €111 million (2018: €4 million). 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

	2019	2018
	€m	€m
Equity shareholders' funds	223	5
Total capital	223	5

Notes to the financial statements (continued)

29. Risk management

(a) 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, and is 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 its customers and the service to its 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 has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations. The Chief Executive Officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for their business throughout the year; this declaration is supported by an opinion from the Chief Risk Officer.

A regular top-down key risk identification and assessment process is carried out by 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 shared with the relevant committees.

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 equity returns, 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 risk, 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 is 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 through its Risk Committee. 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 we will not accept risks that materially impair the reputation of the Company and requires that customers are always treated with integrity. The oversight of risk and risk management is supported by the Asset Liability Committee ("ALCO"), which focuses on insurance and financial risks, and the Operational Risk and Conduct Committee ("ORCC"), which focuses on operational and reputational risks.

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

(b) 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. Credit risk is taken so that the Company can provide the returns required to satisfy policyholder liabilities and to generate returns to the Company's shareholders. The Company is also exposed to third party credit quality changes through a range of activities including reinsurance and derivatives.

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 securities, bank deposits and derivative counterparties, insurance and reinsurance counterparties, and Group counterparties to inter-company payables and 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 criteria.

(i) Financial exposures to Group companies

The Company has significant financial exposure to reinsurance assets and amounts due from fellow Group companies. The credit risk arising from Group counterparties failing to meet all or part of their obligations is considered remote. As at the reporting date, there are no material expected credit losses recognised in relation to amounts due from Group companies held at amortised cost.

(ii) Financial exposures by credit ratings

Financial assets other than equities are graded according to current external 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. The credit quality of receivables and other financial assets is monitored by the Company, and provisions for impairment are made for irrecoverable amounts. In assessing whether assets are impaired, due consideration is given to the factors outlined in accounting policy N.

Notes to the financial statements (continued)**29. Risk management (continued)****(b) Credit risk (continued)***(ii) Financial exposures by credit ratings (continued)*

31 December 2019	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value €m
Debt securities	116	47	26	—	—	—	189
Reinsurance assets	—	992	—	—	—	—	992
Derivative assets	—	—	—	—	—	2	2
Other investments	—	—	—	—	—	12	12
Total	116	1,039	26	—	—	14	1,195

31 December 2018	AAA	AA	A	BBB	Below BBB	Not-rated	Carrying value €m
Debt securities	—	—	—	—	—	—	—
Reinsurance assets	—	—	—	—	—	—	—
Derivative assets	—	—	—	—	—	—	—
Other investments	—	—	—	—	—	—	—
Total	—	—	—	—	—	—	—

The Company's maximum exposure to credit risk of financial assets, without taking collateral, is represented by the carrying value of the financial instruments in the statement of financial position. These comprise debt securities, reinsurance assets, derivative assets, other investments, receivables and cash and cash equivalents. The carrying values of these assets are disclosed in the relevant notes: financial investments (note 13), reinsurance assets (note 20), receivables (note 14) and cash and cash equivalents (note 27(b)).

An assessment is carried out over all categories of financial asset to determine to what extent assets held can be considered to have low credit risk as at the reporting date. A low credit risk is demonstrated where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. In making this assessment, the Company makes use of both internal and external credit risk ratings, along with other qualitative and quantitative factors where external ratings are not available. Where a financial asset is deemed to have low credit risk, it is assumed that the credit risk on the respective assets has not increased significantly since initial recognition.

Where external credit ratings are available for financial assets, a significant increase in the credit risk of a financial asset is identified where there has been a significant deterioration in the respective credit rating. In all circumstances, where contractual payments are more than 30 days past due, there is deemed to be a significant increase in the credit risk of the related financial asset.

A financial asset is considered to be in default where contractual payments are past due, and there is objective evidence that the counterparty will be unable to subsequently meet their payment obligations. A financial asset is written off only when all other available measures have been taken to recover amounts due. During the period, none of the cash flows associated with any of the Company's financial assets have been modified or renegotiated (2018: none).

(iii) Calculation of expected credit losses

Expected credit losses on material receivables and other assets are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. Short term financial assets (where all amounts are receivable within twelve months from the reporting date) do not generally attract an expected credit loss charge, unless there is objective evidence that losses are likely to arise.

The Company has no financial assets which are categorised such that lifetime expected credit losses are calculated or which are deemed to be credit impaired at the reporting date. The Company has not purchased or originated any credit-impaired financial assets as at the reporting date.

The Company makes use of the simplified approach when calculating expected credit losses on trade and other receivables and therefore calculates expected credit losses over the lifetime of the instrument in question. Expected credit losses on third party trade receivables and accrued income are calculated with reference to an analysis of payment terms. The Company does not expect any material credit losses on trade receivables with related parties.

(iv) Modification of contractual cash flows that have not resulted in derecognition

There have been no significant modifications of contractual cash flows on any of the Company's financial assets during the period.

(v) Credit concentration risk

The Company is generally not exposed to significant concentrations of credit risk due to compliance with applicable regulations and the Group credit policy and limits framework, which limit investments in individual assets and asset classes.

The Company is exposed to concentrations of risk with individual reinsurers due to the nature of the reinsurance market and the restricted range of reinsurers that have acceptable credit ratings. The Company operates a policy to manage its reinsurance counterparty exposures, by limiting the reinsurers that may be used and applying strict limits to each reinsurer. Reinsurance exposures are aggregated with other exposures to ensure that the overall risk is within appetite. Exposures are actively monitored with escalation to the Chief Financial Officer, Chief Risk Officer, ALCO and the Risk Committee as appropriate.

Notes to the financial statements (continued)**29. Risk management (continued)****(b) Credit risk (continued)***(vi) Reinsurance credit exposures*

The Company's largest intra-group reinsurance counterparty is AIL as a result of the quota share reinsurance ceded to AIL. At 31 December 2019, the reinsurance asset recoverable from AIL, excluding the unearned premium provision, was €994 million (2018: €nil).

(vii) Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades. This risk is mitigated through holding collateral for most trades. Residual exposures are captured within the Company's credit management framework.

(viii) Impairment of financial assets

In assessing the extent to which credit losses should be recognised, due consideration is given to the factors outlined in accounting policy N. The following table provides information regarding the carrying value of financial assets subject to impairment testing that have been impaired and the ageing of those assets that are past due but not impaired.

	Financial assets that are past due but not impaired					Financial assets that have been impaired	Carrying value
	Neither past due nor impaired	0-3 months	3-6 months	6 months-1 year	Greater than 1 year		
31 December 2019	€m	€m	€m	€m	€m	€m	€m
Debt securities	189	—	—	—	—	—	189
Reinsurance assets	992	—	—	—	—	—	992
Derivative assets	2	—	—	—	—	—	2
Other investments	12	—	—	—	—	—	12
Receivables	76	7	4	5	1	—	93

	Financial assets that are past due but not impaired					Financial assets that have been impaired	Carrying value
	Neither past due nor impaired	0-3 months	3-6 months	6 months-1 year	Greater than 1 year		
31 December 2018	€m	€m	€m	€m	€m	€m	€m
Debt securities	—	—	—	—	—	—	—
Reinsurance assets	—	—	—	—	—	—	—
Derivative assets	—	—	—	—	—	—	—
Other investments	—	—	—	—	—	—	—
Receivables	—	—	—	—	—	—	—

Receivables and other financial assets carried at amortised cost include amounts due from other Group companies of €10 million (2018: €nil).

(c) 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, 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 risks 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 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.

The most material types of market risk that the Company is exposed to are described below.

(i) Interest rate risk

Interest rate risk arises primarily from the Company's investments in long term debt and fixed interest 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 shareholder funds to changes in interest rates is given in section (g)(ii) below.

(ii) Inflation risk

Inflation risk arises primarily from the Company's exposure to general insurance claims inflation and expense inflation. Increases in long-term inflation expectations are closely linked to long-term interest rates and so are frequently considered with interest rate risk. Exposure to inflation risk is monitored through sensitivity testing and stress and scenario testing. The Company typically manages inflation risk through asset-liability matching and hedging where appropriate in accordance with approved risk appetite.

Notes to the financial statements (continued)**29. Risk management (continued)****(c) Market risk (continued)***(iii) Currency risk*

The Company has exposure to currency risk primarily through its financial investments. The Company has a low appetite for currency risk and actively manages the position using derivatives where appropriate.

The Company's total equity deployment by currency (after impact of hedging) is set out below. Where currencies have been hedged using cap or collar derivatives, only the remaining unhedged exposure has been presented. The parameters of caps and collars are managed such that adverse exposure to currency fluctuations on hedged positions is not significant.

	EUR	USD	Total
31 December 2019	€m	€m	€m
Total equity	222	1	223
31 December 2018	€m	€m	€m
Total equity	5	—	5

(iv) Derivatives risk

Derivatives are used for efficient investment management, and risk hedging purposes. Derivatives are used within policy guidelines agreed by the Board and activity is overseen by the Group Capital and Group Risk teams, which monitor exposure levels and approve large or complex transactions.

The Company applies strict requirements to the administration and valuation processes it uses, and has a control framework that is consistent with market and industry practice for the activity that is undertaken.

(d) Liquidity risk

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

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 analyses

The following tables show the maturities of the Company's insurance liabilities, payables and other financial liabilities, derivative liabilities and accruals.

(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:

	Total	On demand or within 1 year	1-5 years	5-15 years	Over 15 years
31 December 2019	€m	€m	€m	€m	€m
Insurance liabilities	1,162	412	600	145	5
Payables and other financial liabilities, excluding derivatives	55	52	3	—	—
Derivative liabilities	1	1	—	—	—
Accruals	39	39	—	—	—
Total contract liabilities	1,257	504	603	145	5
31 December 2018	€m	€m	€m	€m	€m
Insurance liabilities	—	—	—	—	—
Payables and other financial liabilities, excluding derivatives	—	—	—	—	—
Derivative liabilities	—	—	—	—	—
Accruals	—	—	—	—	—
Total contract liabilities	—	—	—	—	—

Notes to the financial statements (continued)**29. Risk management (continued)****(d) Liquidity risk (continued)***(ii) Analysis of maturity of financial assets and reinsurance assets*

The following table 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.

	Total	On demand or within 1 year	1-5 years	Over 5 years	No fixed term (perpetual)
31 December 2019	€m	€m	€m	€m	€m
Debt securities	189	4	67	118	—
Other investments	12	12	—	—	—
Derivative assets	2	2	—	—	—
Reinsurance assets	992	344	519	129	—
Receivables	93	93	—	—	—
Cash and cash equivalents	59	59	—	—	—
Total financial assets	1,347	514	586	247	—

	Total	On demand or within 1 year	1-5 years	Over 5 years	No fixed term (perpetual)
31 December 2018	€m	€m	€m	€m	€m
Cash and cash equivalents	5	5	—	—	—
Total financial assets	5	5	—	—	—

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

(e) General insurance risk*(i) Types of 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 Company has a preference for general insurance risk in measured amounts for explicit reward, in line with the Company's core skills in underwriting and pricing. The majority of the general insurance business underwritten by the Company continues to be short-tail in nature such as motor, household and commercial property insurances. 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. Underwriting strategy is communicated to underwriters, with underwriting licences granted to individual underwriters according to competence and experience.

The adequacy of the Company's general insurance claims provisions is overseen by the Reserving Committee. Actuarial claims reserving is conducted by the Company's actuaries, with periodic independent external reviews by consulting actuaries.

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 Ireland.

Reserving processes are further detailed in note 19 'Insurance liabilities'.

(ii) Management of general insurance risks

The capital model is used to assess the risks that the Company is exposed to, quantifying their impact and calculating appropriate capital requirements.

The Company has developed mechanisms that identify, quantify and manage accumulated exposures to contain them within the limits of risk appetite. Various methodologies are in place to manage effectively exposures arising from specific perils and the Company analyses accumulations of insurance risk under various headings, including type of business, location, profile of customers and type of claim and uses these analyses to inform underwriting and reserving.

(iii) Reinsurance strategy

Significant reinsurance purchases are reviewed annually to verify that the levels of protection being bought reflect any developments in exposure and the risk appetite of the Company. The basis of these purchases is underpinned by analysis of capital, earnings and capital volatility, cash flow and liquidity. Detailed actuarial analysis is used to calculate the Company's extreme risk profile and then design cost and capital efficient reinsurance programmes to mitigate these risks to within agreed appetites. The Group analyses natural catastrophe exposure using its own internal probabilistic catastrophe model which is benchmarked against external catastrophe models widely used by the rest of the insurance and reinsurance industry.

The Company's largest reinsurance arrangements include a retrospective (both new and existing business) quota share reinsurance arrangement with ALL, with effect from 1 February 2019.

Notes to the financial statements (continued)

29. Risk management (continued)

(f) 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's Operational Risk and Control Management Framework 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.

(g) Risk and capital management

The Company uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of capital requirements and to manage its capital more efficiently. Risk based capital models are used to support the quantification of risk under the Solvency II framework. Primarily, a risk-based capital model and scenario tests are used. 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

General insurance 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 the impact of a change in a single factor is shown, with other assumptions left unchanged.

Sensitivity factor	Description of sensitivity factor applied				
Interest rate and investment return	The impact of a change in market interest rates by $\pm 1\%$				
Credit spreads	The impact of a 0.5% increase in credit spreads over risk free interest rates on corporate bonds and other non-sovereign credit assets. The test allows for any consequential impact on liability valuations.				
Expenses	The impact of an increase in maintenance expenses by 10%				
Gross loss ratios	The impact of an increase in gross loss ratios for general insurance business by 5%				

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

Impact on profit before tax	Interest rates	Interest rates	Credit spreads	Expenses	Gross loss ratio
	+1%	-1%	+0.5%	+10%	+5%
31 December 2019	€m	€m	€m	€m	€m
Gross of reinsurance	(3)	3	(1)	(3)	(14)
Net of reinsurance	(3)	3	(1)	—	(2)

Impact on shareholders' equity	Interest rates	Interest rates	Credit spreads	Expenses	Gross loss ratio
	+1%	-1%	+0.5%	+10%	+5%
31 December 2019	€m	€m	€m	€m	€m
Gross of reinsurance	(3)	3	(1)	(3)	(14)
Net of reinsurance	(3)	3	(1)	—	(2)

Impact on profit before tax	Interest rates	Interest rates	Credit spreads	Expenses	Gross loss ratio
	+1%	-1%	+0.5%	+10%	+5%
31 December 2018	€m	€m	€m	€m	€m
Gross of reinsurance	—	—	—	—	—
Net of reinsurance	—	—	—	—	—

Impact on shareholders' equity	Interest rates	Interest rates	Credit spreads	Expenses	Gross loss ratio
	+1%	-1%	+0.5%	+10%	+5%
31 December 2018	€m	€m	€m	€m	€m
Gross of reinsurance	—	—	—	—	—
Net of reinsurance	—	—	—	—	—

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

Notes to the financial statements (continued)

29. Risk management (continued)

(g) Risk and capital management (continued)

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 claims handling expense provision.

Sensitivity to foreign exchange rates

There were no material sensitivities in the Company's total equity to foreign exchange rates in 2019 and 2018.

Limitations of sensitivity analysis

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 may be 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. The majority of such assets are valued based on quoted market information or observable market data and the remaining assets recorded at fair value are based on estimates. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models calibrated to market observable data where possible. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not significantly change their fair value.

(h) 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, as a result of disruption to travel and businesses insured by the Company. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investment returns. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. 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, 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.

(i) Exit of the UK from the EU & UK-EU Free Trade Agreement ("FTA") negotiations

In preparing for the end of the transition period on 31 December 2020 under the UK-EU withdrawal agreement, we have already taken the operational measures necessary to ensure continuous service to our customers irrespective of the outcome of UK-EU FTA negotiations. However, beyond 2020 the consequences of the UK's withdrawal from the EU on future financial services regulation and the Irish economy will require careful monitoring.

30. Derivative financial instruments

The Company uses a variety of derivative financial instruments, including both exchange traded and over-the-counter instruments, in line with our overall risk management strategy. The objectives include managing exposure to market, foreign currency and/or interest rate risk on existing assets or liabilities, as well as planned or anticipated investment purchases.

In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Company.

The fair values do not provide an indication of credit risk, as many over-the-counter transactions are contracted and documented under International Swaps and Derivatives Association ("ISDA") master agreements or their equivalent. Such agreements are designed to provide a legally enforceable set-off in the event of default, which reduces credit exposure. In addition, the Company has collateral agreements in place with the relevant counterparties.

Notes to the financial statements (continued)**30. Derivative financial instruments (continued)**(i) *The Company's derivatives at 31 December 2019 and 2018 were as follows*

	2019			2018		
	Contract/ notional amount	Fair value asset	Fair value liability	Contract/ notional amount	Fair value asset	Fair value liability
	€m	€m	€m	€m	€m	€m
Foreign exchange contracts						
OTC						
Forwards	99	1	(1)	—	—	—
Interest rate contracts						
OTC						
Swaps	240	1	—	—	—	—
Total as at 31 December	339	2	(1)	—	—	—

Fair value assets of €2 million (2018: €nil) are recognised as "Derivative financial instruments" in note 13, while fair value liabilities of €1 million (2018: €nil) are recognised as "Derivative liabilities" in note 24.

The Company's derivative risk management policies are outlined in note 29 "Risk management".

(ii) *The contractual undiscounted cash flows in relation to derivative liabilities have the following maturities*

	2019	2018
	€m	€m
Within 1 year	1	—
Total	1	—

31. Related party transactions

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

(a) The Company had the following related party transactions(i) *General insurance business transfer*

On 1 February 2019, a subset of AIL's general insurance business, and relevant assets and liabilities, were transferred to the Company by way of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. Refer to note 1 for further details.

(ii) *Quota share arrangement - Aviva Insurance Limited*

On 1 February 2019, following the general insurance business transfer, the Company entered into a retrospective (both expired and in-force business) outwards quota share reinsurance arrangement with AIL in consideration of a premium of €925m payable by the Company to AIL. This arrangement provides proportional reinsurance to the Company as follows:

- 85% quota share arrangement in respect of the transferring Ireland general insurance branch risks that are situated in the European Economic Area (excluding the United Kingdom ("UK")) and European Mobile Device Insurance ("MDI") business; and
- 100% quota share arrangement covering all other transferring business.

On 1 February 2019, the immediate impact of the quota share arrangement on the Company's Income Statement was as follows:

	2019
	€m
Premiums ceded to reinsurers	(925)
Reinsurers' share of change in provision for unearned premiums	228
Reinsurers' share of change in insurance liabilities	729
Reinsurers' share of change in deferred acquisition costs	(32)
Net upfront cost of reinsurance	—

Notes to the financial statements (continued)**31. Related party transactions (continued)****(a) The Company had the following related party transactions (continued)***(ii) Quota share arrangement - Aviva Insurance Limited (continued)*

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

	2019 €m	2018 €m
Premiums ceded to reinsurers	(1,357)	—
Net earned premiums	(1,117)	—
Fee and commission income ceded	75	—
Reinsurance claims paid	221	—
Change in reinsurance assets	753	—
Fee and commission expenses ceded	(12)	—
Other expenses ceded	48	—
Net result ceded	(32)	—

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

	2019 €m	2018 €m
Reinsurance asset	994	—
Amounts due to parent	(25)	—
Reinsurers' share of deferred acquisition costs	(38)	—

(iii) Other transactions - services provided to and by related parties

	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end	Income earned in the year	Expenses incurred in the year	Payable at year end	Receivable at year end
				2019 €m				2018 €m
Parent	—	—	26	—	—	—	—	—
Subsidiaries	—	—	—	—	—	—	—	—
Associates	—	—	—	—	—	—	—	—
Fellow subsidiaries	—	81	20	10	—	—	—	—
	—	81	46	10	—	—	—	—

Expenses incurred include €68 million (2018: €nil) relating to staff and third party supplier costs incurred by Aviva Group Services Ireland Limited and Aviva Employment Services Limited, including the pension costs detailed in note 23. The staff and third party supplier costs incurred by Aviva Group Services Ireland Limited were recharged directly to the Company.

Expenses incurred also include €13 million (2018: €nil) relating to facilities and other service charges from Aviva Europe Services EEIG.

Directors and key management personnel of the Company may from time to time purchase insurance, savings, asset management or annuity products marketed by Group companies on equivalent terms to those available to all employees of the Group. In 2019 and 2018, other transactions with directors and key management personnel were not deemed to be significant either by size or in the context of their individual positions.

The related parties' receivables and payables are not secured, and no guarantees were received in respect thereof. The receivables and payables will be settled in accordance with normal contract terms.

(b) Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors, is as follows:

	2019 €m	2018 €m
Short-term benefits	2	—
Total	2	—

Details of directors' emoluments are given in note 6.

(c) Parent entity

The immediate parent undertaking is Aviva Insurance Limited, registered in Scotland.

Notes to the financial statements (continued)

31. Related party transactions (continued)

(d) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate 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.

32. Subsequent events

Management has evaluated subsequent events for the period from 31 December 2019 to the date of these financial statements, and there have been one material subsequent event during that period:

- 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, as a result of disruption to travel and businesses insured by the Company. The Company is also keeping its pricing and strategy under review given changes in the risk profile of future new business and expected future investment returns. The Company's balance sheet exposure has been reviewed and actions are being taken to further reduce the sensitivity to economic shocks. 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, 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.