

Registered number
82051

Eagle Star Insurance Company Limited

Financial Statements

31 December 2015



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Company information

Directors

S Barnes (appointed 19 June 2015)
S Diffey
C Walsh (appointed 18 June 2015)

Company Secretary

P J Lampshire

Registered office

The Zurich Centre
3000 Parkway
Whiteley
Fareham
Hampshire
PO15 7JZ

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Strategic report

The directors present their strategic report for the year ended 31 December 2015.

Review of the business

This review is designed to help explain the financial statements and the financial performance of the Company. Set out below is a brief explanation of the methods used to measure and monitor the performance of the Company as well as commentary on the financial results for the year.

Principal activities

The Company was previously in run-off under a Financial Conduct Authority Scheme of Operations and has ceased underwriting.

On 30 September 2015 a portfolio transfer under Part VII of the Financial Services and Markets Act 2000 became effective and the long term insurance business of the Company was transferred to Zurich Assurance Ltd ("ZAL"). As a result of the Part VII transfer an application to de-authorise the Company under the Financial Services and Markets Act 2000 was accepted by the Prudential Regulation Authority with effect from 20 November 2015.

On 16 December 2015, after court approval, the distributable reserves of the company were increased by £56,940,000 comprising; a release of £37,540,000 from the Special Reserve and a reduction in issued share capital to 5,600,000 ordinary shares of £1 each, from 25,000,000 ordinary shares of £1 each.

Performance measurement

Due to the Company's size and relative lack of complexity, the directors are of the opinion that using key performance indicators (KPI's) is not necessary for an understanding of the development, performance or position of the Company.

Results and key performance measures for the year

The results for the Company show a pre-tax profit of **£1,089,000** (2014: £2,821,000) for the year and gross long-term written premiums of **£190,000** (2014: £385,000).

The Company has total shareholders' funds of **£8,699,000** (2014: £162,876,000).

Principal risks and uncertainties

Prior to the portfolio transfer under Part VII of the Financial Services and Markets Act 2000, life insurance risk included the possibility of loss due to uncertainty of rates of death and morbidity. The Company managed insurance risk through the use of reinsurance.

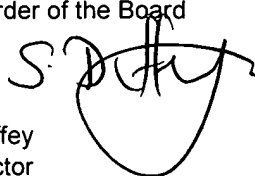
Adoption of FRS 102

During the year the company transitioned from the United Kingdom generally accepted accounting practice (UK GAAP) to Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, Zurich Insurance Company Ltd, was notified of and did not object to the use of the disclosure exemptions. During the year the Company also transitioned from the United Kingdom generally accepted accounting practice (UK GAAP) to Financial Reporting Standard 103, "Insurance Contracts" (FRS 103). Details of the presentational differences arising on the adoption of FRS 102 are included in note 27 to these financial statements.

By order of the Board

S Diffey
Director

20 September 2016



Directors' report

The directors present their annual report and audited financial statements of the Company for the year ended 31 December 2015.

Dividends

The directors resolved that a payment of **£155,000,000** would be paid for the year (2014: £nil).

Directors

The names of the directors who were in office at the date of signing the financial statements is shown on page 1.

The following directors were appointed during the year:

S Barnes (appointed 19 June 2015)

C Walsh (appointed 18 June 2015)

The following director resigned during the year:

P J Lindley (resigned 19 February 2015)

Directors' indemnity

Qualifying third party indemnity provisions (as defined in Section 234(2) of the Companies Act 2006) have been in force for the benefit of directors during the year and remain in force as at the date of this Directors' report.

Financial instruments and risk management

i) Financial risk management objectives

The Company is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of this financial risk are interest rate risk, currency risk, credit risk and liquidity risk.

The Company manages these positions within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to policyholders.

The Company's ALM is integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities. The Company does not use hedge accounting.

ii) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the policyholder liabilities. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates.

Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

Directors' report

Financial instruments and risk management (continued)

iii) Currency risk

The Company is exposed to currency risk in respect of liabilities under insurance policies denominated in currencies other than sterling. The Company seeks to mitigate the risk in cases where the currency liabilities are material by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. This is achieved by use of foreign exchange transactions to purchase or sell currency either at spot or forward exchange rate.

iv) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due.

The Company closely manages its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The credit worthiness of reinsurers is monitored on an ongoing basis by reviewing their financial strength.

v) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unexpected levels of demand.

Capital management

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's risk profile and the regulatory and market requirements of its business.

The Company's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support the run-off of business;
- to satisfy the requirements of its policyholders, regulators and rating agencies;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets; and
- to manage exposures to movement in exchange rates.

The Company considers not only the traditional sources of capital funding but the alternative sources of capital including reinsurance when assessing its deployment and usage of capital. The Company manages as capital all items that are eligible to be treated as capital for regulatory purposes.

The Company is regulated by the Prudential Regulation Authority (PRA) and subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the insurance liabilities. The Company manages capital in accordance with these rules and has embedded in its ALM framework the necessary tests to ensure continuous and full compliance with such regulations.

The Company manages its regulatory capital by reference to both minimum capital requirements based on the EU Directive and also self-assessed risk-based capital determined under the PRA's individual capital adequacy regime. The Company has complied with all externally imposed capital requirements throughout the year. The Company monitors its capital against all regulatory requirements and its performance in this respect is demonstrated by the solvency margin reported above under key performance measures.

Going Concern

No material uncertainties that cast significant doubt about the ability of the company to continue as a going concern have been identified by the directors.

Directors' report

Post balance sheet events

There have been no significant post balance sheet events.

Statement of disclosure of information to auditors

The directors confirm that:

- so far as each of the directors are aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2015 of which the Company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have signified their willingness to continue in office and will be deemed to be reappointed under section 487 of the Companies Act 2006.

Statement of Directors' responsibilities

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

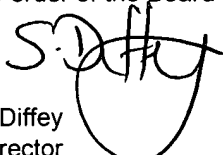
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board


S Diffey
Director
20 September 2016

Independent auditors' report to the members of Eagle Star Insurance Company Limited

Report on the financial statements

Our opinion

In our opinion, Eagle Star Insurance Company Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements comprise:

- the statement of financial position as at 31 December 2015;
- the statement of total comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Eagle Star Insurance Company Limited

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

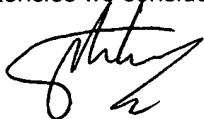
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Sean Forster (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

21 September 2016

Statement of total comprehensive income
Technical account - Long-term business
for the year ended 31 December 2015

£'000	Note	2015	2014
Earned premiums, net of reinsurance			
Gross premiums written	1	190	385
Outward reinsurance premiums		(190)	(385)
Net premiums written		-	-
Earned premiums, net of reinsurance			
		-	-
Investment income	7	-	2
Total technical income			
		-	2
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(3,496)	(4,233)
Reinsurers' share		3,496	4,233
Claims incurred, net of reinsurance			
		-	-
Change in Long-term business provision			
Gross amount		13,480	3,408
Reinsurers' share		(12,814)	(3,501)
Change in Long-term business provision			
	18	666	(93)
Net operating expenses	2	(399)	(7)
Investment expenses and charges	7	5	(22)
Unrealised losses on investments	7	(522)	(402)
Tax attributable to the long-term business	10	(56)	111
Total technical charges			
		(306)	(413)
Balance on the Long-term business technical account			
		(306)	(411)

All figures relate to discontinued operations.

Statement of total comprehensive income
Non-technical account
for the year ended 31 December 2015

£'000	Note	2015	2014
Balance on the Long-term business technical account		(306)	(411)
Tax attributable to the Long-term business technical account	10	56	(111)
Shareholders pre-tax profit / loss from Long-term business		(250)	(522)
Investment income	7	1,935	5,787
Investment expenses and charges	7	-	(12)
Investment return		1,935	5,775
Other income	8	-	(418)
Other charges, including value adjustments		(596)	(2,014)
Profit on ordinary activities before taxation		1,089	2,821
Tax on profit on ordinary activities	10	(221)	(607)
Profit for the financial year		868	2,214
Other comprehensive income:			
Revaluation of investments in group undertakings		(30)	(3,496)
Revaluation of other investments		(19)	(237)
Tax on revaluation of other investments		4	51
Total comprehensive income for the period		823	(1,468)

All figures relate to discontinued operations.

Gains and losses of an insurance company arising on the holding or disposal of investments are not required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above and their historical cost equivalents.


**Statement of financial position
as at 31 December 2015**

£'000	Note	2015	2014
Assets			
Investments			
Investments in group undertakings	12	5,211	140,241
Other financial investments	13	3,416	3,444
Cash and cash equivalents	14	7,327	27,655
		15,954	171,340
Reinsurers' share of technical provisions			
Long-term business provision		-	12,814
		-	12,814
Debtors			
Other debtors	16	83	20
		83	20
Prepayments and accrued income			
Accrued interest and rent		88	579
Other prepayments and accrued income		29	162
		117	741
Total assets		16,154	184,915

**Statement of financial position
as at 31 December 2015**

£'000	Note	2015	2014
Liabilities			
Capital and reserves			
Called up share capital	17	5,600	25,000
Revaluation reserve		1,330	1,360
Available for sale reserve		325	340
Special reserve		-	37,540
Profit and loss account		1,444	98,636
Total shareholders' funds		8,699	162,876
Technical provisions			
Long-term business provision	18	-	13,480
		-	13,480
Provisions for other risks			
	19	-	692
Creditors			
Amounts owed to credit institutions		192	164
Other creditors including taxation	21	6,409	6,471
		6,601	6,635
Accruals and deferred income			
		854	1,232
Total liabilities		16,154	184,915

The financial statements on pages 8 to 32 were approved and authorised for issue by the Board on 20 September 2016 and were signed on its behalf by:


 S Diffey
 Director

**Statement of changes in equity
for the year ended 31 December 2015**

£'000	Note	Called Up Share capital	Revaluation reserve	Available for sale reserve	Special reserve	Profit and loss account	Total Shareholders funds
At 1 January 2014		25,000	4,856	526	37,540	96,422	164,344
Profit for the year		-	-	-	-	2,214	2,214
Revaluation and realisation of investments in group undertakings		-	(3,496)	-	-	-	(3,496)
Revaluation of other investments		-	-	(237)	-	-	(237)
Tax on revaluation of other investments		-	-	51	-	-	51
Total comprehensive income		-	(3,496)	(186)	-	2,214	(1,468)
At 31 December 2014		25,000	1,360	340	37,540	98,636	162,876
Profit for the year		-	-	-	-	868	868
Revaluation and realisation of investments in group undertakings		-	(30)	-	-	-	(30)
Revaluation of other investments		-	-	(19)	-	-	(19)
Tax on revaluation of other investments		-	-	4	-	-	4
Total comprehensive income		-	(30)	(15)	-	868	823
Capital reduction		(19,400)	-	-	(37,540)	56,940	-
Dividend paid	11	-	-	-	-	(155,000)	(155,000)
At 31 December 2015		5,600	1,330	325	-	1,444	8,699

Accounting policies for the year ended 31 December 2015

General Information

Eagle Star Insurance Company Limited ("the Company") is in run-off under a Financial Conduct Authority Scheme of Operations and has ceased underwriting.

The Company is a private company and is incorporated and domiciled in England and Wales. The address of its registered office is shown on page 1.

Statement of compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including FRS102, FRS 103 and the Companies Act 2006.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 and FRS 103 in these financial statements. Details of the transition are disclosed in note 27.

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention as modified by the revaluation of investments, and in accordance with United Kingdom Accounting Standards, including FRS 102, FRS 103 and the Companies Act 2006.

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Details of accounting estimates and judgements are disclosed in note 28.

The Company is a wholly owned subsidiary of an ultimate parent company incorporated outside of the European Economic Area which prepares consolidated financial statements; in accordance with section 401 of the Companies Act 2006 the Company is therefore exempt from preparing group financial statements.

There have been no changes in accounting policies during the year.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company has taken advantage of the following disclosure exemptions under FRS 102:

- (a) a reconciliation of the number of shares outstanding at the beginning and end of the period, FRS 102.4.12(a)(iv).
- (b) the requirement to prepare a statement of cash flows, Section 7 of FRS102 and FRS 102.3.17(d).
- (c) the non-disclosure of key management personnel compensation in total, FRS 102.33.7.
- (d) certain financial instrument disclosures providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated, FRS 102.11.39-48A and FRS 102.12.26-29.

Accounting policies for the year ended 31 December 2015

Basis of accounting for long-term insurance business

Premiums

Premiums are accounted for when due for payment.

Claims

Maturities and annuities are included in the technical account when due for payment. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included in the calculation of technical provisions. Death claims are accounted for when notified.

Claims incurred include related internal and external claims handling costs.

Bonuses charged to the long-term business technical account in a given year comprise new reversionary and interim bonuses declared in respect of that year which are provided within the calculation of the long-term business provision ("LTBP"). Interim and terminal bonuses paid out to policyholders are included within claims paid.

Technical Provisions

The long-term business provision for non-profit contracts is determined in accordance with the actuarial principles laid down in the Life Insurance Directive (2002/83/EC). This valuation method allows for all projected future premiums and costs of administration.

Reinsurance

Long-term business ceded to reinsurers are accounted for as insurance contracts provided that significant insurance risk is transferred. Reinsurance premiums are accounted for when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim. The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability.

Investments in group undertakings

Investments in group undertakings are valued at current value which the directors assess to be either net asset value or cost as appropriate to each individual entity.

Accounting policies for the year ended 31 December 2015

Investment return

Investment return comprises all investment income (which includes the amortisation charge in respect of any investments carried at amortised cost), realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Dividends are recorded on the date on which shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis.

Realised gains and losses on investments carried at fair value through profit and loss or available for sale are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Unrealised gains and losses on group undertakings have been reflected in the statement of other comprehensive income to the extent that current value has not fallen below historical cost, and thereafter are reflected in the profit and loss account. Unrealised gains are recognised in the statement of other comprehensive income and only in the profit and loss account to the extent that they may reverse revaluation losses on the same asset that were previously recognised in the profit and loss account.

Other financial investments

The Company classifies its financial assets into the following categories: shares and other variable-yield securities, units in unit trusts, debt securities and other fixed income securities – as available for sale; derivatives and units in unit trusts (purchased after 23 October 2009 and designated on recognition at fair value through profit and loss) – at fair value through profit and loss; deposits with credit institutions - as loans and receivables. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

The Company's investment strategy is to invest in units and unit trusts (designated as at fair value through profit and loss) and fixed interest rate debt securities, (designated as available for sale). Derivatives are held in the form of foreign exchange hedges and are designated on initial recognition at fair value through profit or loss.

Financial instruments held at fair value are categorised into three levels based on a measurement hierarchy:

- Level 1. Fair value determined based on unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2. Fair value determined using inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3. Fair value determined using inputs for the asset or liability that are not based on observable market data.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss and from assets classified as available for sale are presented in the profit and loss account and the statement of other comprehensive income respectively, in the period in which they arise.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term. All loans and receivables are short term in nature and are therefore stated at cost.

Accounting policies for the year ended 31 December 2015

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Foreign currencies

Monetary items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates; the pound sterling is both the functional and the presentational currency.

Assets and liabilities are translated into the functional currency using the exchange rates prevailing at the period end; foreign currency transactions are translated at the spot rate at the date of the transaction where practicable, or at a materially equivalent rate.

Foreign currency exchange gains and losses arising from monetary assets and liabilities and transactions are reflected in the profit and loss account for the period; gains and losses are reflected in the non-technical account with the exception of those arising on technical reserves which are reflected in the technical account. Translation differences on non-monetary items, such as equities held as available for sale, are reported as part of the fair value gain or loss.

Financial liabilities

Creditors are financial liabilities and are recognised initially at fair value which is equivalent to cost. Creditors are of short duration and are therefore not required to be stated subsequently at amortised cost, using the effective interest method. Derivatives are designated as held for trading and measured at fair value with gains and losses recognised through profit and loss.

Operating leases

Lease rental costs relating to operating leases are charged to the profit and loss account as incurred over the term of the lease.

Pension costs

Pension costs are charged to the profit and loss account in line with the contributions made to the Group Pension Schemes as referred to in note 23.

Accounting policies for the year ended 31 December 2015

Taxation

The tax expense for the period comprises current tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised in respect of all timing differences, including revaluation gains and losses on investments taken through the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise and discounted to take into account the likely timing of payments and the pattern of the expected realisation of investments. The discount rates used are the post-tax yields to maturity that could be obtained at the balance sheet date on government bonds with maturity dates and in currencies similar to those of the deferred tax assets or liabilities. Deferred tax is recognised in the profit and loss account for the year, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of other comprehensive income.

**Notes to the financial statements
for the year ended 31 December 2015**

1 Segmental analysis - Long-term insurance business

All business is supplied from the United Kingdom, and all net assets are held within the United Kingdom.

£'000	2015	2014
Gross premiums written:		
Participating contracts	165	347
Non-participating contracts	25	38
Total Gross premiums written	190	385

Total gross premiums written relate to individual contract from regular premiums which in Europe.

Gross premiums written by destination are not materially different from gross premiums written by source.

The reinsurance balance amounted to a credit to the long-term business technical account of **£165k** (2014: credit £347k).

Assets of the long-term funds:

The total assets representing the long-term funds amounted to **£nil** (2014: £1,365k). The current year figure is after a transfer from the shareholders fund of **£5,076k**.

2 Net operating expenses

£'000	2015	2015	2014	2014
	Long-term business	General business	Long-term business	General business
Administrative expenses	399	-	7	-
Total	399	-	7	-

Total commissions for direct and assumed insurance accounted for by the Company during the year amounted to **£nil** (2014: £1,000). Total commission on reinsurance contracts was **£nil** (2014: £1,000).

**Notes to the financial statements
for the year ended 31 December 2015**

3 Auditors' remuneration

During the year the Company obtained the following services from the Company's auditor at costs as detailed below:

£'000	2015	2014
Fees payable to the Company's auditor for the audit of the Company's financial statements	10	10
Fees payable to the Company's auditor and its associates for other services:		
- Audit of the Company's subsidiaries, pursuant to legislation	2	9
Total	12	19

4 Operating lease rentals

£'000	2015	2014
Other leases	-	330
Total	-	330

5 Staff costs

Employees in the UK working on behalf of the Company are employed by either Zurich UK General Employee Services Limited, Zurich Employment Services Limited, Zurich UK General Services Limited or Zurich Global Corporate UK Limited. These employees may also work on behalf of any other companies, within the group of companies of which the ultimate parent is Zurich Insurance Group Ltd, a company incorporated in Switzerland.

The principal disclosures in respect of these staff, including disclosures in relation to share based payments, appear in the financial statements of Zurich UK General Employee Services Limited, Zurich Employment Services Limited, Zurich UK General Services Limited and Zurich Global Corporate UK Limited, copies of which can be obtained from The Secretary, The Zurich Centre, 3000 Parkway, Whiteley, Fareham, Hampshire, PO15 7JZ.

**Notes to the financial statements
for the year ended 31 December 2015**

6 Directors' remuneration

The aggregate remuneration of directors in respect of their services to the Company was **£28,000** (2014: £12,000).

7 Investment income, interest and charges

£'000	2015	2015	2014	2014
	Technical Account	Non- technical account	Technical Account	Non- technical account
Income from group undertakings	-	-	-	4,872
Income from other financial investments	-	1,825	2	337
Interest income	-	110	-	58
Net gains on the realisation of investments	-	-	-	520
Investment income	-	1,935	2	5,787
Investment management expenses	-	-	-	12
Net (gains)/losses on the realisation of investments	(5)	-	22	-
Investment expenses and charges	(5)	-	22	12
Unrealised (losses)/gains on investments	(522)	-	(402)	-
Unrealised (losses) and gains	(522)	-	(402)	-

Investment income from units and unit trusts designated at fair value through profit and loss amounted to **£110,000** (2014: £58,000). All investment income from other financial instruments relates to financial assets not held at fair value through profit and loss.

8 Other income

The amounts shown as other income comprise of foreign currency gains and losses not included in the investment return or technical account.

9 Part VII portfolio transfer

On 30 September 2015 a portfolio transfer under Part VII of the Financial Services and Markets Act 2000 became effective and the long term insurance business of the Company was transferred to Zurich Assurance Ltd ("ZAL"). As a result of the Part VII transfer an application to de-authorise the Company under the Financial Services and Markets Act 2000 was accepted by the Prudential Regulation Authority with effect from 20 November 2015.

**Notes to the financial statements
for the year ended 31 December 2015**

10 Tax on profit on ordinary activities

Taxation in the profit and loss account and statement of total recognised gains and losses was as follows:

£'000	2015	2015	2014	2014
	SOCIE	Statement of comprehensive income	SOCIE	Statement of comprehensive income
Current taxation, Non-Technical account:				
Tax attributable to the balance on the long-term business technical account	-	(56)	-	111
UK corporation tax at 20.25% (2014: 21.5%) for the year	(4)	221	(51)	607
Current tax (credit)/charge for the year	(4)	165	(51)	718
Current taxation, Long-term business technical account:				
UK Corporation Tax	-	748	-	-
Deferred taxation Long-term business technical account:				
Origination of timing differences	-	(692)	-	(111)
Tax charge/(credit) for the year	-	56	-	(111)
Total Tax charge	(4)	221	(51)	607

Factors affecting the tax charge for the year:

The tax expense for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

£'000	2015	2015	2014	2014
	SOCIE	Statement of comprehensive income	SOCIE	Statement of comprehensive income
Profit on ordinary activities before taxation	(19)	1,089	(237)	2,821
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 20.25% (2014: 21.5%)	(4)	221	(51)	607
Income and expenses not chargeable for taxation purposes	-	-	-	-
Current tax charge for the year	(4)	221	(51)	607

The tax rate for the current period is lower than the prior period due to changes in the UK corporation tax rate which decreased from 21% to 20% with effect from 1 April 2015.

Further reductions to the UK corporation tax rates were substantively enacted as part of Finance No. 2 Act 2015 on 26 October 2015. These reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

**Notes to the financial statements
for the year ended 31 December 2015**

11 Dividends

£'000	2015	2014
Equity shares		
Dividend paid of £27.68 per share (2014: £nil)	155,000	-
	155,000	-

12 Investments in group undertakings and participating interests

£'000	2015	2014
Shares in subsidiary undertakings	5,211	5,241
Loans to group undertakings	-	135,000
Total	5,211	140,241

Movements during the year consisted of:

£'000	Shares in subsidiary undertakings	Loans to group undertakings	Total
Net assets value at 1 January	5,241	135,000	140,241
Other movements in net assets	(30)	(135,000)	(135,030)
Total	5,211	-	5,211

The directors have considered the value of each of the Company's investments in subsidiary undertakings as at 31 December 2015 and are satisfied that the value of each investment is not less than the amount at which it is stated in the balance sheet.

On 15 July 2013 a £135,000,000 loan, attracting an interest rate of 1.1770%, was issued to a group undertaking with a maturity date of 15 July 2014.

This £135,000,000 loan to a group undertaking was renewed with a maturity date of 15 January 2015, with an interest rate of 0.7841%.

The loan was renewed with a maturity date of 30 November 2015 with an interest rate of 1.026%.

The loan was further renewed with a maturity date of 31 March 2016 with an interest rate of 0.6628%. On 21 December 2015 the £135,000,000 loan to a group undertaking was repaid in advance.

Of this balance £nil (2014: £nil) was backed by letters of credit.

**Notes to the financial statements
for the year ended 31 December 2015**

13 Other financial investments

£'000	2015 at cost	2015 at fair value	2014 at cost	2014 at fair value
Financial assets at fair value through reserves,				
Debt securities and other fixed income	90	90	91	91
Shares and other variable yield securities	3,024	3,326	3,024	3,353
Total	3,114	3,416	3,115	3,444

Included in the carrying values above are amounts in respect of listed investments as follows:

£'000	2015	2014
Shares and other variable-yield securities and units in unit trusts	3,326	3,353
Debt securities and other fixed-income securities	90	91
Total	3,416	3,444

14 Cash and cash equivalents

£'000	2015	2014
Units in unit trusts	7,327	27,655
Total	7,327	27,655

**Notes to the financial statements
for the year ended 31 December 2015**

15 Financial risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and policyholder liabilities. Details of the management of these risks is included within the director's report.

The Company has not changed the processes used to manage its risks from previous periods. The notes below explain how financial risks are managed using the categories utilised in the Company's ALM framework.

£'000	2015	2014
Shares in subsidiary undertakings	5,211	5,241
Units in unit trusts:		
- available for sale	3,326	3,353
	3,326	3,353
Debt securities and other fixed income securities -		
- listed securities	90	91
Loans and receivables -		
Loans to group undertakings	-	135,000
Reinsurance assets	-	12,814
	-	147,814
Other assets	7,527	761
Total assets	16,154	184,915
Long-term business provision	-	13,480
Provisions for other risks	-	692
Other liabilities	7,455	7,867
Total liabilities	7,455	22,039

**Notes to the financial statements
for the year ended 31 December 2015**

15 Financial risk (continued)

Depending on the valuation techniques used and whether the underlying assumptions are based on observable data, financial instruments are classified within three levels. For details of the criteria for allocating instruments within levels please refer to the accounting policy for other financial investments on page 15.

£'000	Level 1	Level 2	Level 3	2015 Total
Shares and other variable-yield securities and - available for sale	-	10	3,316	3,326
Debt securities and other fixed income securities - - listed securities	-	90	-	90
Total	-	100	3,316	3,416

£'000	Level 1	Level 2	Level 3	2014 Total
Shares and other variable-yield securities and - available for sale	-	10	3,343	3,353
Debt securities and other fixed income securities - - listed securities	-	91	-	91
Total	-	101	3,343	3,444

**Notes to the financial statements
for the year ended 31 December 2015**

15 Financial risk (continued)

Level 1 comprises of units in unit trusts.

Level 2 comprises of UK Government bonds, which are not valued purely using pricing from an active market.

The assets shown in level 3 are three various Rothschild Preference shares. These assets are valued by utilising a model which uses various inputs such as future interest rates and equity market risk. The table below shows the market value sensitivity to changes in these variables.

	Change in interest rates	Change in equity risk premium	Valuation £
Rothschild Preference Shares			
Current valuation			3,316,323
Scenario 1	+100bp	+100bp	3,192,068
Scenario 2	-100bp	-100bp	3,447,224

A reconciliation of assets measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3) is shown below:

£'000	Available for sale financial assets
Opening balance	3,343
Total gains through reserves	(27)
Closing balance	3,316

(i) Interest rate risk

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase of 100 basis points in interest rates would result in a fall of market value of securities of £54 (2014: £839); a decrease of 100 basis points would lead to a rise of market value of an equivalent amount.

(ii) Currency risk

The Company's policy is to fully hedge foreign currency positions and therefore the risk of material gains or losses arising from movements on foreign currency exchange (FX) rates is low. There were, however, no foreign currency positions to hedge against in 2015.

**Notes to the financial statements
for the year ended 31 December 2015**

15 Financial risk (continued)

(iii) Credit risk

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

£'000	2015	2014
Debt securities	90	91
Unit trusts	3,326	3,353
Loans and receivables	-	135,000
Assets arising from reinsurance contracts held	-	12,814
Cash at bank and in hand	-	-
Derivatives	-	-
Total assets bearing credit risk	3,416	151,258
AAA	-	-
AA	90	147,905
A	-	-
BBB	3,326	3,353
Below BBB or not rated	-	-
Total assets bearing credit risk	3,416	151,258

No credit limits were exceeded during the year. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties. The Company maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

**Notes to the financial statements
for the year ended 31 December 2015**

15 Financial risk (continued)

(iv) Liquidity risk

The table below provides a contractual maturity analysis of the Company's financial liabilities, based on

£'000	< 3 months or on demand	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total carrying value
At 31 December 2015						
Amounts owed to credit institutions	192	-	-	-	-	192
Other Creditors	6,409	-	-	-	-	6,409
Financial liabilities	6,601	-	-	-	-	6,601
Net reserves	-	-	-	-	-	-
Financial liabilities and net reserves	6,601	-	-	-	-	6,601
At 31 December 2014						
Amounts owed to credit institutions	164	-	-	-	-	164
Other Creditors	6,471	-	-	-	-	6,471
Financial liabilities	6,635	-	-	-	-	6,635
Net reserves	2	7	158	169	330	666
Financial liabilities	6,637	7	158	169	330	7,301

**Notes to the financial statements
for the year ended 31 December 2015**

16 Other debtors

£'000	2015	2014
Amounts due from group undertakings	56	-
Other debtors	27	20
Total	83	20

Amounts due to group undertakings are interest free, unsecured and repayable on demand.

17 Called up share capital

£'000	2015	2014
Allotted, called up and fully paid: 5,600,000 ordinary shares of £1 each (2014: 25,000,000)	5,600	25,000
Authorised: 49,548,719 ordinary shares of £1 each (2014: 49,548,719)	49,549	49,549

On 16 December 2015, after court approval, the distributable reserves of the company were increased by £56,940,000 comprising; a release of £37,540,000 from the Special Reserve and a reduction in issued share capital to 5,600,000 ordinary shares of £1 each, from £25,000,000 divided into 25,000,000 ordinary shares of £1 each.

18 Long-term business provision

On 30 September 2015 a portfolio transfer under Part VII of the Financial Services and Markets Act 2000 became effective and the long term insurance business of the Company was transferred to Zurich Assurance Ltd ("ZAL"). As a result of the Part VII transfer, the Long-term business provision for the Company is zero therefore mortality rate and interest rate were nil and comparative periods assumptions were as follows:

	2014
Mortality assumptions:	
Conventional ednowment/whole life	78% AMC00/ 64% AFC00
Interest rate assumptions:	
Conventional ednowment/whole life	1.05%

**Notes to the financial statements
for the year ended 31 December 2015**

19 Provisions for other risks

Provisions for other risks comprises of the deferred tax provision held in respect of the long-term business.

£'000	2015
Provision at start of year	692
Deferred tax credit in the long-term revenue account for the year	(692)
Provision at end of year	-

The calculation of deferred tax balances at the year end also takes into account reductions to the UK corporation tax rates that were substantively enacted as part of Finance No. 2 Act 2015 on 26 October 2015. These reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

20 Reinsurance transactions with group undertakings

Amounts due from group undertakings of £nil (2014: £12,814,000) are included in the long-term business provision - reinsurance amount.

21 Other creditors including taxation

£'000	2015	2014
Amounts due to group undertakings	15	659
Amounts due to subsidiary undertakings	5,005	5,005
Tax Payable	1,347	765
Other creditors	42	42
Total	6,409	6,471

All creditors fall due within one year.

Amounts due to group undertakings are interest free, unsecured and repayable on demand.

**Notes to the financial statements
for the year ended 31 December 2015**

22 Financial commitments

Annual commitments in respect of non-cancellable operating leases on land and buildings are as follows:

£'000	2015	2014
Operating leases which expire:		
Within one year	-	84
Within two to five years	-	-
Total	-	84

23 Pension and post-retirement benefits

The Company participates in a defined benefit scheme. The date of the last full actuarial valuation for the scheme was 30 June 2013. The valuation of the scheme is carried out by independent actuaries.

The majority of active members of the Scheme are employees of Zurich UK General Services Limited (ZUKGS). The Company itself is not an employer.

24 Ultimate parent company

The Company's ultimate parent company and ultimate controlling party is Zurich Insurance Group Ltd, which is incorporated in Switzerland. Copies of the consolidated financial statements of Zurich Insurance Group Ltd can be obtained from The Secretary, Zurich Insurance Group Ltd, Mythenquai 2, 8002 Zurich, Switzerland.

25 Related party transactions

The Company has taken advantage of an exemption from within FRS 102.33.1A not to disclose transactions with undertakings which are part of the group of companies of which the ultimate parent is Zurich Insurance Group Ltd ("the Zurich Insurance Group undertakings"). Balances with Zurich Insurance Group undertakings are shown in notes 11, 12, 13, 18, and 19.

Notes to the financial statements for the year ended 31 December 2015

26 Principal subsidiary undertakings

The following is a list of the Company's principal subsidiary undertakings as at 31 December 2015 and particulars of the percentage of nominal value of issued shares then held:

Company and country of incorporation and registration	Class of share capital	Nominal value held %	Nature of business
England and Wales			
ZGEE14 Limited	Ordinary	100	Non-Trading company
ZGEE15 Limited	Ordinary	100	Non-Trading company

The principal country in which each of the above named subsidiary undertakings operates is its country of registration or incorporation. The Company has taken advantage of Section 410(2)(a) of the Companies Act 2006 and listed only those subsidiary undertakings which principally affected the figures shown in the financial statements.

27 Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102 and FRS 103. The last financial statements under prior UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. There were no adjustments to the Company's total shareholder's funds at 1 January 2014 to 31 December 2014 on transition to FRS 102 and FRS 103. The following adjustment has arisen which has had no effect on net equity or comprehensive income but which has affected the presentation of the item on the statement of financial position:

Units in unit trusts, with a net book value of £7,327,000 at 1 January 2015, has been reclassified from Other financial investments to cash and cash equivalents as required under FRS 102. This has no effect on the company's net assets nor on the profit for the year.

28 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other

(a) Critical judgements in applying the entity's accounting policies

The company currently does not have any critical judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(b) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Other Financial Investment valuation

The company makes an estimate of the fair value of its investments by using a prudent valuation technique with regard to its likely realisable value.