Acorn Life Designated Activity Company

Directors' report and financial statements

Acorn Life

Year ended 31 December 2019
Registered No: 128945

Protection, Savings, Pensions, Investments

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Directors and other information

Directors	Gerry O'Connell (Non-Executive) Paddy Byrne (Executive, resigned 31 December 2019 and appointed as Non-Executive, effective 1 January 2020) Paul Shelly (Independent Non-Executive) James Kehoe (Independent Non-Executive) Tony Johnstone (Independent Non-Executive) John Lyons (Independent Non-Executive) Keith Butler (Executive, appointed 1 January 2020)
Chairman	Tony Johnstone
Secretary	Sean Harte
Registered office	St. Augustine Street Galway
Independent Auditor	KPMG Chartered Accountants 1 Harbourmaster Place IFSC Dublin 1
Head of Actuarial Function	Jennifer Loftus
Bankers	AIB Bank Lynch's Castle Galway
Solicitors	A & L Goodbody IFSC North Wall Quay Dublin 1
Registered Number	128945

Acorn Life

Protection, Savings, Pensions, Investments

Chief Executive's Report

Heritage

2019 was a very significant year for Acorn as we celebrated 30 years in business. Since our formation, we have become a multi-award-winning company, developing and selling protection, savings, pensions and investment products which are specifically designed for the Irish market. In 2012 the Group established Acorn Brokerage Limited t/a as Acorn Insurance, offering our clients general insurance products such as home, motor, commercial, travel, and health insurance as well as being a mortgage intermediary. We are proud to be a 100% Irish-owned company and we remain committed to retaining this independent status despite significant consolidation in the markets in which we operate in recent times. We have invested in our staff and the services we provide to our clients. We have always endeavoured to keep the client at the heart of everything we do. We have worked hard for our communities and clients and we are committed to ensuring that our clients continue to feel the economic benefits of our business activities.

Client

The Client of 2020 has significantly higher expectations than those of yester year. Client experience will define our success as an organisation and for this reason we are investing significantly in this area over the coming years. Acknowledging that both new and existing client needs are evolving at a faster pace than ever before is critical when it comes to growing a client centric culture. In an era where so many of our client needs are met digitally, the area of technological development and innovation is something that we are very excited about. We expect that our client experience will be radically enhanced as a result of our investment in technology while at the same time retaining our personal and professional approach to providing financial advice.

People and Culture

I believe that there is unlimited potential within Acorn, and I look forward to unlocking this potential in the future with our clients at the heart of it. In relation to our people I intend to expand on the areas that reinforce our mission statement and help create an even stronger team ethos going forward. The areas that I will be developing are the things that self-motivate us all to achieve our potential. It is an incredible honour for me to lead and serve our organisation and I look forward to leading it through its next phase and continuing to develop its potential.

Performance

I am pleased to report our strong financial results for 2019, where we have reported a profit before tax of €12.1m. Our policyholder funds under management grew by 21% to €846m during 2019 and our policyholders benefited from excellent investment returns. During the year, we entered into a quota share reinsurance agreement whereby we ceded a significant share of our risk experience to SCOR. This agreement enabled us to provide liquidity to our shareholders while maintaining a very strong capital position of 150% of the Solvency II Capital Requirement. As profits emerge from existing business we are in a strong position, however we do not take this for granted as we embark on our new business strategy which holds the key to the future sustainability of our business. I would like to thank our staff and financial advisors for their contribution to these results and their dedication to our clients.

Outlook

While we have seen great success, we are hungry to do more. Our industry respects tradition but we know and sense how fast our industry is changing. This is a critical time for our industry. As products and technology evolve, our aim is to ensure that Acorn thrives in the future by positioning ourselves as our clients' financial friend. We will do this by providing a one-stop service shop to help our clients to take control of their financial futures through a partnership with our trusted financial advisers and through investing in technology. We will prioritise the development of our products and services and the delivery of our one stop shop strategy. We will continue to have a product offering which is relevant to clients' needs and to develop sufficient scale to ensure sustainability for all of our stakeholders.

We will continue to ensure that we are prepared for developments related to COVID-19 over the coming months. We will prioritize our clients' needs by ensuring that they can continue to interact with us as they would under normal conditions, while maintaining the health and safety of our staff and financial advisors as a matter of paramount importance.

Keith Butler

Keith Butler
Chief Executive Officer **2 April 2020**

Acorn Life
Protection, Savings, Pensions, Investments

Directors' Report

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

Principal activities, business review and future developments

The principal activities of Acorn Life Designated Activity Company ("the Company") are the marketing and underwriting of life assurance business.

New business performance remained stable during the year. The Company continues to be financially secure and is committed to retaining its independent status. The Acorn Group has embarked on a new business strategy, which it has called Distribution 21. This strategy will seek to future proof the business model by addressing key underlying risks such as product design, customer value, scale and cost base.

As at 31 December 2019 the Company was adequately capitalised under Solvency II basis. Solvency Capital Requirement (SCR) at 31 December 2019 was €26.0m (2018: €26.1m), own funds were €39.1m (2018: €41.9m), 150% of SCR (2018: 160%). As profits emerge from existing business the solvency of the Company remains strong. The Company reported a profit on ordinary activities during the year. The profit was primarily due to reinsurance commissions received, favourable claims experience and a reduction in expenses. During the year, the Company entered into a quota share reinsurance contract whereby the Company ceded a 35% share of risk experience over a 15-year period in the Company's unit-linked protection portfolio in force as at 31 December 2018. The quota share was effective from 1 January 2019.

During the year, dividends of €13.2m (2018: NIL) were paid to Tanis Limited, the Company's immediate parent company.

The key financial variables which the Company monitors closely are new annualised premiums, management expenses, profit on ordinary activities before tax, free capital and the excess of SCR coverage over the Strategic Solvency Target (SST). These are detailed as follows:

	2019	2018
New annualised premiums + 10% single premiums	**17.4m**	16.9m
Management expenses (ex commissions)	**19.6m**	21.1m
Profit/(loss) on ordinary activities before tax	**12.1m**	(0.1m)
Free Capital	**13.1m**	15.8m
Excess of SCR coverage over Strategic Solvency Target	**7%**	17%

Principal risks and uncertainties

Ultimate responsibility for the Company's internal controls, including risk management, rests with the Board. Management have day-to-day responsibility for monitoring, measuring, controlling and reporting the risks connected with the Company's activities. The Board has also established sub-committees to assist with the Governance of the Company including a Risk Committee and Audit Committee. The risk management activity of the Company is orientated towards measuring and controlling risk in order to substantially reduce any risk that could affect the solvency of the Company and its assets under management. A risk appetite statement and risk management framework have been approved by the Board. The over-arching risk appetite of the Company is a level of risk such that the Board is confident that the Company will not breach its Solvency Capital Requirement and Own Solvency Needs Capital during a one-year period. The Company places great importance on reducing capital volatility and ensuring capital levels are maintained at levels that allow for stressed scenarios without compromising the solvency position and the protection of policyholders.

The directors consider that the following are the principal risk factors that could materially and adversely affect the Company's future operating profits and financial position:

Director's report *(continued)*

Principal risks and uncertainties *(continued)*

- Insurance risk refers to the risk of loss to the Company resulting from changes in the level, trend, or volatility of insurance risk drivers. As an insurance undertaking we are in the business of accepting underwriting risks within a quantified appetite.
- Credit or counterparty risk is the risk that an issuer of debt securities or a borrower may default on its obligations, or that the payment may not be made on a negotiable instrument. Exposure to this risk occurs any time funds are extended, committed or invested though actual or implied contractual agreements. The Company as a low appetite for credit risk.
- The Company is exposed to various investment risks including market risks and liquidity risks. The Company pursues a policy of matching policyholder liabilities. Shareholder funds are invested in highly liquid assets.
- Operational risk is the risk of losses or reputational damage arising from inadequate or failed internal process, people and systems or from external events. The Company has a low appetite for operational risk.
- The Company is exposed to general economic risk, including changes in the economic outlook in the Irish market and government changes to fiscal or regulatory policies.
- Brexit is likely to have some negative effects for business and business confidence in Ireland in the face of otherwise strong economic prospects. The Company continues to actively manage the risks associated with Brexit.
- The Coronavirus Disease (COVID-19) outbreak is likely to have an impact on the Company through increased claims costs and adverse movements in the financial markets. Business interruption could also potentially impact premium income.
- The Company's products are distributed solely through its Direct Sales Force. The market for the Company's products is characterised by rapidly changing technology, changes in customer requirements and preferences and the introduction of new products and services embodying new technologies and distribution methods.

The Company has a long and successful track record of managing its risks. The directors are confident that they have put in place a strong Management team and a suite of products capable of dealing with these risks as they arise. For further details of the risks facing the Company, see notes 22 and 30.

Results and dividends
The results for the year are set out on pages 13 to 15 and in the related notes. During the year, dividends of €13.2m (2018: NIL) were paid to Tanis Limited, the Company's immediate parent company.

Employees
The Employee Share Ownership Scheme liability was bought out during 2019 when ALGL purchased its own shares from the employees in the scheme for €10 per share.

Research and development
Research and development expenditure during the year related to the digitisation of the business was €0.2m (2018: €1.7m). Research and development expenditure is expensed as incurred in line with Company policy.

Directors, secretary and their interests
In accordance with the Articles of Association, the directors are not required to retire by rotation. Membership of the Board shall continue to be reviewed particularly with respect to the Corporate Governance Requirements for Insurance Undertakings. The names of the persons who were directors during the year are Gerry O'Connell, Tony Johnstone, Paddy Byrne, John Lyons, Paul Shelly, James Kehoe and Keith Butler (appointed, 1 January 2020). The company secretary is Sean Harte. Except where indicated, they served as directors for the entire year.

Director's report *(continued)*

Directors, secretary and their interests *(continued)*

The directors and secretary who held office at 31 December 2019 had no interests other than those shown below in the share capital, debentures and loan stock of the Company or of group companies:

Director/secretary	Name of Company and shares held	Interest at 31 December 2019	Interest at 31 December 2018
Gerry O'Connell	*Acorn Life Group Limited* Ordinary shares of Stg£1.00 each	3,969,486	3,963,823
Paddy Byrne	*Acorn Life Group Limited* Ordinary shares of Stg£1.00 each	-	96,838*
Sean Harte	*Acorn Life Group Limited* Ordinary shares of Stg£1.00 each	-	2,427*

*The shareholdings of Acorn Life Group Limited's (ALGL) minority shareholders, including those of the members of the Employee Share Ownership Scheme were purchased by ALGL during 2019.

Accounting records

The directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the finance function. These accounting records are maintained at the Company's registered office St. Augustine Street, Galway.

Relevant audit information

The directors believe that they have taken all steps necessary to make themselves aware of any relevant audit information and have established that the Company's statutory auditor is aware of that information. In so far as they are aware, there is no relevant audit information of which the Company's statutory auditor is unaware.

Audit Committee

The Company has established an Audit Committee with responsibility for monitoring the financial reporting process; monitoring the effectiveness of the Company's systems of internal control, internal audit and risk management; monitoring the statutory auditors and in particular the provision by the auditors of additional services to the Company.

Directors' compliance statement

The directors, in accordance with section 225(2) of the Companies Act 2014, acknowledge that they are responsible for securing the Company's compliance with certain obligations specified in that section arising from the Companies Act 2014 and Tax Laws (relevant obligations). The directors confirm that:

– a compliance policy statement had been drawn up setting out the Company's policies with regard to such compliance;

– appropriate arrangements and structures that are, in our opinion, designated to secure material compliance with the Company's relevant obligations, have been put in place; and

Director's report *(continued)*

Directors' compliance statement *(continued)*

– a review has been conducted, during the financial year, of the arrangements and structures that have been put in place to secure the Company's compliance with its relevant obligations.

Political contributions

The Company made no political donations and incurred no political expenditure during the year.

Charitable contributions

The Company made charitable donations of €24k during the year *(2018: €25k)*.

Post balance sheet events

Coronavirus (COVID-19) is likely to have an impact on the Company through increased claims costs, business interruption and a potential reduction in investment policy charges driven by adverse movements in the financial markets. The rapid development and fluidity of this situation precludes a reasonable prediction of the ultimate impact it may have on the Company; however, the Company expects this effect to be within the ranges of extreme stress scenarios which it tests regularly and holds sufficient capital to withstand. The directors do not believe there is an impact on the 2019 financial statements as a result of this event.

Compliance with Corporate Governance Requirements for Insurance Undertakings 2015

The Company is in compliance with the Corporate Governance Requirements for Insurance Undertakings 2015 issued by the Central Bank of Ireland. The Company is not required to comply with the additional requirements for high impact designated insurance undertakings.

Independent auditor

KPMG, Chartered Accountants, were first appointed statutory auditor for the year commencing 1 January 1991, have been reappointed annually since that date and pursuant to section 383(2) will continue in office.

On behalf of the board

Keith Butler *Director*	Paul Shelly *Director*	2 April 2020

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Protection, Savings, Pensions, Investments

Statement of directors' responsibilities in respect of the directors' report to the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts.*

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit or loss for that 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 applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that the financial statements comply with the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a directors' report that complies with the requirements of the Companies Act 2014.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the board

Keith Butler *Director*	Paul Shelly *Director*	2 April 2020

KPMG
Audit
1 Harbourmaster Place
IFSC
Dublin 1
D01 F6F5
Ireland

Independent Auditor's Report to the member of Acorn Life Designated Activity Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Acorn Life Designated Activity Company ("the Company") for the year ended 31 December 2019, which comprise the profit and loss account: technical account – life assurance business, profit and loss account: non-technical account, statement of comprehensive income, balance sheet, statement of changes in equity and the related notes, including the summary of significant accounting policies set out in Note 3. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts.*

In our opinion, the accompanying financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 103 *Insurance Contracts;*
- have been properly prepared in accordance with the requirements of the Companies Act 2014; and,
- have been properly prepared in accordance with the requirements of *the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.*

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Company's member for the year commencing 1 January 1991. The period of total uninterrupted engagement is 29 years as of 31 December 2019. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, 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 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.

KPMG, an Irish partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Independent Auditor's Report to the member of Acorn Life Designated Activity Company *(continued)*

Valuation of life assurance provision and investment contract liabilities €860m (2018 - €710m)

Refer to pages 21 and 22 (accounting policy) and pages 31 and 35 to 39 (financial disclosures)

The key audit matter

The life assurance provision and investment contract liabilities represent the largest liabilities for the Company, representing over 96% of total liabilities.

The valuation of investment contract liabilities, which comprise 81% of total liabilities is determined in a consistent manner with the related assets which are not subject to a significant level of judgement but because of their materiality in the context of the financial statements required a significant level of auditor attention.

The valuation of the life assurance provision which comprises the provisions for the settlement of future claims involves complex and subjective judgments about future events, both internal and external to the business, for which small changes in assumptions can result in material impacts to the valuation of these liabilities.

Actuarial assumptions selected by the Company with respect to future economic outlook (interest rates, equity returns, inflation), mortality rates, morbidity rates, disability rates, lapse rates and the split of expenses as well as the underlying methodologies used may result in material impacts on the valuation of the actuarially determined life assurance provision.

How the matter was addressed in our audit

Our procedures included but were not limited to:

- Obtaining and documenting our understanding of the process and testing the design and operating effectiveness of selected key controls over the actuarial methodology, integrity of data used in the actuarial valuation, and the assumptions setting processes used by the Company related to the valuation of the actuarially determined life assurance provision.
- Testing the design, implementation and operating effectiveness of management's controls over the valuation of investment contract liabilities.
- Testing the completeness and accuracy of the key data used in the valuation of the life assurance provision and the investment contract liabilities.
- Involving our life insurance actuarial specialists to independently test and challenge the Company's methodology and the assumptions used, with particular consideration of recognised actuarial practices, regulatory and reporting requirements and industry standards.
- Benchmarking the Company's assumptions to actuarial market practice to inform our challenge of these assumptions.
- Reconciling the year end investment contact liabilities to related assets and verifying the asset and liability totals to source information. Tracing material reconciling amounts to corroborating audit evidence.
- Assessing the Company's product classification with reference to the relevant insurance accounting standard.

Based on procedures we performed, we considered that judgements relating to the valuation of the life assurance provision are reasonable and found no material misstatements as part of our testing of the valuation of the life assurance provision and investment contract liabilities.

KPMG

Independent Auditor's Report to the member of Acorn Life Designated Activity Company *(continued)*

Valuation and ownership of investments for the benefit of life assurance policyholders who bear the investment risk and other financial investments €880m (2018 - €731m)

Refer to pages 21 and 22 (accounting policy) and pages 29 to 30 (financial disclosures)

The key audit matter

Investments represent the principal element (96%) of the total assets of the Company.

The valuation and ownership of investments for the benefit of life assurance policyholders who bear the investment risk and other financial investments is not subject to a significant level of judgement but because of their materiality in the context of the financial statements required a significant level of auditor attention.

How the matter was addressed in our audit

Our procedures included but were not limited to:

- Obtaining and documenting our understanding of the process and assessing the design and implementation and operating effectiveness of the key controls relevant to the valuation and ownership of investments for the benefit of life assurance policyholders who bear the investment risk and other financial investments.
- Testing 100% of the valuation of the investments for the benefit of life assurance policyholders who bear the investment risk and other financial investments by agreeing the prices used to independent third-party sources or where relevant, valuations received independently from fund managers.
- Obtaining external confirmation of the ownership of 100% of the investment portfolio by agreeing the investments to independently obtained confirmations.

No material misstatements were noted as part of our testing.

Our application of materiality and an overview of the scope of our audit

Materiality for the Company financial statements as a whole was set at €0.6 million (2018: €1.0 million) determined with reference to a benchmark of shareholder funds (2018: projected total income) of which it represents 2% (2018: 2.5%). We have revised the materiality benchmark in the current year given the attention users now place on the availability of capital for solvency purposes.

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding €0.03 million (2018: €0.05 million) in addition to other misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's head office at St. Augustine Street, Galway.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Independent Auditor’s Report to the member of Acorn Life Designated Activity Company *(continued)*

Other information

The directors are responsible for the preparation of the other information presented in the Annual Report together with the financial statements. The other information comprise the information included in the directors and other information, chief executive’s report and the directors’ report.

The financial statements and our auditor’s report do not comprise part of 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 as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information:

- in our opinion, the information given in the directors’ report is consistent with the financial statements; and

- in our opinion, the directors’ report has been prepared in accordance with the Companies Act 2014.

Our opinions on other matters prescribed by the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose 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 and the Company’s balance sheet and profit and loss accounts are in agreement with the accounting records.

We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors’ remuneration and transactions required by sections 305 to 312 of the Act are not made.

Respective responsibilities and restrictions on use

Directors’ responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

KPMG

Independent Auditor's Report to the member of Acorn Life Designated Activity Company *(continued)*

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation and not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf.

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

Our report is made solely to the Company's member, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member, as a body, for our audit work, for our report, or for the opinions we have formed.

Niall Naughton

Niall Naughton
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1

2 April 2020

Acorn Life
Protection, Savings, Pensions, Investments

Profit and loss account: technical account – life assurance business

for the year ended 31 December 2019

	Note	**2019** **€'000**	2018 €'000
Earned premiums, net of reinsurance			
Gross insurance premiums written		**42,251**	41,172
Outward reinsurance premiums		**(15,424)**	(9,631)
		26,827	31,541
Investment income	*4*	**1,711**	1,368
Unrealised gains / (losses) on investments	*4*	**22,732**	(7,066)
Other technical income, net of reinsurance	*5*	**9,236**	8,260
Total technical income		**60,506**	34,103
Claims incurred, net of reinsurance			
Insurance claims paid			
Gross amount	*22*	**(29,179)**	(27,925)
Reinsurers' share	*22*	**9,808**	6,693
Changes in provision for claims			
Gross amount	*22*	**2,370**	(1,433)
Reinsurers' share	*22*	**(558)**	1,160
Claims incurred, net of reinsurance		**(17,559)**	(21,505)
Changes in life assurance provision, net of reinsurance	*22*	**(18,438)**	10,391
Net operating expenses	*6*	**(12,425)**	(23,126)
		(48,422)	(34,240)
Balance on the technical account - life assurance business		**12,084**	(137)

The notes on pages 19 to 54 are an integral part of these financial statements.

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Protection, Savings, Pensions, Investments

Profit and loss account: non-technical account

for the year ended 31 December 2019

	Note	**2019** **€'000**	2018 €'000
Balance on the technical account - life assurance business		**12,084**	(137)
Profit/(loss) on ordinary activities before tax	*7*	**12,084**	(137)
Tax (charge)/credit on profit/(loss) on ordinary activities	*9*	**(1,645)**	35
Profit/(loss) on ordinary activities after tax		**10,439**	(102)
Profit/(loss) for the financial year	*19*	**10,439**	(102)

All results were generated by continuing activities.

The notes on pages 19 to 54 are an integral part of these financial statements.

Acorn Life

Protection, Savings, Pensions, Investments

Statement of comprehensive income

for the year ended 31 December 2019

	Note	**2019 €'000**	2018 €'000
Profit/(loss) for the financial year	*19*	**10,439**	(102)
Other comprehensive income/(loss)			
Remeasurement of defined benefit asset, net of tax	*28*	**20**	(185)
Other comprehensive income / (loss) for the year, net of tax		**20**	(185)
Total comprehensive income / (loss) for the year	*20*	**10,459**	(287)

The notes on pages 19 to 54 are an integral part of these financial statements.

Protection, Savings, Pensions, Investments

Balance sheet

as at 31 December 2019

	Note	**2019 €'000**	2018 €'000
Assets			
Investments			
Land and buildings	*11*	**1,538**	1,369
Other financial investments			
Bonds	*12*	**2,619**	2,815
Cash and cash equivalents	*12*	**31,058**	28,897
Derivative financial instruments	*12*	**500**	949
Investments for the benefit of life assurance policyholders who bear the investment risk	*12*	**845,712**	698,539
Reinsurer's share of technical provisions			
Claims outstanding	*22*	**3,862**	4,420
Life assurance provision	*22*	**4,728**	2,244
Debtors			
Debtors arising out of direct insurance operations		**255**	211
Other debtors including tax and social insurance	*13*	**499**	1,581
Debtors arising out of reinsurance operations		**-**	267
Other assets			
Tangible assets	*14*	**871**	1,194
Prepayments and accrued income			
Accrued interest and rent		**62**	67
Other prepayments and accrued income		**563**	622
Deferred acquisition costs	*16*	**26,759**	25,946
Total assets		**919,026**	769,121
Pension surplus, net of tax	*28*	**57**	575
		919,083	769,696

Protection, Savings, Pensions, Investments

Balance sheet
as at 31 December 2019 (continued)

	Note	**2019 €'000**	2018 €'000
Liabilities and shareholder funds			
Capital and reserves			
Share capital	*17*	**3,912**	3,912
Share premium	*17*	**507**	507
Capital contribution	*18*	**703**	703
Capital reserves	*18*	**18,636**	21,377
Profit and loss reserve	*19*	**-**	-
Shareholder funds	*20*	**23,758**	26,499
Investment contract liabilities	*12*	**723,432**	594,121
Technical provisions			
Life assurance provision – gross amount	*22*	**136,511**	115,589
Claims outstanding	*22*	**9,092**	11,462
Creditors			
Creditors arising out of direct insurance operations		**1,536**	1,352
Other creditors including tax and social insurance	*23*	**1,171**	1,360
Creditors arising out of reinsurance operations		**1,637**	-
Accruals		**2,544**	2,602
Deferred tax liability	*15*	**1,666**	1,051
Deferred income liability	*21*	**17,736**	15,660
Total liabilities		**895,325**	743,197
Total liabilities and shareholder funds		**919,083**	769,696

On behalf of the board

Keith Butler
Director

Paul Shelly
Director

2 April 2020

The notes on pages 19 to 54 are an integral part of these financial statements.

Protection, Savings, Pensions, Investments

Statement of changes in equity

for the year ended 31 December 2019

	€'000 Share capital	€'000 Share Premium	€'000 Capital contribution	€'000 Capital reserves	€'000 Profit and Loss Reserve	€'000 Total
At 1 January 2018	3,912	507	703	21,664	-	26,786
Loss for the financial year	-	-	-	-	(102)	(102)
Other comprehensive loss	-	-	-	-	(185)	(185)
Transfer to profit and loss	-	-	-	(287)	287	-
At 31 December 2018	**3,912**	**507**	**703**	**21,377**	**-**	**26,499**
Profit for the financial year	-	-	-	-	10,439	10,439
Other comprehensive income	-	-	-	-	20	20
Dividends paid	-	-	-	-	(13,200)	(13,200)
Transfer to profit and loss	-	-	-	(2,741)	2,741	-
At 31 December 2019	**3,912**	**507**	**703**	**18,636**	**-**	**23,758**

Notes forming part of the financial statements

1 General information

Acorn Life Designated Activity Company ("the Company") is a designated activity company limited by shares and incorporated, registered and domiciled in Ireland. The registered number of the Company is 128945 and the address of its registered office is St. Augustine Street, Galway. The Company is authorised by the Central Bank of Ireland to carry out life insurance business.

The presentation and functional currency of these financial statements is euro. All amounts in the financial statements have been rounded to the nearest €1,000.

The financial statements have been prepared in accordance with Financial Reporting Standards 102 and 103 (FRS 102 and 103) applicable in the UK and the Republic of Ireland. The Company is also subject to the requirements of the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations, 2015.

The Company's ultimate parent undertaking, Acorn Life Group Limited includes the Company in its consolidated financial statements. The consolidated financial statements of Acorn Life Group Limited are prepared in accordance with FRS 102 and are available to the public and may be obtained from the Company's registered office at St. Augustine Street, Galway. In these financial statements, the Company is considered to be a qualifying entity and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to the end of the period;
- Cash flow statement and related notes; and
- Key management personnel compensation.

2 Use of estimates and judgements

In preparing these financial statements, management has used estimates and made judgements that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

(a) Assumptions and estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the year ended 31 December 2019 is included in the following notes:

- Note 16 and 21: deferred acquisition costs and deferred income liability: estimation uncertainty around current expected duration of policies and any material difference in actual experience.

- Note 22 insurance risk and technical provisions: estimation uncertainty around mortality rates, the timing and amount of claims and key actuarial assumptions in the calculation of the life assurance provision

- Note 28 Retirement benefit obligations: key actuarial assumptions.

2 Use of estimates and judgements *(continued)*

(b) Judgements

The primary area in which the Company applies judgement in applying accounting policies lies in the classification of contracts between insurance and investment business. Insurance contracts are contracts which transfer significant insurance risk. Contracts that do no transfer significant insurance risk are treated as investment contracts.

Contracts with a sum assured greater than or equal to five times annual premium are deemed by the Company to contain significant insurance risk and are classified as insurance contracts by the Company.

Investment bonds where all single premiums paid are guaranteed on death are also classified as insurance contracts, except for tracker bonds where such guarantee does not constitute significant insurance risk so these are classified as investments contracts.

Contracts under which the transfer of insurance risk to the Company from the policyholder is not significant, i.e. sum assured less than five times annual premium, are classified as investment contracts. Investment bonds which pay 101% of policy value on death are also classified as investment contracts.

3 Accounting policies

The significant accounting policies adopted by the Company are set out below.

3.1 Measurement convention

The financial statements are prepared on the historical cost basis except for derivative financial instruments and financial instruments classified at fair value through the profit or loss, which are stated at their fair value.

3.2 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

3.3 Premium income

Premiums earned in respect of insurance contracts are accounted for in the profit and loss account in the same period which the liabilities arising from these premiums are established.

Investment contract premiums are not included in the profit and loss account. They are reflected as deposits on the balance sheet within investments for the benefit of life assurance policy holders who bear the investment risk.

Notes forming part of the financial statements (continued)

3 Accounting policies *(continued)*

3.4 Reinsurance

The Company cedes insurance premiums and risk in the normal course of business. Outwards reinsurance premiums are accounted for in the same accounting period as the related premiums for the direct reinsurance business being reinsured. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

3.5 Fee and charges income / other technical income

Fees charged for services related to the management of investment contracts are recognised as revenue as the services are provided.

3.6 Deferred income liability

In respect of investment contracts, initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred by the creation of a deferred income liability ("DIL"). The initial DIL is calculated from any front-end loading in the policy charges. Different scales of DIL have been applied to each of the main classes of business to reflect the differences in the underlying contract structure. The DIL on each tranche of business is then amortised on a straight-line basis over the same period as the deferred acquisition costs ("DAC") on investment contracts.

3.7 Investment return

Investment return comprises investment income and realised gains and losses on investments at fair value through the profit and loss account. Investment income includes dividends and interest. Dividends are accrued on an ex-dividend basis. Interest is accounted for on an effective interest basis. Unrealised gains and losses on investments at fair value through the profit and loss account are disclosed separately in the profit and loss account.

3.8 Claims

For insurance contracts, claims incurred comprise claims paid in the year and changes in provisions for outstanding claims, together with any other adjustments to claims from previous years. Claims incurred include maturities, deaths and surrenders.

For investment contracts, benefits paid are not included in the profit and loss account, as the risk is borne by the policyholder. They are reflected as withdrawals on the balance sheet within investment contract liabilities.

3.9 Acquisition costs

For insurance contracts, acquisition costs comprise direct costs such as initial commission and the indirect costs of obtaining and processing new business. Acquisition costs which are incurred during a financial year are deferred by use of an explicit asset which is amortised over the period during which the costs are expected to be recoverable and in accordance with the incidence of future related margins.

For investment contracts, only directly related acquisitions costs, which vary with and are related to securing new contracts and securing increments to existing contracts, are deferred to the extent that they are recoverable out of the future revenue. Deferred acquisitions costs are amortised on a straight-line basis over the average lifetime of the Company's investment contracts. All other costs are recognised as expenses when incurred.

Notes forming part of the financial statements (continued)

3 Accounting policies *(continued)*

3.10 Financial instruments

Recognition

The Company has elected to apply the provisions of both Section 11 and 12 of FRS 102 for all financial instruments. The Company's financial instruments include the following basic financial instruments; debt and equity investments, cash and cash equivalents, trade and other debtors/ creditors. The Company's non-basic financial instruments are comprised of the following; derivative financial instruments and investment contract liabilities. Purchases of financial assets are recognised on the trade date, which is when the Company commits to purchase the asset.

Gains and losses arising from changes in the fair value of financial assets at fair value through the profit and loss account, are included in the profit or loss in the period in which they arise. Financial assets and liabilities are offset, and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Classification

a) Basic financial instruments

When a financial asset or financial liability is recognised initially it is measured at the transaction price (including transaction costs except in the initial measurement of financial assets and liabilities that are measured at fair value through profit and loss).

Subsequent to initial recognition investments in debt and equity instruments that can be measured reliably are measured at fair value with changes recognised in profit or loss. Fair value is measured in accordance with the fair value hierarchy disclosed in note 12.

Cash and cash equivalents comprise cash balances and call deposits.

Trade and other debtors are recognised initially at transaction price plus attributable transaction costs.

Trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors.

b) Other financial instruments

Investment contract liabilities
Investment contracts consist of unit linked contracts. Unit linked liabilities are measured at fair value by reference to the value of the underlying net asset value of the Company's unitised investment funds at the balance sheet date. For unit linked contracts, the fair value is equal to the current unit fund value.

The basis of this designation is that the financial assets and liabilities are managed and evaluated together on a fair value basis. This designation eliminates or significantly reduces a measurement inconsistency that would otherwise arise if these financial liabilities were not measured at fair value since the assets held to back the investment contract liabilities are also measured at fair value. The fair value of the Company's unit linked investment contract liabilities is based on the fair value of the financial assets held within the appropriate unit linked funds.

3 Accounting policies *(continued)*

Derivative financial instruments
Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement is recognised immediately in the profit and loss account.

De-recognition of financial assets and liabilities

Financial assets are de-recognised when contractual rights to receive cash flows from the investments expire, or where the investments, together with substantially all the risks and rewards of ownership have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Impairment

Financial assets not carried at fair value through profit and loss are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if an event occurs after initial recognition that has a negative impact on estimated future cash-flows.

An impairment loss for a financial asset measured at amortised cost is the difference between the carrying amount of the asset and the present value of the estimated future cash-flows discounted at the asset's original effective interest rate.

An impairment loss for a financial asset measured at cost less impairment is the difference between the carrying amount and the best estimate of what the asset could be sold for at the reporting date.

Impairment losses are recognised in the profit and loss account.

3.11 Life assurance provision

Life assurance provisions are determined following an annual actuarial investigation of the long-term fund in accordance with appropriate actuarial techniques.

3.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

3 Accounting policies *(continued)*

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted. Deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

3.13 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Company assesses whether the tangible fixed assets are impaired at each reporting date.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of tangible fixed assets. The estimated useful lives are as follows:

Computer software	over 4 years
Motor vehicle, fixtures and fittings	over 4 years
Computer hardware	over 4 years

3.14 Buildings

Buildings are stated at fair value less any subsequent accumulated depreciation and impairment losses.

An individual freehold property is revalued by independent valuers every year. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. To the extent that gains on revaluation reverse a previous revaluation decrease, gains are recognised in the profit and loss account. Losses arising on revaluation are recognised in other comprehensive income to the extent of any previous valuation increase accumulated in the revaluation reserve. Any excess is recognised in the profit and loss.

Depreciation on revalued buildings is charged as an expense to the profit and loss account. On subsequent sale or retirement of revalued property, the attributable revaluation surplus remaining in the property's revaluation reserve is transferred directly to the profit and loss account. The charge for depreciation on buildings is calculated to write down the revalued amount by equal annual instalments over the expected useful life of 50 years.

3.15 Share based payments

The Company operates cash settled share-based compensation schemes. These include plans with and without performance conditions attached.

A liability equal to the portion of the services is recognised at its current fair value determined at each balance sheet date. In addition, at each balance sheet date, the change in the value of the share-based payments resulting from changes in the share price is recognised as a liability and changes in the liability are brought through the profit and loss account. The share-based payment liability was settled during 2019.

3.16 Retirement benefit obligations

The Company operates a defined contribution scheme for its employees. The Company's contributions to this scheme are charged to the profit and loss account in the period which they are incurred.

3 Accounting policies *(continued)*

The Company provided pensions to its employees under a defined benefit scheme. This scheme is closed to new members and was closed to future accruals with effect from 31 March 2010.

The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of the plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit and loss.

Re-measurement of the net defined benefit liability/asset is recognised as actuarial gains and losses in the statement of total recognised gains and losses.

3.17 Leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

3.18 Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the entity intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the entity can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve the design, construction or testing of the production of new or substantially improved products or processes. The expenditure that may be capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred.

The Company has opted to expense all development expenditure regardless of whether it meets the criteria for capitalisation as set out above.

3.19 Dividends

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by the shareholders.

Notes forming part of the financial statements (continued)

4	**Investment return**	**2019 €'000**	2018 €'000
	Interest charge from deposits with credit institutions	**(35)**	(29)
	Interest income from financial assets designated upon initial recognition as fair value through the profit and loss	**110**	115
	Dividend income	**1,488**	1,437
		1,563	1,523
	Realised gains / (losses) on investments	**148**	(155)
	Unrealised gains / (losses) on investments	**22,732**	(7,066)
	Net gains / (losses) on financial assets designated upon initial recognition as fair value through the profit and loss	**22,880**	(7,221)
	Total investment return	**24,443**	(5,698)

5	**Other technical income, net of reinsurance**	**2019 €'000**	2018 €'000
	Investment policy charges	**11,312**	9,720
	Change in deferred income liability (note 21)	**(2,076)**	(1,460)
	Total other technical income, net of reinsurance	**9,236**	8,260

6	**Net operating expenses**	**2019 €'000**	2018 €'000
	Commissions on direct insurance business - acquisition	**2,915**	3,223
	Commissions on direct insurance business - renewal	**1,263**	1,187
	Other acquisition costs	**13,481**	14,256
	Change in deferred acquisition costs (note 16)	**(813)**	(2,560)
	Administration expenses	**4,852**	5,368
	Settlement cost on DB pension scheme (note 28)	**542**	-
	Research and development expensed as incurred	**185**	1,652
	Gross operating expenses	**22,425**	23,126
	Reinsurance commissions and profit participation	**(10,000)**	-
	Net operating expenses	**12,425**	23,126

Notes forming part of the financial statements (continued)

6 Net operating expenses *(continued)*

During the year, the Company ceded a 35% share of risk experience in its unit-linked protection portfolio via a quota share reinsurance agreement. The agreement provides for the reinsurers to reinsure their share of losses in the policies covered by the agreement until 2033 in return for the Company paying reinsurance premiums. In this way, the reinsurers assume their share of the risk in the reinsured policies in return for economic benefits if the value of the reinsurance premiums is greater than the reinsurance losses and expenses. As part of the agreement, the reinsurers paid a commission of €10m to the Company. There is no obligation to repay this commission nor is the Company obliged to refund the commission on termination of the agreement. Accordingly, the reinsurance commission is recognised in full in the profit and loss account for 2019.

7 Expenses and auditor's remuneration	**2019 €'000**	2018 €'000
Included in the profit/loss are the following:		
Profit on disposal of fixed assets	**82**	91
Research and development expensed as incurred	**185**	1,652
Auditor's remuneration		
- audit of these financial statements	**121**	119
- other assurance services	**91**	89
- tax services	**42**	30
- other non-audit services	**3**	-
	257	238

8 Directors' remuneration and transactions	**2019 €'000**	2018 €'000
Directors' remuneration		
Emoluments	**604**	668
Compensation paid by the Company on retirement from management of the Company	**624**	-
Contribution to the defined contribution pension scheme	**17**	17
	1,245	685

Directors' emoluments include benefits paid on behalf of one of the directors to the defined contribution scheme during 2019 and 2018. There were no contributions to the defined benefit scheme related to directors' emoluments during 2019 and 2018. There are no retirement benefits paid or payable to either scheme on behalf of past directors. There are no loans, quasi loans or credit transactions with directors that require disclosure.

Notes forming part of the financial statements (continued)

9	**Tax on profit on ordinary activities**	**2019**	2018
		€'000	€'000
	Current tax		
	Current corporation tax	**1,024**	920
	Tax underprovided in previous years	**6**	29
		1,030	949
	Deferred tax		
	Deferred tax charge / (credit)	**615**	(984)
	Tax charge/(credit) on profit/(loss)	**1,645**	(35)
	Tax in statement of comprehensive income		
	Deferred tax credit on remeasurement of defined benefit asset (note 28)	**(74)**	(24)

Factors affecting the tax charge for year

The tax assessed for the year is higher than the standard rate of corporation tax in the Republic of Ireland. The differences are explained below:

	2019	2018
	€'000	€'000
Profit/(loss) on ordinary activities before tax	**12,084**	(137)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the Republic of Ireland of 12.5%	**1,510**	(17)
Effect of:		
Other differences	**129**	(47)
Tax underprovided in previous years	**6**	29
Total tax charge/(credit) for year	**1,645**	(35)

10	**Dividends paid**	**2019**	2018
		€'000	€'000
	Interim dividends paid	**13,200**	-

Dividends, in respect of issued equity share capital, are recognised in the financial statements when they have been approved by the shareholders and are no longer at the discretion of the Company. Interim dividends declared by the directors are recognised when paid.

Notes forming part of the financial statements (continued)

11 Buildings	**Buildings €'000**
Valuation	
At beginning of year	1,369
Revaluation in the year	169
At end of year	**1,538**
Accumulated depreciation	
At beginning of year	-
Charge for the year	27
Eliminated on revaluation	(27)
At end of year	**-**
Net book value	
At 31 December 2019	**1,538**
At 31 December 2018	1,369

The buildings were revalued as at 6 January 2020. The valuation was carried out by Patrick Seymour MSCSI and was made in accordance with the appropriate sections of the current practice statements contained within the Royal Institute of Chartered Surveyors Valuation – Professional Standards Global Standards (2017).

The original cost of the buildings was approximately €2.2m in 1999. Under the historical cost model, the carrying amount recognized would be €1.3m *(2018: €1.3m)*.

12 Financial instruments

The table provides an analysis of the fair value measurement used by the Company to fair value the instruments in its financial statements through the profit and loss. FRS 102 establishes a fair value hierarchy that prioritises the input to valuation techniques used to measure fair value.

	2019 €'000	2018 €'000
Bonds	**2,619**	2,815
Cash and cash equivalents	**31,058**	28,897
Derivative financial instruments	**500**	949
	34,177	32,661
Financial assets – internal linked funds		
Equities and unit trusts	**803,717**	660,599
Derivative financial instruments	**5,338**	8,065
Linked deposits	**36,657**	29,875
	845,712	698,539
Financial assets on balance sheet	**879,889**	731,200

A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are as follows:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date. The Company had no assets in this category as at 31 December 2019 and 2018.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly. Level 2 assets are valued using standard market pricing sources, which use mathematical modelling and multiple source validation in order to determine consensus prices. In normal market conditions, we would consider these market prices to be observable market prices. However, we have considered that these prices are not from a suitably active market and have classified them as level 2. There were no transfers between level 1 and level 2 during 2019 or 2018.

Level 3: Inputs are unobservable (i.e. market data is unavailable) for the asset. Assets in this category represent a very small proportion of assets to which the Company is exposed. The underlying assets in this category are predominantly loan notes and investment property. Loan notes are valued based on third party fund managers pricing. Investment property valuations are carried out in accordance with the latest edition of the Valuation Standards published by the Royal Institute of Chartered Surveyors and are undertaken by appropriately qualified valuers as defined therein to reflect market value. This requires the valuer to reflect the realities of the current market rather than historic market sentiment.

Acorn Life
Protection, Savings, Pensions, Investments

Notes forming part of the financial statements (continued)

12 Financial instruments *(continued)*

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total 2019 €'000
Unit trusts	-	789,750	13,967	803,717
Government bonds	-	2,495	-	2,495
Corporate bonds	-	124	-	124
Derivative financial instruments	-	5,838	-	5,838
Total financial assets measured at FVTPL	**-**	**798,207**	**13,967**	**812,174**
Linked deposits				36,657
Cash and cash equivalents				31,058
Financial assets on balance sheet				**879,889**

	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total 2018 €'000
Unit trusts	-	645,555	15,044	660,599
Government bonds	-	2,692	-	2,692
Corporate bonds	-	123	-	123
Derivative financial instruments	-	9,014	-	9,014
Total financial assets measured at FVTPL	**-**	**657,384**	**15,044**	**672,428**
Linked deposits				29,875
Cash and cash equivalents				28,897
Financial assets on balance sheet				**731,200**

12 Financial instruments *(continued)*

	Level 1 €'000	Level 2 €'000	Level 3 €'000	**Total 2019 €'000**
Financial liabilities measured at FVTPL				
Investment contract liabilities	-	723,432	-	**723,432**

	Level 1 €'000	Level 2 €'000	Level 3 €'000	**Total 2018 €'000**
Financial liabilities measured at FVTPL				
Investment contract liabilities	-	594,121	-	**594,121**

Reconciliation of movement in investment contract liabilities	**2019 €'000**	2018 €'000
Balance at 1 January	**594,121**	605,842
Premium income	**73,280**	77,124
Encashments and claims	**(44,690)**	(47,780)
Investment performance	**112,033**	(31,345)
Fee income	**(11,312)**	(9,720)
	723,432	594,121

13 Other debtors including tax and social insurance

	2019 €'000	2018 €'000
Amounts due from employees	**193**	317
Amounts due from fellow group undertakings	**40**	168
Corporation tax repayable	**266**	1,096
	499	1,581

Loans are advanced to employees from time to time. Interest is payable on these loans at a rate of 4% per annum in respect of home loans and 13.5% per annum in respect of all other loans on the reducing loan balance in line with the benefit in kind rates specified by the Department of Finance. Amounts due from employees are repayable on demand. Amounts due from fellow group undertakings are interest free and repayable on demand.

14 Tangible assets

	Motor vehicles €'000	Computer hardware, software & equipment €'000	Fixtures & fittings €'000	Total €'000
Cost				
At beginning of year	1,118	2,279	839	4,236
Additions during the year	243	41	-	284
Disposals	(460)	-	-	(460)
At end of year	**901**	**2,320**	**839**	**4,060**
Accumulated depreciation				
At beginning of year	631	1,607	804	3,042
Charged for the year	228	253	15	496
Disposals	(349)	-	-	(349)
At end of year	**510**	**1,860**	**819**	**3,189**
Net book value				
31 December 2019	**391**	**460**	**20**	**871**
31 December 2018	487	672	35	1,194

15 Deferred taxation

	2019 €'000	2018 €'000
(a) Deferred tax asset	**124**	**987**
Attributable to;		
Other timing differences	-	83
Employee benefits	124	247
Unused tax losses	-	657
(b) Deferred tax liability	**1,790**	**2,038**
Attributable to;		
Profits not yet realised for tax purposes	1,790	2,038
Net deferred tax liability	**1,666**	**1,051**

Notes forming part of the financial statements (continued)

16 Reconciliation of movements in deferred acquisition costs

	Insurance contracts 2019 €'000	Insurance contracts 2018 €'000	**Investment contracts 2019 €'000**	Investment contracts 2018 €'000
Balance at 1 January	**9,714**	9,252	**16,232**	14,134
Acquisition costs incurred	**5,238**	7,029	**3,839**	3,690
Amounts amortised	**(6,597)**	(6,567)	**(1,667)**	(1,592)
Balance at 31 December	**8,355**	9,714	**18,404**	16,232

17 Share capital and share premium

	2019 €'000	2018 €'000
Authorised		
6,800,000 Ordinary shares of €1.27 each	**8,636**	8,636
340,375 Convertible deferred shares of €0.64 each	**218**	218
169,627 Convertible ordinary shares of €0.64 each	**108**	108
	8,962	8,962
Allotted, called up and fully paid		
3,000,000 Ordinary shares of €1.27 each	**3,810**	3,810
159,625 Convertible ordinary shares of €0.64 each	**102**	102
	3,912	3,912

Share premium	**2019 €'000**	2018 €'000
At beginning and end of year	**507**	507

There is only one class of share capital. The ordinary shares have rights to dividends, are entitled to surplus on winding up and have full voting rights.

18 Capital reserves

	2019 €'000	2018 €'000
Opening balance	**21,377**	21,664
Transfer to the profit and loss account (note 19)	**(2,741)**	(287)
Closing balance	**18,636**	21,377

Capital reserves are those reserves which have not been declared as distributable by the board of directors. The reserves include those amounts which are required to be held in respect of the solvency requirements set by the Central Bank of Ireland.

	2019 €'000	2018 €'000
Capital contribution	**703**	703

Tanis Limited advanced a capital contribution of €703k in 2003. The contribution is not a loan and accordingly there is no repayment burden on it nor does Tanis Limited have any right to seek its repayment.

19 Profit and loss reserve

	2019 €'000	2018 €'000
Opening balance	**-**	-
Profit/(loss) for the financial year	**10,439**	(102)
Actuarial gain/(loss), net of tax (note 28)	**20**	(185)
Transfer from capital reserve (note 18)	**2,741**	287
Dividends paid (note 10)	**(13,200)**	-
Closing balance	**-**	-

20 Reconciliation of movements in shareholders' funds

	2019 €'000	2018 €'000
Opening shareholders' funds	**26,499**	26,786
Total comprehensive income/(loss) for the year	**10,459**	(287)
Dividends paid (note 10)	**(13,200)**	-
Closing shareholders' funds	**23,758**	26,499

21 Deferred income liability

	2019 €'000	2018 €'000
Deferred income liability at 1 January	**15,660**	14,200
Initial fees during the year	**3,683**	3,001
Amortisation to income	**(1,607)**	(1,541)
Deferred income liability at 31 December	**17,736**	15,660

22 Insurance risk and technical provisions

The Company has documented a risk management framework to ensure risk is managed in line with the Company's risk appetite. This framework is subject to annual review and approval by the Board of Directors and ongoing review by the Executive Risk Committee, to ensure its appropriateness, in line with the Central Bank of Ireland's Corporate Governance requirements for Insurance Undertakings (2015).

The Company's risk management framework comprises of the following elements:

- Company risk strategy and appetite;
- Company corporate governance framework;
- Company risk policy suite;
- Organisational relationships and accountabilities (including committees); and
- Company risk management process.

The Company proactively identifies risk events, assesses their impact on the business and plans the management of their outcomes. Consequently, the risk management framework is underpinned by the Company's principles for the effective identification, measurement, management, monitoring and reporting of risk.

Insurance risk refers to the risk of loss to the Company, or of adverse change in the value of insurance liabilities, resulting from changes in the level, trend, or volatility of insurance risk drivers. The Company adopts a cautious approach to the management of insurance risk through its approach to product design and the use of reinsurance to minimise the solvency risk and profit volatility. The Company has an appetite for insurance and retaining insurance risk, within defined limits.

22 Insurance risk and technical provisions *(continued)*

The variability of insurance risks is improved using careful selection, a cautious underwriting strategy and reinsurance arrangements. Total sums at risk at 31 December 2019 were €7.4 million (2018: €7.5 million). Sums at risk after reinsurance were €2.6 million (2018: €3.9 million).

In determining its strategy with regard to the mitigation and management of insurance risk, the Company considers the entire range of business activities, products and internal processes in place in the Company, in order to establish its universe of insurance risks and set its appetite, tolerances and limits for insurance risk; correlations within insurance risk and with risk in other risk classes; the most cost-effective approach to mitigating specific risk exposures; appropriate management and risk management information; residual risk and requirements for appropriate business continuity contingency plans in the event of an extreme insurance risk exposure; adoption of a unit-linked and reviewable premium approach to product design; and the use of reinsurance to minimise solvency risk and profit volatility.

The Company manages insurance risk by assessing risk drivers and implementing the following controls:

- Mortality and morbidity risk: This is controlled by the use of reinsurance and by monitoring the experience of business compared to expectations. Product design and terms and conditions have the ability to revise charges for risk if significantly inconsistent.
- Underwriting, retention and reinsurance: The Company has identified and specified maximum insurance risk retention levels for mortality and morbidity risks. Risks in excess of approved limits are reinsured.
- Expense risk: The Company continuously monitors management information and sets expense assumptions to cover per policy expenses. Higher than assumed expense will lead to management actions, such as new product launches and strategies to control costs.
- Persistency risk: The Company continuously monitors persistency management information in order to influence changes in product design.

Sensitivities

Sensitivity to mortality and morbidity / underwriting and retention risks: This is the risk of adverse outcomes arising which are different to the current best estimate view. A major pandemic or epidemic, such as Coronavirus (COVID-19) could lead to a significant increase in death claims. A shock death rate of 1.5 persons per mille could arise in claims for the Company and an adverse impact on profit and equity of approximately €4 million net of reinsurance (2018: €6 million). There may also be some impact on Critical Illness and Hospital Cash claims, but this risk is not considered to be overly onerous. The Company adopts a cautious approach to the management of these risks by adopting reviewable charges which can be changed if experience is not in line with what is expected and the use of reinsurance.

The table overleaf highlights the effect that a 10% increase in expected claims, net of reinsurance, would have on the Company's profit and loss and equity. The impact of a 10% decrease in expected claims on profit and equity would be equal and opposite to the impact of the 10% increase in expected claims shown in the table for both financial years.

Notes forming part of the financial statements (continued)

22 Insurance risk and technical provisions *(continued)*

€'000	Life cover	Critical illness	Accidental death benefit	Hospital cash cover	Surgical cash cover	Accidental injury benefit	Personal accident benefit	Total
Impact of a 10% increase in expected claims on profit and equity								
2019	(320)	(326)	(18)	(49)	(113)	(20)	(39)	(885)
2018	(434)	(473)	(17)	(48)	(109)	(19)	(38)	(1,138)

Sensitivity to expenses: Expense risk is the risk that expenses increase either through unit cost or inflation. Policy charges aim to cover the Company's expenses. A large proportion of the Company's cost base is fixed and the Company's ability to cover its cost base depends on having a sufficient number of policies in-force. The Company manages expense risk by controlling its costs and endeavouring to increase its policy count. A 10% increase or decrease in expected expenses would impact profit and equity adversely or favourably by €1.1 million (2018: €1.1 million).

Sensitivity to Persistency: Persistency risk is the risk that insurance contracts lapse at a different rate than expected. Future profits are exposed to persistency risk as variances in income can occur when lapses are greater or less than expected. Persistency risk is managed by experience and behaviour monitoring, stress testing, validation of assumptions and changes to product design. A 10% increase or decrease in expected lapses would impact profit and equity adversely or favourably by €0.1 million (2018: €0.1 million).

Technical Provisions

The technical provision for life assurance policies where the investment risk is borne by the policyholder is determined based on the full value of all units notionally allocated to policies in accordance with policy rules plus the proportion of any future entitlement to bonus units which had accrued at the date of the valuation. The life assurance provision was calculated using discounted cash flow methods with the principal assumptions outlined below.

Realistic assumptions regarding future experience are reviewed annually. They are set with reference to Reinsurer data, Industry data and recent observed trends in the Company's own experience plus a margin for prudence. Expenses are assumed to increase in future by 4% per annum (2018: 4% per annum). No credit is taken for voluntary discontinuance of policies.

	Males	Females
Mortality	84% of Reinsurers' rates *(2018: 84%)*	84% of Reinsurers' rates *(2018: 84%)*
Morbidity	129% Reinsurers' rates *(2018: 125%)*	129% Reinsurers' rates *(2018: 125%)*
	Life	**Pensions**
Unit growth	2.85% pa before charges	3.50% pa before charges
	(2018: 2.85% pa)	*(2018: 3.50% pa)*
Discount Rate	**Net funds**	**Gross funds**
	-0.3% pa (net funds) *(2018: 0.08%)*	-0.4% pa (gross funds) *(2018: 0.1%)*

Notes forming part of the financial statements (continued)

22 Insurance risk and technical provisions *(continued)*

Renewal expenses	**2019**	**2018**
	(Annual, per policy)	**(Annual, per policy)**
Life regular premium	€74.05	€71.74
Pensions regular premium	€114.93	€111.35
Executive pensions regular premiums (pre 2009)	€114.93	€111.35
Executive pensions regular premiums (post 2009)	€155.50	€150.65
Single premium investments	€56.27	€54.52
Single premium pensions	€87.35	€84.63

The movements in gross and net life assurance and claims outstanding provisions during the year are outlined below.

Reconciliation of movement in net life assurance provision	**2019 €'000**	2018 €'000
Balance at 1 January	**113,345**	123,736
Premium allocations	**10,580**	17,936
Encashments and claims	**(17,559)**	(21,505)
Investment growth	**24,443**	(5,698)
Movement in non-unit linked life insurance provision	**974**	(1,124)
Balance at 31 December	**131,783**	113,345
The net life assurance provision is comprised of;		
Gross amount	**136,511**	115,589
Reinsurers' share	**(4,728)**	(2,244)
Balance at 31 December	**131,783**	113,345

22 Insurance risk and technical provisions *(continued)*

(a) Reconciliation of movement in claims outstanding – gross amount	**2019 €'000**	2018 €'000
Balance at 1 January	**11,462**	**10,029**
Insurance claims incurred	**26,809**	**29,358**
Insurance claims paid	**(29,179)**	**(27,925)**
Balance at 31 December	**9,092**	**11,462**

(b) Reconciliation of movement in claims outstanding – reinsurers' share	**2019 €'000**	2018 €'000
Balance at 1 January	**4,420**	3,260
Reinsurance claims incurred	**9,250**	7,853
Claims paid by reinsurers	**(9,808)**	(6,693)
Balance at 31 December	**3,862**	4,420

23 Other creditors including tax and social insurance

	2019 €'000	2018 €'000
Trade creditors	**234**	152
Other creditors	**153**	170
Share based payments liabilities (note 29)	**-**	824
PAYE/PRSI	**625**	62
Government levy	**159**	152
	1,171	1,360

24 Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2019 Land and buildings €'000	2018 Land and buildings €'000
Not later than one year	**228**	250
Between two and five years	**446**	486
Later than five years	**184**	275
	858	1,011

24 Operating lease commitments *(continued)*

During the year €423k (2018: €368k) was recognised as an expense in the profit and loss account in respect of operating leases.

25 Other commitments

As at the balance sheet date, the Company has commitments under contracts in respect of future software licence expenditure of €910k over three years (2018: Nil) which is not provided for in the financial statements and of which €388k is payable within one year.

26 Employees

The average number of persons employed by the Company in various categories and the costs of employment during the year were as follows:

	2019 Number	2018 Number
Sales	**63**	79
Administration	**43**	43
Total	**106**	122

	2019 €'000	2018 €'000
Wages and salaries	**7,149**	7,731
Social insurance costs	**643**	784
Termination payments	**479**	89
Compensation paid by the Company on retirement from management of the Company	**624**	-
Retirement benefit costs – defined contribution	**450**	541
Employee share based payment costs	**-**	39
	9,345	9,184

None of the aggregate staff costs were capitalised during the year (2018: Nil).

27 Related party transactions

Mr Gerard O'Connell, a director of the Company, is the beneficial owner of the Company's ultimate parent undertaking, Acorn Life Group Limited, which indirectly owns 100% of the ordinary share capital of the Company. Tanis Limited is the direct parent of the Company.

The company secretary and a number of directors and key management personnel have life assurance and other policies with the Company under the normal terms and conditions of business. Total premiums paid to the Company in respect of these policies during the year were €26k (2018: €1.1 million). There were no claims or encashments in either year. The total life sums assured were €1.5 million net of reinsurance (2018: €1.4 million) and balances in respect of investment products were €1.4 million (2018: €1.3 million).

27 Related party transactions *(continued)*

Balances on loans repayable from one member of key management of the Company were €138k at 31 December 2019 *(2018: €132k).* There were no allowances made or amounts waived against the outstanding balances during the year. There were no loans advanced to or loans repaid by directors or members of key management of the Company during the year. The aggregate value of loan arrangements with key management personnel expressed as a percentage of net assets as at 31 December 2019 is 0.6% (2018: 0.5%).

There are no loans, quasi loans or credit transactions with directors.

The Company has availed of the exemptions in Financial Reporting Standard 102 from disclosing key management personnel compensation and transactions with wholly owned group companies.

28 Retirement benefit obligations

The Company operates a defined contribution pension scheme for employees. The charge to the profit and loss account for the year amounted to €450k (2018: €541k*)*.

The Company previously operated a contributory defined benefit pension scheme which was open to permanent employees. The defined benefit scheme is closed to new members and was closed to future accrual with effect from 31 March 2010. The assets of the defined benefit scheme are held in separate trustee-administered funds. The advice of independent professionally qualified actuaries is taken in assessing pension costs and liabilities at three yearly intervals. Actuarial valuations are carried out every 3 years. The most recent comprehensive actuarial valuation was carried out as at 31 March 2019. The value of the accrued liability was calculated using the Projected Unit method by firstly projecting the accrued benefits payable in the future, making assumptions in relation to financial matters such as salary and pension increase rates and demographic matters such as mortality rates. The resultant projected benefit cash-flows were then discounted to the valuation date to arrive at a single capitalised value.

The valuations as at 31 December 2019 and 2018, for the purpose of Financial Reporting Standard 102 (FRS 102) disclosures are based on the most recent actuarial valuations and updated by the independent actuaries to take account of the requirements of FRS 102 in order to assess the liabilities at each balance sheet date. The Scheme is stated at its market value at each balance sheet date. During the year the participants receiving benefits were transferred out of the defined benefit pension scheme. As part of the transaction it was agreed to pay an uplift to the participants receiving benefits which was paid by the Trustees out of the surplus funds in the scheme. The transaction resulted in a charge to the profit and loss account of €542k. The net pension asset after tax was €57k as at 31 December 2019 *(2018: €575k)*. The actuarial report is not available for public inspection, but the results are advised to members of the scheme. As the scheme is in surplus, there are no projected funding costs to the Company.

Notes forming part of the financial statements (continued)

28 Retirement benefit obligations *(continued)*

Net pension asset:	**2019** **€'000**	2018 €'000
Fair value of plan assets	**1,025**	3,897
Defined benefit obligation	**(960)**	(3,240)
Net pension asset	**65**	657
Related deferred tax liability	**(8)**	(82)
Pension asset, net of tax	**57**	575

Fund assets	**2019** **€'000**	2018 €'000
Equities	**550**	**615**
Debt securities	**365**	**3,043**
Other	**110**	**239**
Total	**1,025**	**3,897**

Movement in fair value of plan assets	**2019** **€'000**	2018 €'000
Opening balance 1 January	**3,897**	4,180
Settlements	**(3,069)**	-
Interest income	**28**	73
Benefits paid	**(42)**	(127)
Actuarial gains / (losses)	**211**	(229)
Closing balance 31 December	**1,025**	3,897

Movement in present value of defined benefit obligation	**2019** **€'000**	2018 €'000
Opening balance 1 January	**3,240**	3,330
Settlements	**(2,527)**	-
Interest cost	**24**	57
Benefits paid	**(42)**	(127)
Actuarial losses/(gains)	**265**	(20)
Closing balance 31 December	**960**	3,240

28 Retirement benefit obligations *(continued)*

Expense recognised in the profit and loss account	**2019 €'000**	2018 €'000
Net interest on net defined benefit liability	**(4)**	(16)
Settlement cost	**542**	-
Total charge / (credit) recognised in profit or loss	**538**	(16)

The income and expense are recognised in the following line items in the profit and loss account:

	2019 €'000	2018 €'000
Net operating expenses	**566**	57
Investment income	**(28)**	(73)
	538	(16)
Actual return on fund assets	**240**	(156)

Amounts recognised in other comprehensive income (OCI)

The remeasurement of the defined benefit asset may be analysed as follows:

	2019 €'000	2018 €'000
Return on plan assets less interest income	**211**	**(229)**
Experience movements on scheme liabilities	**(265)**	**20**
Remeasurement of the defined benefit asset in statement of other comprehensive income (OCI)	**(54)**	**(209)**
Deferred tax credit	**74**	**24**
Remeasurement of the defined benefit asset, net of tax (OCI)	**20**	**(185)**

Contributions
The scheme was closed to future accruals from 31 March 2010.

The Company uses the projected unit credit method to measure its defined benefit obligation on the related expense.

Notes forming part of the financial statements (continued)

28 Retirement benefit obligations *(continued)*

Actuarial assumptions	**2019**	2018
The principal actuarial assumptions at the reporting date are as follows:		
Discount rate	**1.10%**	1.75%
Rate of increase in pay	**2.10%**	2.40%
Rate of increase in social security	**2.10%**	2.40%
Rate of increase of pensions in payment	**0.00%**	0.00%
Rate of increase for deferred pensioners	**1.10%**	1.40%
Inflation	**1.10%**	1.40%
Active participants	**1**	1
Participants with deferred benefits	**18**	18
Participants receiving benefits	**0**	23

Mortality	**2019**	2018
Post-retirement	58% ILT(M)15+0.3% pa 62% ILT(F)15+0.25%pa	58% ILT(M)15+0.3% pa 62% ILT(F)15+0.25%pa

Historical information

	2019 €'000	**2018 €'000**	**2017 €'000**	**2016 €'000**	**2015 €'000**
Present value of scheme liabilities	(960)	(3,240)	(3,330)	(3,354)	(14,066)
Value of fund assets	1,025	3,897	4,180	4,186	11,842
Asset/(deficit)	65	657	850	832	(2,224)
Experience adjustments on liabilities	(265)	20	(45)	(2,048)	321
Experience adjustments on assets	211	(229)	49	(484)	759

29 Share based payments

Acorn Life Designated Activity Company Employee Share Ownership Scheme (ESOS)
This scheme was approved by the Irish Revenue Authorities and was available to all employees. Under the scheme, employees' annual bonus, approved by the Board were used to acquire ordinary shares in Acorn Life Group Limited, the ultimate parent Company, up to a maximum of €12,700 per eligible employee. The price paid for the shares was historically based on the embedded value of the Company and the net assets of Acorn Life Group Limited. As there was no qualification period for employees to obtain their entitlement to the shares, the expense related to the granting of these shares was recorded in the year of grant. A liability was recorded in each year for any increase in the value of

Notes forming part of the financial statements (continued)

29 Share based payments (continued)

the shares granted. During the year, market-based information suggested that the fair value of the shares had reduced from €14.54 per share to €10 per share. This resulted in a credit to the profit and loss account of €248k (2018: a charge of €28k). The scheme was bought out during 2019 when Acorn Life Group Limited purchased the shares from the employees in the scheme for €10 per share and the remaining liability of €255k was released to the profit and loss account. There is no liability outstanding at 31 December 2019 (2018: €503k).

Details of the movements for the year ended 31 December 2019 are as follows:

	2019 Number of shares in Acorn Life Group Limited	**Weighted Average price €**	**2018 Number of shares in Acorn Life Group Limited**	**Weighted Average price €**
Outstanding at the start of year	**54,674**	14.54	54,674	14.02
Granted during the year	**-**	-	-	-
Exercised during the year	**(54,674)**	10.00	-	-
Exercisable and outstanding at year end	**-**	-	54,674	14.54

	2019 €'000	2018 €'000
Value of shares *(2018:* 54,674 x €14.54*)*	**-**	795
Original cost of shares	**-**	(292)
Liability at 31 December	**-**	503

Agent Phantom Share Scheme
The Scheme was set up to grant agents an entitlement to acquire units of equity in Acorn Life DAC, which had the potential to increase in value in line with the embedded value of the Company. During 2019, the Company purchased all 8,661 units from the Agents in the Agent Phantom Scheme at €23.65 per unit and the scheme was closed. The reduction in the price per unit of €23.65 compared to the carrying value per unit of €32.65 at the beginning of the year resulted in a credit to the profit and loss account of €78k (2018: a charge of €10k). There is no liability outstanding at 31 December 2019 (2018: €283k*)*.

Notes forming part of the financial statements (continued)

29 Share based payments (continued)

Details of the movements for the year ended 31 December 2019 are as follows:

	2019 Number of units in Acorn Life DAC	**Weighted Average price €**	2018 Number of units in Acorn Life DAC	Weighted Average price €
Outstanding at the start of year	8,661	32.65	8,661	31.48
Exercised during the year	(8,661)	23.65	-	-
Exercisable and outstanding at year end	-	-	8,661	32.65

	2019 €'000	2018 €'000
Value of shares *(2018: 8,661 x €32.65)*	-	283
Liability at 31 December	-	283

30 Financial risk management

The key categories of risk faced by the Company are credit risk, market risk, liquidity risk, and operational risk.

These risk categories are derived from standards set by international principles, including Solvency II standards. These risks are described below, together with the risk management approach adopted by the Company.

Credit risk

Credit risk can be described as the risk that an issuer of debt securities or a borrower may default on its obligations, or that the payment may not be made on a negotiable instrument.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Investments are only allowed in liquid securities with counterparties where Management monitors the credit rating at the date of purchase. Counterparties ratings are reviewed and approved along with the Investment Risk Policy.

Management do not expect any counterparty to fail to meet its obligations as at the balance sheet date. No deposits are held in banks with Moody's credit ratings less than Baa3 in the long term and P3 in the short term. Deposits may be held in banks that were previously backed by the Government guarantee with a Baa3 or lower rating. These banks are Allied Irish Bank, Bank of Ireland and Permanent TSB. The risk of default by a banking institution is mitigated by a strict treasury management policy which prescribes deposit limits and minimum rating requirements. The Company

30 Financial risk management *(continued)*

has some credit risk exposures to banks via its overnight cash deposits. This is managed by the Company with limits in terms of exposure to a single bank.

Reinsurance risk is managed in accordance with the Company's Reinsurance Strategy; with Moody's credit ratings of potential reinsurers required to be at least at A. Consideration is also given to size, risk concentrations/exposures and ownership in the selection of reinsurers. Additionally, best estimate liability cash-flows allow for the possibility of reinsurer default at every duration in the future.

The Company reinsures approximately 63% (2018: 44%) of total mortality and critical illness sums insured, the majority of which are reinsured by SCOR. This position represents a concentration risk in terms of significant exposure to one reinsurer. The Company is confident however that alternative cover would be available if SCOR were to withdraw from the market or increase prices. If a particular type of reinsurance became too expensive, the Company has an option to cease or reduce the level of reinsurance cover, subject to an analysis of the impact of such a decision on the current and future solvency position of the Company.

No financial assets are past due or deemed to be impaired as at the balance sheet date.

The following table sets out the credit risk exposure and ratings of the financial assets other than investments for the benefit of life assurance policyholders who bear investment risk as at 31 December 2019:

	2019				2018			
	Aa3 or greater	**Baa3 to A1**	**Less than Baa3**	**Unrated**	Aa3 or greater	Baa3 to A1	Less than Baa3	Unrated
	€'000	**€'000**	**€'000**	**€'000**	€'000	€'000	€'000	€'000
Cash and cash equivalents	**9,848**	**21,210**	**-**	**-**	6,989	14,893	7,015	-
Government bonds	**128**	**2,367**	**-**	**-**	327	2,365	-	-
Corporate bonds	**124**	**-**	**-**	**-**	123			
Amounts due from policyholders	**-**	**-**	**-**	**255**	-	-	-	211
Reinsurers share of technical provisions	**8,590**	**-**	**-**	**-**	6,664	-	-	-
Amounts due from reinsurers	**-**	**-**	**-**	**-**	267	-	-	-
Other receivables	**-**	**-**	**-**	**1,124**	-	-	-	2,270
Shareholders trackers	**-**	**500**	**-**	**-**	-	949	-	-

30 Financial risk management *(continued)*

Market risk

Market risk can be described as the risk of change in the fair value of a financial instrument due to changes in interest rates, equity prices, foreign exchange rates or other factors. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Company's exposures to market risks and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Since the Company's business is predominantly unit-linked, for which policyholders carry the financial risk, the risks relating to unit-linked investment are excluded from the assessment of risks affecting the Company's business. However, an overall change in the market value of the unit-linked funds would affect the charges accruing to the Company since some of these charges are based on the market value of funds under management. In addition, a reduction in stock market levels could reduce the volume of new business sales. The Company's own assets are invested in deposits and tracker bonds. The tracker bonds are deposit contracts providing capital protection on maturity and growth that is dependent on stock market performance. The Company has also invested less than 10% of its assets in corporate and government bonds.

Foreign currency risk
Foreign currency risk can be described as the risk that the Company may be affected due to an adverse movement in foreign exchange rates. The Company has limited exposure to currency movements as all of its non-unit-linked assets are invested in euro and its non-unit-linked liabilities are also denominated in euro.

The Company's defined benefit pension scheme is exposed to an element of foreign currency risk as it holds some financial instruments denominated in USD and GBP. A 10% increase in the value of the euro against both sterling and US dollar would result in a loss through the profit and loss and a reduction to equity of approximately €0.2m (2018: €0.1m) in scheme asset values.

Equity price risk
An equity market fall of 10% would result in a loss of approximately €0.2m through the profit and loss and a reduction to equity (2018: €0.1m). The main affect would relate to the defined benefit pension scheme and shareholder tracker holdings.

Interest rate risk
The Company's exposure to changes in fair value of financial assets related to internal linked funds is mitigated by equal and opposite investment and insurance contract liabilities. The Company invests its own funds in deposit accounts which are currently offering low rates of interest. The Company has also invested a small percentage of its assets in fixed interest bonds of €2.6m (2018: €2.8m).

The Company's defined benefit pension scheme is exposed to an element of fixed interest risk; however, this is offset by the Company's investment in fixed interest bonds.

A 1% decrease in interest rates globally would result in a loss through the profit and loss and a reduction to equity of approximately €0.1m *(2018: €0.3m).*

Cash flow interest rate risk
The following table sets out the duration of the Company's financial assets. Given the short-term nature of these deposits there is no material interest rate risk based on contractual maturity dates as at 31 December 2019:

Notes forming part of the financial statements (continued)

30 Financial risk management *(continued)*

	Up to 1 year €'000	1 - 5 years €'000	Over 5 years €'000	Non interest bearing €'000	Total 2019 €'000
Cash and cash equivalents	31,058	-	-	-	**31,058**
Government bonds	-	128	2,367	-	**2,495**
Corporate bonds	-	-	124	-	**124**
Shareholders exposure to tracker bonds	306	194	-	-	**500**

	Up to 1 year €'000	1 - 5 years €'000	Over 5 years €'000	Non interest bearing €'000	Total 2018 €'000
Cash and cash equivalents	28,897	-	-	-	**28,897**
Government bonds	194	-	2,498	-	**2,692**
Corporate bonds	-	-	123	-	**123**
Shareholders exposure to tracker bonds	531	418	-	-	**949**

Derivative financial instruments such as a tracker bonds do not operate on an interest rate basis but rather a unit price basis.

Derivatives risk
The Company does not use hedge accounting. The tracker products held offer a 100% capital guarantee over the investment term. The main risk exposure lies in the rate of return which may fluctuate due to movements in inflation and poor capital growth. Also, the risk of underfunding arises if product sales to policyholders fail to meet expectations. Other derivatives are included in assets held on behalf of policyholders where all gains and losses on these derivatives are exactly matched by changes in the related liabilities to policyholders.

The shareholder's exposure to tracker bonds at 31 December 2019 was €0.5m *(2018: €0.9m)*. This arises through some policyholder offerings not being fully taken up and as a result of the Company taking on the investment of surrendering policyholders.

30 Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting commitments associated with financial instruments. In managing the Company's assets and liabilities, the Company seeks to ensure that cash is at all times available to settle liabilities as they fall due. The Company's treasury position is reviewed on a daily basis and cash balances are maintained to meet liabilities as they fall due. For investment contract redemptions, cash paid out is funded by the redemption of the linked assets supporting the contract liability. As the Company has no borrowings other than overdraft facilities, the Company is not exposed to any significant liquidity risk on the liability side.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's approach to managing liquidity risk is as follows:

- The Company maintains cash and liquid assets to meet daily calls on its insurance and investment contracts;
- The Company holds significant committed borrowing facilities from its bankers to enable cash to be raised in a relatively short time span;
- The Company regularly updates its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances; and
- The Company has the potential to encash deposits early subject to small penalties.

The Company holds a minimum solvency margin as set down by the Central Bank of Ireland. This is matched by deposits held with various Irish financial institutions which are repayable on demand. A summary of the expected cash flows of the Company's contracts with policyholders is shown as follows. The following tables relate to contracts which can mature on demand or have a known fixed future date for maturity.

	Estimated cash flows (undiscounted)			
At 31 December 2019	**0-1 year or on demand €'000**	**1 - 2 years €'000**	**2-5 years €'000**	**Total €'000**
Investment contracts	201,321	1,890	-	203,211

	Estimated cash flows (undiscounted)			
At 31 December 2018	**0-1 year or on demand €'000**	**1 - 2 years €'000**	**2-5 years €'000**	**Total €'000**
Investment contracts	170,262	3,337	1,826	175,425

Notes forming part of the financial statements (continued)

30 Financial risk management *(continued)*

	Estimated cash flows (undiscounted)			
At 31 December 2019	**0-1 year or on demand €'000**	**1 - 2 years €'000**	**2-5 years €'000**	**Total €'000**
Insurance contracts	87,428	-	-	87,428

	Estimated cash flows (undiscounted)			
At 31 December 2018	**0-1 year or on demand €'000**	**1 - 2 years €'000**	**2-5 years €'000**	**Total €'000**
Insurance contracts	76,855	-	-	76,855

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company accepts some operational risk loss events will happen and has set a yearly tolerance for operational risk losses.

The Company manages operational risk to an acceptable level, through a combination of sound corporate and risk governance, strong systems and controls, strong resource management and where appropriate limit and tolerance structures. The Company has a robust system in place which includes written procedures, risk limits and the controls required to implement, measure, monitor, maintain and report on all material operations.

The below table summarises some key operational risk areas and methods of mitigation: -

Operational risk area	**Mitigation measure**
Claims and underwriting	Regular audits and experience investigations Individual underwriter acceptance limits
Systems	Robust business and continuity and disaster recovery plans Business sign off and peer reviews
Unit pricing	Daily valuations Strict processes, controls, peer reviews and checks
Mis-selling	Sales agents are regulated by the Central Bank of Ireland and they are required to be QFA qualified

31 Reinsurance

As at 31 December 2019, the Company has a reinsurance financing contract and a quota share reinsurance contract in place with SCOR Global Life.

The reinsurance financing contract is effective 1 January 2008. Under this contract SCOR accept the risk of significant deterioration in lapses on the underlying business. A deficit account exists in respect of repayment multiples due to SCOR. The value of the deficit account, as at 31 December 2019, was €2.0m (2018: €2.3m). This expected outgoing is not shown as a liability on the balance sheet because the payments are contingent on the receipt of relative premiums. The Life Assurance Provision, captures €0.4m (2018: €0.3m) of expected future outgoings.

The quota share reinsurance contract is effective 1 January 2019. Under this contract the Company cedes a 35% share of risk experience in its unit-linked protection portfolio over a 15-year period to SCOR.

32 Capital management and capital position statement

The Company aims to manage its capital to ensure the Solvency Capital Requirement (SCR) is always in compliance with Central Bank of Ireland requirements. At 31 December 2019 the Company's eligible own funds are €39.1m (2018: €41.9m) or 150% (2018: 160%) of the SCR.

The Company intends to satisfy the requirements of its shareholders to receive adequate compensation for holding its shares.

The Board is responsible to ensure that the Company's capital is adequate to cover the required solvency capital requirements for the nature and scale of the business and expected operational requirements. A number of mechanisms are in place to evaluate capital adequacy and those evaluations indicate that the Company's capital is adequate at 31 December 2019. The Company uses the Solvency II standard formula for the purposes of calculating the SCR. The Solvency Ratio is continuously monitored and assessed as part of planning activities and in the event of large transactions. The future development of the Solvency and Minimum Capital Requirements are forecast at regular intervals as part of the planning process.

The table below reconciles shareholders' funds to available net assets for regulatory purposes.

	31 December 2019 €'000	31 December 2018 €'000
Shareholders' funds (note 20)	**23,758**	26,499
Valuation Differences under Solvency II:		
Deferred acquisition costs	**(26,759)**	(25,946)
Deferred income liability	**17,736**	15,660
Prudential reserve	**8,956**	9,741
Restricted DB pension surplus	**-**	(34)
Solvency II technical provisions	**15,367**	15,945
Own funds under Solvency II	**39,058**	41,865

Notes forming part of the financial statements (continued)

33 Parent undertakings and controlling parties

The Company's ultimate parent undertaking and controlling party is Acorn Life Group Limited, a Company incorporated in the Republic of Ireland, which has its principal place of business at St. Augustine Street, Galway. The Company's immediate parent undertaking is Tanis Limited, a Company incorporated in Northern Ireland. The parent undertaking of the smallest and largest groups of which the Company is a member and for which group financial statements are prepared is Acorn Life Group Limited. The financial statements of Acorn Life Group Limited are available at its registered office on St. Augustine Street, Galway.

34 Events after the reporting period

Coronavirus (COVID-19) is likely to have an impact on the Company through increased claims costs, business interruption and a potential reduction in investment policy charges driven by adverse movements in the financial markets. The rapid development and fluidity of this situation precludes a reasonable prediction of the ultimate impact it may have on the Company; however, the Company expects this effect to be within the ranges of extreme stress scenarios which it tests regularly and holds sufficient capital to withstand. There is no impact on the 2019 financial statements as a result of this event.

35 Approval of the financial statements

The financial statements were approved by the board of directors on 2 April 2020.