

Covea Life Limited

Annual Report and Financial Statements

For The Year Ended 31 December 2016

Registered Number: 00911235



Contents

	Page
Strategic Report	2
Report of the Directors	4
Independent Auditors' Report to the Members of Covea Life Limited	6
Statement of Income and Retained Earnings	8
Statement of Financial Position	10
Notes to the Financial Statements	12
Company Information	34

**Strategic Report
For the Year Ended 31 December 2016**

The directors present their strategic report on Covea Life Limited ("the Company") for the year ended 31 December 2016.

BACKGROUND

The Company is a life insurance company offering a range of protection products for individuals distributed through a network of intermediaries and brokers across the UK and is a member of one of Europe's largest mutual insurance groups, Covéa.

REVIEW OF PERFORMANCE

The financial results for 2016 relative to 2015 are:

	2016 £'000	2015 £'000
Gross premiums written	21,167	22,094
Technical account result	2,950	1,472
Profit after tax	2,947	1,473

Gross written premium for our existing active accounts has decreased compared to the prior year. This has been partially offset by the full year effect of the transfer to the Company of a large book of group life business and the associated whole of life product in 2015.

The improved level of technical profitability is mainly the result of experience improvements in respect of a number of the Company's major accounts. The improved investment return has largely been offset by an increase in the value of claims provisions as a result of a reduction in long-term interest rates following the United Kingdom's vote to leave the European Union.

The business continues to develop in what continues to be a difficult economic and business environment, with a focus on the quality of service that we deliver to our clients and policyholders. We continue to discuss with our financial institution clients the opportunities available for existing and new products, however their focus remains on the economic environment and addressing the issues around past sales practices. There continues to be significant volatility in financial markets given the ongoing uncertainty across Europe, so the Company's investments are monitored regularly to ensure that a reasonable return on our investments is achieved. There have also been significant changes in the regulatory environment, which are being addressed by the Company, notably the implementation of Solvency II which came into force on 1 January 2016. The Board regularly reviews its obligations and regulatory responsibilities especially in light of the changes to the regulatory landscape.

The acquisition in 2015 of Covea Insurance Services Limited, the immediate parent of the Company, by MMA Holdings UK Plc, part of the Covéa Group, has created new opportunities for the Company, with a new account launched in 2017. The Covéa Group's Standard & Poor's rating of A+ should allow the Company to access new opportunities that might not previously have been available to it. The Company continues to develop sales from its existing client base in its current markets, along side efforts to expand its relationships to the group's other distribution partners.

CAPITAL MANAGEMENT AND SOLVENCY

The Company's objectives in managing its capital are to ensure that it complies at all times with regulatory requirements and that it is able to continue to deliver to its stakeholders; including its policyholders, claimants and shareholder. From 1 January 2016, the Company became subject to the new Solvency II capital regime, under which it is required to hold Own Funds in excess of its Solvency Capital Requirement (SCR). The Company has adopted the standard formula approach in calculating its SCR.

The Company's capital cover has exceeded the regulatory requirement at all times since the introduction of Solvency II. The figures below are unaudited and represent the Directors' latest view of the position as at 31 December 2016. Final audited figures will be included in the Solvency and Financial Condition Report (SFCR), which is expected to be published on the Company's website by the end of May 2017.

	£'000
Own funds	20,399
Solvency capital requirement ("SCR")	10,936
Own funds in excess of SCR	9,463
Solvency II capital cover	186.5%

**Strategic Report
For the Year Ended 31 December 2016**

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for establishing the Company's strategy and its appetite for the risks that arise in the implementation of that strategy. A risk management framework has been established, the primary objective of which is to protect the Company from events that hinder the achievement of its performance objectives.

Details on the principal risks and uncertainties facing the Company and how they are managed are set out on pages 17 to 25.

FUTURE OUTLOOK

The Company has already benefited from being part of a significantly larger and financially stronger group. This will continue to create new opportunities for the Company and it is our expectation that we will add to our client portfolio in 2017. We have continued our focus on providing a quality service to our clients and on appropriate pricing to make our results more resilient against volatility. We will maintain a conservative investment strategy and, in so doing, will manage our counter-party exposure risk.

APPROVED BY THE BOARD OF DIRECTORS
AND SIGNED BY ORDER OF THE BOARD



A WILSON
Company Secretary
31 March 2017

**Report of the Directors
For the Year Ended 31 December 2016**

The Directors present their Directors' Report on the Company for the year ended 31 December 2016.

PRINCIPAL ACTIVITY

The principal activity of the Company continues to be the underwriting of life protection insurance business in the United Kingdom and in Europe.

DIRECTORS

The Directors who served during the year and up to the date of signing the financial statements are set out below.

DIRECTORS	John Blundell	(Resigned 30 April 2016)
	Stephen Clarke *	
	Jane Dale *	(Appointed 22 February 2017)
	Graham Doswell *	(Resigned 14 October 2016)
	Patrice Forget *	
	Henry Kenyon *	
	Bertrand Lefebvre *	
	Edgardo Penollar	
	Anthony Pritchard	
	James Reader	
	Dominique Salvy *	Chairman

SECRETARY Annabel Wilson
 * - Non-executive directors

None of the Directors had an interest in the share capital of the Company or its parent companies during the year.

GOING CONCERN

The Directors believe that the Company is well placed to manage the risks facing it. After making enquiries, the Directors are satisfied that the Company has adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A Group company has purchased insurance to indemnify one or more of the Company's Directors against liability in respect of proceedings brought by third parties, against them in their capacity as a director, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remained in force throughout the year and as at the date of approval of this Directors' Report.

MODERN SLAVERY ACT

We welcome the Modern Slavery Act and will issue our first statement in 2017, setting out the steps we take to ensure that slavery and human trafficking is not occurring in any part of our business or its supply chain.

POST BALANCE SHEET EVENTS

No significant events affecting the Company have occurred since 31 December 2016.

PAYABLES PAYMENT POLICY

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers; provided that all trading terms and conditions have been complied with. At 31 December 2016, the amount outstanding in other payables did not exceed agreed payment terms, which are most commonly thirty days from date of invoice (2015: thirty days).

**Report of the Directors
For the Year Ended 31 December 2016**

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of this report confirms that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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, were re-appointed during the year. A tender will be held during 2017 for audit services for the audit of the year ending 31 December 2017. A resolution will be proposed at the annual general meeting to appoint or re-appoint the auditor.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102) and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the 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. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

APPROVED BY THE BOARD OF DIRECTORS
AND SIGNED BY ORDER OF THE BOARD



A WILSON
Company Secretary
31 March 2017

**Independent Auditors' Report to the Members of Covea Life Limited
For the Year Ended 31 December 2016**

Report on the financial statementsOur opinion

In our opinion, Covea Life 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 2016 and of its profit 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, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Income and Retained Earnings for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and 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 matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken during the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exceptionAdequacy 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.

Responsibilities for the financial statements and the auditOur 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.

**Independent Auditors' Report to the Members of Covea Life Limited
For the Year Ended 31 December 2016**

Our responsibilities and those of the directors (continued)

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

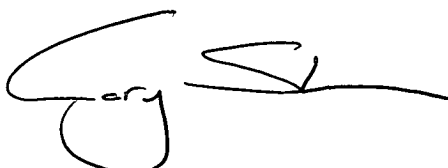
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. 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 Annual Report 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. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



Gary Shaw (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
4 April 2017

**Statement of Income and Retained Earnings
For the Year Ended 31 December 2016**
TECHNICAL ACCOUNT – LONG TERM BUSINESS

	Note	2016 £'000	2015 £'000
Earned Premiums, net of reinsurance			
Gross premiums written	3	21,167	22,094
Outward reinsurance premiums	3	(1,775)	(2,204)
		<u>19,392</u>	<u>19,890</u>
Investment Income	5	<u>4,508</u>	<u>(183)</u>
Claims Incurred, net of reinsurance			
Claims paid			
Gross amount		(11,227)	(10,576)
Reinsurers' share		732	1,019
		<u>(10,495)</u>	<u>(9,557)</u>
Change in claims provisions			
Gross amount		45	620
Reinsurers' share		54	(46)
		<u>99</u>	<u>574</u>
Change in Other Technical Provisions			
Long term business provision, net of reinsurance			
Gross amount		2,497	3,900
Reinsurers' share		(3,776)	(3,533)
		<u>(1,279)</u>	<u>367</u>
Net Operating Expenses			
Acquisition costs	4	(7,212)	(7,416)
Change in deferred acquisition costs	4	(1,180)	(718)
Administrative expenses		(1,019)	(991)
Reinsurance commissions		78	141
Exchange gain/(loss)		787	(209)
		<u>(8,546)</u>	<u>(9,193)</u>
Tax charge attributable to Long term business	7	<u>(729)</u>	<u>(426)</u>
BALANCE ON THE TECHNICAL ACCOUNT – LONG TERM BUSINESS		<u>2,950</u>	<u>1,472</u>

Statement of Income and Retained Earnings
For the Year Ended 31 December 2016

NON-TECHNICAL ACCOUNT

	Note	2016 £'000	2015 £'000
Balance on the long term business technical account		2,950	1,472
Tax charge attributable to balance on long term business technical account	7	(729)	(426)
Shareholder's pre tax profit from long term business		3,679	1,898
Investment Income	5	9	40
Other charges		(13)	(39)
Profit on ordinary activities before tax	6	3,675	1,899
Tax on profit on ordinary activities	7	(728)	(426)
Profit for the financial year		2,947	1,473
Profit and retained earnings account as at 1 January		8,981	7,508
Dividends paid during the year		(440)	-
Profit and retained earnings account as at 31 December		11,488	8,981

All profit for the year is attributable to the owners of the parent company.

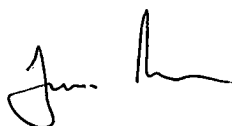
Statement of Financial Position
As at 31 December 2016

ASSETS	Note	2016 £'000	Restated 2015 £'000
Investments	10	42,071	29,865
Reinsurers' Share of Technical Provisions			
Long Term Business Provision		4,783	8,559
Claims Outstanding		620	566
	12	5,403	9,125
Receivables			
Debtors arising out of direct insurance operations			
Policyholders		111	132
Intermediaries		1,773	1,444
Debtors arising out of reinsurance operations		73	105
		1,957	1,681
Other debtors	13	92	530
		2,049	2,211
Other assets			
Cash at bank and in hand		12,286	17,021
Deferred Taxation	14	329	380
		12,615	17,401
Deferred acquisition costs	4	4,533	5,712
Total assets		66,671	64,314

Statement of Financial Position
As at 31 December 2016

EQUITY AND LIABILITIES	Note	2016 £'000	Restated 2015 £'000
Capital and reserves			
Called up share capital	11	7,500	7,500
Profit and retained earnings		11,488	8,981
Total equity		18,988	16,481
Technical provisions			
Long term business provision		40,072	42,569
Claims outstanding	12	1,733	1,778
		41,805	44,347
Creditors			
Creditors arising out of direct insurance operations		3,565	1,515
Creditors arising out of reinsurance operations		934	1,098
Other creditors	15	1,379	873
		5,878	3,486
Total equity and liabilities		66,671	64,314

The financial statements on pages 8 to 11, and related notes on pages 12 to 33 were approved by the Board of Directors on 31 March 2017 and were signed on its behalf by:



J W Reader
Director



E P Penollar
Director

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES**GENERAL INFORMATION**

Cov a Life Limited ("the Company") is a life assurance company authorised in the United Kingdom which carries out contracts of life assurance and reinsurance.

The Company is a private company incorporated in England and the address of its registered office is Norman Place, Reading, RG1 8DA.

STATEMENT OF COMPLIANCE

The financial statements have been prepared in compliance with United Kingdom Accounting Standards, including the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance contracts" ("FRS 103") and in accordance with the requirements of Schedule 3 to The Large and Medium-sized Companies and Company's (Accounts and Reports) Regulations 2008 relating to insurance Companies made under the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Cov a Sgam, includes the Company in its consolidated financial statements. The consolidated financial statements of Cov a Sgam are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Norman Place, Reading, RG1 8DA. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) 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 end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

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 years presented, unless otherwise stated.

BASIS OF PREPARATION

The preparation of financial statements in conformity with FRS 102 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

The financial statements have also been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of investments and freehold land and buildings and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

Where considered appropriate, the prior year disclosures have been amended to be consistent with the current year disclosures. The comparative amounts have been restated to allocate £530,000 of accrued interest in respect of our debt and fixed interest securities to be included as investments, and we have offset £182,000 of deferred tax assets against deferred tax liabilities.

GOING CONCERN

In assessing whether the going concern assumption is appropriate, the Board of Directors has reviewed the Company's ongoing financial commitments for the next 12 months and beyond. The Board's review includes the Company strategic plans and business forecasts and solvency capital position. The Company maintained a regular dialogue with its regulators and complied with all externally imposed capital requirements to which it was subject throughout the reporting period and managed its capital in line with internal policy (see Capital Management disclosure in Note 2). The directors believe that the Company is well placed to meet all future regulatory capital requirements and are satisfied that the Company has adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

CONSOLIDATION

The Company is a subsidiary company owned by an EU parent and is exempt from the requirement to prepare consolidated financial statements by virtue of Section 400 of the Companies Act 2006 (see note 18).

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)**INSURANCE CONTRACTS**

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. The Company's insurance products are classified as insurance contracts.

The results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

PREMIUMS

Written premiums are accounted for when due for payment. New business premiums are recognised when the policy liability is set up and the premium is due for payment. Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured.

COMMISSIONS

Acquisition commissions, including related overriding commissions, are included in acquisition costs in the Long Term Business Technical Account as incurred. Renewal commissions, including related overriding commissions, are included in administrative expenses as incurred.

ACQUISITION COSTS

Acquisition costs comprise direct costs, such as acquisition commissions, and indirect costs of obtaining and processing new business. They are allocated to particular categories of policies based on available management information. Such costs are analysed and those which are deemed deferrable are deferred as an explicit deferred acquisition costs asset, gross of tax, which is amortised over the period in which the costs are expected to be recoverable out of margins in matching revenues from related policies and in accordance with the pattern of such margins. At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins for the related policies in force at the Statement of Financial Position date.

CLAIMS

Claims payable are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the long term business provision. Claims payable include all related internal and external claims handling costs.

LONG TERM BUSINESS PROVISION

The long term business provision is computed by a Fellow of the Institute of Actuaries having due regard to the actuarial principles laid down in the Directive 2002/83/EC of the European Parliament and of the Council of 5 November 2002 concerning life assurance. The valuation uses the minimum of an unearned premium for creditor and group business. Unearned premium is determined on a Rule of 78 basis for life business with a reducing sum assured, and on a straight line basis for level sum assured life business and disability business. A gross premium valuation method has been used for all regular premium term business. The valuation basis adopted reflects the value of related assets and the yield derived therefrom, together with a prudent estimate of future rates of return on new monies receivable as income from existing business (premiums and investment income). Details of particular interest rate assumptions are contained in note 12. Other assumptions reflect a prudent assessment of future experience of mortality, morbidity, and other relevant factors including margins sufficient to meet the expectations of the Prudential Regulation Authority (PRA). These margins should emerge into surplus in future periods.

LIABILITY ADEQUACY TEST

At each reporting date, liability adequacy tests are performed for each portfolio of insurance contracts not measured using current assumptions to determine if the contract liabilities, net of any other related assets and liabilities, such as deferred acquisition costs and the present value of acquired in-force insurance contracts (PVIF), are adequate. Current best estimates of all future contractual cash flows, investment yields and related expenses are used in performing these tests. If a shortfall is identified the related assets are impaired and then, if necessary, an additional liability is established with a corresponding charge to Statement of Income and Retained Earnings in the year.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)**REINSURANCE**

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts issued by the Company, and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial instruments. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts, provided there is significant transfer of insurance risk.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time.

The recoverability of reinsurance debtors is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, in the Statement of Income and Retained Earnings, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Statement of Income and Retained Earnings as 'Outward reinsurance premiums' when due.

FOREIGN CURRENCY

Transactions in foreign currencies are recorded at the rate ruling at 31 December each year or at the contracted rate if the transaction is covered by a forward exchange contract. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Statement of Financial Position date or if appropriate at the forward contract rate. Exchange differences arising are taken to the Statement of Income and Retained Earnings.

TAXATION

Tax on the profit or loss for the year comprises current and deferred tax.

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.

The balance on the long term business technical account transferred to the non-technical account is grossed up at the effective rate of tax attributable to shareholder's profits in the technical account.

Provision has been made for deferred tax liabilities and assets, using the liability method, on all material timing differences. 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. 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 Statement of Financial Position date. Deferred tax is recognised in the Statement of Income and Retained Earnings for the period. Deferred tax balances are not discounted.

BASIC FINANCIAL INSTRUMENTS***Debtors/ Creditors***

Debtors are recognised initially at transaction price less attributable transaction costs. Creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at the undiscounted amount of the cash to be received, less any impairment losses, in the case of receivables due within one year.

Debtors are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of debtors is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the receivables if it were to be sold at the reporting date. Impairment losses are recognised in Statement of Income and Retained Earnings. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through Statement of Income and Retained Earnings.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)*Investments*

Investments consist of debt and fixed income securities designated as financial assets measured at fair value through profit and loss. Investments are measured initially at fair value, which is normally the transaction price excluding transaction costs. Subsequent to initial recognition, investments are measured at fair value with changes recognised in Statement of Income and Retained Earnings.

The fair values of listed investments are based on the current bid price on the Statement of Financial Position date or the last trading day before the Statement of Financial Position date.

Investments are recognised when the Company becomes a party to the contractual provisions of the instruments.

Investments are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Accrued interest income on debt and fixed income securities is stated within investments.

INVESTMENT INCOME

Investment income and expenses and unrealised gains and losses relating to investments which are directly connected with the carrying on of long term business is recorded in the long term business technical account. The investment income and expenses arising in relation to all other investments are recorded in the non-technical account.

Investment income comprises interest income and gains on the realisation of investments. Investment expenses and charges comprises investment expenses and losses on the realisation of investments. Net gains or losses arising from changes in the fair value of financial assets are presented in the statement of income and retained earnings within "Unrealised gains on investments" or "Unrealised losses on investments" in the period in which they arise.

Realised gains and losses on financial assets represent the difference between the proceeds received, net of transaction costs, and the original cost.

Unrealised gains and losses represent the difference between the fair value of financial assets at the Statement of Financial Position date and the original cost, or if they have been previously valued, those valuations at the Statement of Financial Position date. The movement in unrealised gains and losses recognised through Statement of Income and Retained Earnings in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Interest and investment expenses are accounted for on an accruals basis.

CASH AT BANK AND IN HAND

Cash at bank and in hand comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

EMPLOYEES

The Company has no employees (2015: none). All management services (including certain employee services) have been provided to the Company by Covéa Insurance Services Limited, the immediate parent entity.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

1. STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)**CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

In preparing these financial statements, management has made judgements, estimates and assumptions 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(i) Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 2 – classification of insurance and reinsurance contracts: the assessment of whether significant insurance risk has been transferred.
- Note 2 – impairment: whether there is objective evidence that reinsurance assets, and insurance and other financial receivables are impaired.
- Note 10 – classification of financial assets: whether financial assets should be designated as at fair value through profit or loss on initial recognition.

(ii) Assumptions and estimation uncertainties

Assumptions about future cash flows that have a significant risk of resulting in a material adjustment within the next financial year relate to mortality, morbidity, lapses, investment returns and expenses. Information about these assumptions is included in Note 12. The impact on technical provisions of changes in these assumptions is included in Note 2.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

2. RISK AND CAPITAL MANAGEMENT**OVERVIEW**

This note presents information about the nature and extent of the risks arising from insurance contracts and financial instruments, and the Company's objectives, policies and processes for measuring and managing those risks.

As an insurance company, the Company is in the business of actively seeking risk with a view to adding value by managing it. The Company is exposed to financial risks from financial instruments and insurance contracts. Financial risk is categorised as either credit, liquidity or market risk (i.e. interest rate risk). Insurance contracts issued by the Company also expose the Company to insurance risk; contract holder behaviour risk and expense risk. Insurance risk is the inherent uncertainty regarding the occurrence, amount, or timing of an insured event. The Company categorises other risks as strategic risk, operational risk, and compliance risk.

As set out in the Strategic Report, the Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. Management is responsible for developing and monitoring the Company's risk management policies. Management reports regularly to the Board on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, set appropriate risk limits and controls, and monitor adherence to risk limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

KEY RISKS AND SENSITIVITIES

For the purpose of managing risks, the Company classifies its risks into the following categories:

Strategic risk

The Company operates in highly-competitive markets, which have changed in structure substantially over recent years, particularly in respect of distribution and technology. Continued changes are inevitable and will generate both risks and opportunities.

Insurance Risk

Insurance risk is the risk that actual claims experience differs from the assumptions used in pricing contracts, in respect of the occurrence, amount or timing of the claims. The Company is exposed to insurance risk arising due to fluctuations in the timing, frequency and severity of insured events (mortality, morbidity, and longevity risks), relative to expectations at the time of underwriting, and to fluctuations in the timing and amount of claim settlements and other insurance-related expenses. Claim settlements can also be affected by changes to the legal framework in which they are made and court procedures. Although mortality, morbidity, and longevity experience can be affected by unexpected events, such as epidemics, the most significant changes to risk factors, such as lifestyle changes, medical advances and improvements in social conditions, tend to occur over a long period of time. Accordingly the Company's exposure to insurance risk is greater the longer the period between the date on which the guaranteed terms in the contracts are fixed (typically at the inception of a contract) and the end of the period over which the terms are fixed (typically the coverage period).

Management of insurance risks

The Company has in place a range of procedures, systems and controls designed to manage and mitigate these risks covering all aspects of its insurance activities; including underwriting and pricing, claims management and reserving. Prices charged for the cost of insurance risk are set at local level through a process of financial analysis. Where appropriate, individual contracts are examined and reviewed by trained underwriting staff to ensure that the premiums charged reflect the current health condition and the family medical history of the applicants. Mortality and morbidity risks are mitigated by the use of reinsurance. Management selects reinsurers based on an assessment of their credit worthiness using, amongst other factors, external credit ratings. The aggregation of risk ceded to individual insurers is monitored.

Concentration of insurance risks

The Company's exposure to insurance risk arising from its life risk contracts are mainly within the United Kingdom and Ireland for the current year and prior years. There is some legacy exposure in Norway and Denmark which is running off. There are no known concentrations of risk within the UK or Ireland, aside from the term life scheme provided to the British Armed Forces. Group coverages are provided to members of Credit Unions in the United Kingdom and Ireland.

Sensitivity to insurance risks

The sensitivity of the Company's profit or loss and equity to possible changes in insurance risks is presented in the table below. This analysis shows how profit or loss and equity would have been affected if changes in the specified risk variables that were reasonably possible at the reporting date had occurred, and reflect the impact of risk mitigation measures such as reinsurance. The effects before risk mitigation by reinsurance would not be materially different. For each sensitivity the impact of a reasonably possible change is presented, with other assumptions left unchanged.

Notes to the Financial Statements
For the Year Ended 31 December 2016

2. RISK AND CAPITAL MANAGEMENT (continued)

Insurance Risk (continued)

Sensitivity to insurance risks (continued)

	2016 £'000	2015 £'000
	Profit or loss and equity	Profit or loss and equity
10 percent increase in mortality rates	(1,471)	(1,502)
10 percent increase in morbidity rates	(726)	(692)
20 percent increase in lapse rates	1,221	1,041
20 percent decrease in lapse rates	(1,299)	(1,114)
10 percent increase in expenses	(371)	(267)

The sensitivities presented do not provide an indication of the impact of changes in the relevant risk variables on the overall profitability of contracts issued by the Company because the impact of a change in a variable on profit or loss or equity is dependent on the accounting policies adopted by the Company.

Credit Risk

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily the same type) with a single counterparty.

Exposure to credit risk

The Company is exposed to credit risk in respect of the reinsurers' share of technical provisions and receivables, the financial assets held in the Companies' investment portfolio and cash held with banks.

Reinsurers

The Company uses reinsurance agreements to transfer an element of potential insurance risk exposure from contract liabilities directly written. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a reinsurance claim, the Company remains liable for the payment to the policyholder. To manage this exposure the Company is assessing creditworthiness which is based on, amongst other factors, reinsurers' credit external ratings.

Investment portfolio and cash

The principal other source of credit risk arises from the assets held in the investment portfolio. The risk is that the investment counterparty enters financial difficulties and the fair value of the asset diminishes or the income stream (e.g. interest payments) is not paid; alternatively the counterparty becomes insolvent and the value of the asset is written off.

The investment portfolio contains a range of assets, including corporate bonds and other fixed income securities and cash deposits. The Credit Risk Policy stipulates approved counterparties, permitted investments and geographical territories, as well as detailing specific asset class and external credit rating exposure limits.

The Company's cash portfolio is deposited only with banks which are considered to provide good levels of security, based upon external credit ratings. The maximum exposure to any single counterparty is limited.

The table below sets out information about the credit quality (using Standard & Poor's (S&P) ratings or equivalent) of the Company's financial and insurance assets subject to credit risk that are neither past due nor impaired. The amounts in the table provide information about aggregated credit risk exposure for financial assets of the Company as at 31 December:

Notes to the Financial Statements
For the Year Ended 31 December 2016

2. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk (continued)

Credit quality

	31 December 2016						
	AAA	AA	A	BBB	Less than BBB	Non-rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investments	3,799	16,154	17,710	2,285	2,123	-	42,071
Reinsurers' share of technical provisions	-	5,205	198	-	-	-	5,403
Receivables arising out of direct insurance operations	-	-	-	-	-	1,884	1,884
Receivables arising out of reinsurance operations	-	46	27	-	-	-	73
Other receivables	-	-	-	-	-	92	92
Cash at bank	-	2	7,782	4,502	-	-	12,286
Total financial assets	3,799	21,407	25,717	6,787	2,123	1,976	61,809
Total %	6.2%	34.6%	41.6%	11.0%	3.4%	3.2%	100%

	31 December 2015						
	AAA	AA	A	BBB	Less than BBB	Non-rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investments	5,657	5,625	15,323	1,289	971	1,000	29,865
Reinsurers' share of technical provisions	5,292	3,610	223	-	-	-	9,125
Receivables arising out of direct insurance operations	-	-	-	-	-	1,576	1,576
Receivables arising out of reinsurance operations	-	96	9	-	-	-	105
Other receivables	-	-	-	-	-	530	530
Cash at bank	-	1	7,799	9,221	-	-	17,021
Total financial assets	10,949	9,332	23,354	10,510	971	3,106	58,222
Total %	18.8%	16.0%	40.1%	18.1%	1.7%	5.3%	100%

Notes to the Financial Statements For the Year Ended 31 December 2016

2. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk (continued)

Past due and impaired assets

An asset is past due when a counterparty has failed to make a payment when contractually due. Past due but not impaired financial and insurance assets are assets for which contractual payments are past due, but that the Company believes are not impaired. Financial and insurance assets are considered to be impaired if there is objective evidence that a loss event has occurred since the initial recognition of the assets and that loss event has an impact on the estimated future cash flows of the assets. Assets are considered to be impaired when an impairment loss has been charged to the Statement of Income and Retained Earnings relating to the asset. If the impairment loss is reversed in subsequent periods, the asset is no longer considered to be impaired. When the terms and conditions of financial assets have been renegotiated, the terms and conditions of the new agreement apply in determining whether the financial assets are past due.

The Company does not currently have any past due nor impaired assets as at 31 December 2016 (2015: £nil).

Financial assets measured at fair value through Statement of Income and Retained Earnings are not subject to impairment testing and there is rarely objective evidence that cash at bank and in hand are impaired. None of these financial assets were past due at the end of either reporting period.

Liquidity Risk

Liquidity risk is the risk that the Company cannot make payments as they become due because there are insufficient assets in cash form. The Company encounters potential liquidity risk exposures from its different business activities. It principally arises from its insurance contracts and the timing of the associated policyholder commitments.

Management of liquidity risk

The Board of Directors sets the Company's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to the Asset Allocation Committee, which approves the Company's liquidity policies and procedures. Management is responsible for managing the Company's liquidity position on a day to day basis, including monitoring of liquidity positions. Regular reports, including exceptions and remedial action taken, are submitted regularly to Management and the Asset Allocation Committee.

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 key elements of this strategy are as follows:

- Maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and long term;
- Holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;
- Forecasting additional cash demands under stressed conditions and management actions to be taken to liquidate sufficient assets to meet the increased demands; and
- Appropriate matching of the maturity dates of assets and liabilities. The Company undertakes asset and liability management to ensure that the duration of liabilities is broadly matched by assets in line with the risk appetite of the company.

Maturity analysis

- *Financial assets*
- The maturity analysis presented in the table below provides an analysis of the carrying value of financial and reinsurance assets available to fund the repayment of liabilities as they arise.
- The estimated contractual net cash inflows for reinsurer's share of technical provisions is based on the undiscounted future cash inflows included in the measurement of the assets. The estimated cash inflows for investments and debtors (Debtors arising out of direct insurance operations, Debtors arising out of reinsurance operations, and Other debtors) reflect the earliest date on which the gross undiscounted cash flows could be received assuming conditions are consistent with those at the reporting date.

Notes to the Financial Statements
For the Year Ended 31 December 2016

2. RISK AND CAPITAL MANAGEMENT (continued)

Liquidity risk - Management of liquidity risk (continued)

Financial liabilities and insurance contract liabilities

The maturity analysis presented in the table below reflects the estimated future contractual net cash outflows arising from the Company's financial liabilities and insurance contracts at the reporting date.

The estimated contractual net cash outflows for technical provisions (long term business provision and claims outstanding) is based on the undiscounted future cash inflows and outflows included in the measurement of the liabilities. The estimated cash outflows for creditors (Creditors arising out of direct insurance operations, Creditors arising out of reinsurance operations, and Other creditors) reflect the earliest date on which on the gross undiscounted cash flows could be paid assuming conditions are consistent with those at the reporting date.

	31 December 2016					
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Investments	42,071	2,511	3,299	6,942	45,257	58,009
Reinsurers' share of technical provisions	5,403	1,783	661	948	2,432	5,824
Debtors arising out of direct insurance operations	1,884	1,884	-	-	-	1,884
Debtors arising out of reinsurance operations	73	73	-	-	-	73
Other debtors	92	92	-	-	-	92
Cash	12,286	12,286	-	-	-	12,286
Deferred acquisition costs	4,533	4,533	-	-	-	4,533
Total	66,342	23,162	3,960	7,890	47,689	82,701
Financial Liabilities						
Long term business provision	40,072	8,854	961	1,240	41,509	52,564
Claims outstanding	1,733	1,733	-	-	-	1,733
Creditors arising out of direct insurance operations	3,565	3,565	-	-	-	3,565
Creditors arising out of reinsurance operations	934	934	-	-	-	934
Other creditors	1,379	1,557	-	-	-	1,557
Total	47,683	16,643	961	1,240	41,509	60,353

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

2. RISK AND CAPITAL MANAGEMENT (continued)

Liquidity risk - Maturity analysis (continued)

	Restated 31 December 2015					
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial Assets	£'000	£'000	£'000	£'000	£'000	£'000
Investments	29,865	1,953	2,453	7,974	40,560	52,940
Reinsurers' share of technical provisions	9,125	3,295	1,860	2,025	2,965	10,145
Debtors arising out of direct insurance operations	1,576	1,576	-	-	-	1,576
Debtors arising out of reinsurance operations	105	105	-	-	-	105
Other debtors	530	530	-	-	-	530
Cash	17,021	17,021	-	-	-	17,021
Deferred acquisition costs	5,712	5,712	-	-	-	5,712
Total	63,934	30,192	4,313	9,999	43,525	88,029
Financial Liabilities						
Long term business provision	42,569	12,776	1,599	2,225	38,679	55,279
Claims outstanding	1,778	1,778	-	-	-	1,778
Creditors arising out of direct insurance operations	1,515	1,515	-	-	-	1,515
Creditors arising out of reinsurance operations	1,098	1,098	-	-	-	1,098
Other creditors	873	873	-	-	-	873
Total	47,833	18,040	1,599	2,225	38,679	60,543

Market risk

Market risk is the risk that the fair value or future cash flows of the Company's financial instruments and insurance contracts will fluctuate because of changes in market prices. The Company is exposed to the following market risks: interest rate risk and foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or insurance contract, or the cash flows associated with these instruments will fluctuate due to changes in market interest rates. Interest rate risk in the Company arises from interest bearing financial assets only. Interest bearing assets comprise other financial assets at fair value through profit or loss and cash at bank and in hand which are considered to be short-term liquid assets.

The fair value of the Company's portfolios of fixed income securities and insurance contracts are inversely correlated to changes in market interest rates. Thus if interest rates fall, the fair value of the portfolios would tend to rise and vice versa. Exposures are controlled by the setting of investment limits and managing the balance of assets and liabilities in line with the Company's risk appetite.

Sensitivity to interest rate risks

An analysis of the Company's sensitivity to a 100 basis point parallel fall or rise in all yield curves at the end of the reporting period, and assuming that all other variables remain constant, is presented in the table below.

Notes to the Financial Statements
For the Year Ended 31 December 2016

2. RISK AND CAPITAL MANAGEMENT (continued)

Market risk - Interest rate risk (continued)

	2016 £'000 Profit or loss and equity	2015 £'000 Profit or loss and equity
100bp increase	212	1,583
100bp decrease	(1,170)	(1,858)

Foreign exchange risk

The Company is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than £ Sterling. The most significant currencies to which the Company is exposed are the Euro, Norwegian Krone, Danish Krone and US Dollar. The Company seeks to mitigate the currency risk by matching the foreign currency denominated liabilities with the financial assets denominated in the same currency.

Exposure to currency risk

The summary of quantitative data about the Company's significant exposure to foreign currency risk was as follows:

	2016		2015	
	£'000	£'000	£'000	£'000
	Total assets	Total liabilities	Total assets	Total liabilities
Euro	3,896	1,859	3,198	2,047
Norwegian Krone	1,637	1,433	2,132	1,918
Danish Krone	247	72	197	61
US Dollar	620	33	511	22

The following exchange rates applied during the year:

	Average rates		Reporting date spot rates	
	2016	2015	2016	2015
Euro	1.2185	1.3830	1.1715	1.3570
Norwegian Krone	11.2833	12.4063	10.6361	13.0328
Danish Krone	9.0715	10.3227	8.7108	10.1288
US Dollar	1.3459	1.5254	1.2357	1.4802

Notes to the Financial Statements For the Year Ended 31 December 2016

2. RISK AND CAPITAL MANAGEMENT (continued)

Market risk - Foreign exchange risk (continued)

Sensitivity to foreign exchange risk

A strengthening/(weakening) of £ Sterling, as indicated below, against the the Euro, Norwegian Krone, Danish Krone and US Dollar at the reporting date would have (decreased)/increased equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considers to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact from new business, or forecast profits or losses arising from in force business.

	Strengthening		Weakening	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Euro (10% movement)	(185)	(168)	226	206
Norwegian Krone (10% movement)	(19)	(3)	23	4
Danish Krone (10% movement)	(16)	(1)	19	1
US Dollar (10% movement)	(53)	(18)	65	22

Operational Risk

The Company is exposed to a range of operational risks, including those relating to the failure of processes or controls, business continuity, information security and fraud. These risks are managed through the maintenance of a comprehensive internal control environment, including the operation of a "three lines of defence model", with internal audit and a risk and compliance team supplementing the control activities of business management.

Compliance Risk

As a regulated entity operating in the UK insurance market, the Company is subject to a wide range of regulations and legislation. There is a risk of failure to comply with existing requirements or to adapt to new or changing requirements. Such a failure could result in legal action, loss of revenue, increased costs or regulatory sanction.

The Company manages these risks through the maintenance of open and constructive relationships with its regulators and of a strong internal compliance culture, and the thorough assessment of the impact of new legislation and regulations.

Capital Management

a) Policies and objectives

The Company manages its capital resources such that its current and projected Available Capital resources exceed its regulatory requirements and achieves:

- Effective implementation of a sustainable corporate strategy;
- Compliance with capital requirements imposed by the PRA;
- Financial viability of the Company;
- Appropriate levels to address identified business risks; and
- Trust in the Company's financial strength.

Available Capital is the amount permitted to meet the Solvency Capital Requirement under Solvency II which, for the period to 31 December 2016, was the capital the Company was required to hold by the regulator at any point in time in accordance with its risk profile.

b) Measurement and monitoring

The capital position of the Company is monitored on a regular basis and reviewed on a monthly basis by the Risk and Compliance Team which ultimately reports to the Company's Board of Directors.

In the event that sufficient capital were not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted, thereby reducing the capital requirement, through, for example, reinsurance, reducing business volumes or a change in investment strategy.

Notes to the Financial Statements
For the Year Ended 31 December 2016

2. RISK AND CAPITAL MANAGEMENT (continued)

Capital Management (continued)

c) Capital Statement

The Company complied with all externally imposed capital requirements to which it was subject throughout the reporting period and successfully managed its capital in line with internal policies.

From 1 January 2016, the Company became subject to the Solvency II capital regime. For the year ended 31 December 2016, the Company met all regulatory capital requirements under the Solvency II regime.

d) Capital Resource Sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of the liabilities. It is also sensitive to assumptions and experience relating to mortality and morbidity and, to a lesser extent, expenses and persistency.

The most significant sensitivity could arise from mortality risk in relation to term assurance business, which would arise if mortality of the lives insured developed more adversely than previously assumed, possibly because of an epidemic or catastrophe.

The timing impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it. In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position.

3. SEGMENTAL INFORMATION

Net assets

The Company's net assets are primarily employed within the United Kingdom for the current and prior year.

The Company's net assets are not allocated to specific product lines and therefore no allocation for segmental reporting purposes has been performed for the current and prior year.

Statement of Income and Retained Earnings items

All of the Company's premiums are underwritten within the United Kingdom for the current and prior year.

The Company's premiums by destination are set out in the table below:

	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
	Gross	Reinsurance	Gross	Reinsurance
United Kingdom	16,389	(1,775)	17,217	(2,204)
European Union	4,747	-	4,841	-
Other	31	-	36	-
	21,167	(1,775)	22,094	(2,204)

Notes to the Financial Statements
For the Year Ended 31 December 2016

3. SEGMENTAL INFORMATION (continued)

All written premiums represent non-participating direct business. There is no inward reinsurance business.

	2016	2016	2015	2015
	£'000	£'000	£'000	£'000
	Gross	Reinsurance	Gross	Reinsurance
Single Premium	2,630	(224)	2,952	(400)
Regular Premium	18,537	(1,551)	19,142	(1,804)
	21,167	(1,775)	22,094	(2,204)

Included within the Premiums above are gross new business premiums of £6,801,000, net after reinsurance of £6,629,000 (2015: Gross of £7,441,000, net after reinsurance of £7,225,000).

4. ACQUISITION COSTS

	2016 £'000	2015 £'000
Acquisition costs		
Direct insurance commission	6,777	6,877
Others	435	539
	7,212	7,416
Change in deferred acquisition costs	1,180	718
	8,392	8,134

Reconciliation of the carrying amount of deferred acquisition costs are as follows:

	2016 £'000	2015 £'000
Balance at 1 January	5,712	6,430
Incurred costs deferred	1,824	2,482
Deferred costs released	(3,003)	(3,200)
Balance at 31 December	4,533	5,712

Notes to the Financial Statements
For the Year Ended 31 December 2016

5. INVESTMENT INCOME AND EXPENSES

	2016 £'000	2015 £'000
Technical account – long term business		
Interest income from investments	1,281	1,219
Net realised (losses) from investments	-	(22)
Net unrealised gains/(losses) from investments	3,227	(1,380)
	<u>4,508</u>	<u>(183)</u>
Non-technical account		
Interest income from investments	39	148
Net realised (losses) from investments	(30)	(56)
Net unrealised (losses) from investments	-	(52)
	<u>9</u>	<u>40</u>
Total investment income	<u>4,517</u>	<u>(143)</u>

Total interest income from cash at bank amounting to £17,868 (2015: £22,253) and bank charges of £29,663 (2015: £35,362) were recognised in administrative expenses.

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation is stated after:		
Management charge	1,454	1,541
Audit Services		
Fees, excluding VAT, payable to the Company's auditors for the audit of the Company's financial statements	64	85
Other services pursuant to legislation, including the audit of regulatory returns	159	12

Notes to the Financial Statements
For the Year Ended 31 December 2016

7. TAX CHARGE ATTRIBUTABLE TO PROFIT ON ORDINARY ACTIVITIES

	2016 £'000	2015 £'000
Technical account		
Current tax expense		
Current year corporation tax charge at 20% (2015: 20.25%)	(712)	(399)
Prior year adjustments	8	(5)
	(704)	(404)
Deferred tax		
Origination and reversal of temporary differences	(34)	(22)
Prior year adjustments	9	0
Total tax charge	<u>(729)</u>	<u>(426)</u>

The standard rate of Corporation Tax in the UK changed from 21% to 20% with effect from 1 April 2015. During 2016, The standard rate of Corporation Tax remained unchanged. Accordingly, the profits for this accounting period are taxed, where applicable, at an effective rate of 20% (2015: 20.25%).

Factors affecting current and future tax charges

	2016 £'000	2015 £'000
Non-technical		
Current tax expense		
Current year corporation tax credit/ (charge) at 20% (2015: 20.25%)	1	(0)
Tax charge attributable to balance on long-term business	(729)	(426)
Total tax charge	<u>(728)</u>	<u>(426)</u>

The tax charged assessed for the year is lower (2015: the tax charge assessed was higher) than the standard effective rate of Corporation Tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	3,675	1,899
UK corporation tax charge at 20% (2015: 20.25%)	(735)	(385)
Rate Change and Related Impacts	(10)	(36)
Prior year adjustment	17	(5)
	<u>(728)</u>	<u>(426)</u>

8. DIVIDEND

During 2016, a £440,000 dividend was paid in respect of 2015 (2015: No dividend was paid in respect of 2014).

Notes to the Financial Statements
For the Year Ended 31 December 2016

9. DIRECTORS' EMOLUMENTS

	2016 £'000	2015 £'000
Emoluments	61	77
Employer pension contributions	3	7
	64	84

Fees and emoluments (excluding pension contributions) include amounts paid to:

Highest paid director:

Emoluments	24	22
Employer contributions into a defined contribution scheme	1	2

Certain directors received benefits in respect of their services to the Company and other Group companies, the aggregate of which is paid by and disclosed in the immediate parent company's financial statements. The amounts disclosed above represent the proportion of their emoluments which relates to their duties as directors of the Company.

There is 1 director (2015: 1) to whom retirement benefits have accrued under a defined benefit pension scheme.

10. INVESTMENTS

	Fair value		Cost	
	Restated			
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Debt securities and other fixed interest securities	42,071	29,865	38,180	29,341

a) Fair value changes

These financial investments are classified as at fair value through profit and loss at inception because they form part of an investment portfolio that is managed and whose performance is evaluated by the Company's key management personnel on a fair value basis. Debt securities and other fixed income securities are all listed.

The changes in fair value of investments stated at fair value through profit or loss as at 31 December 2016 were as following:

	2016	Restated 2015
	£'000	£'000
Cost	38,180	29,341
Fair value gains/(losses)	3,304	(6)
Accrued Income	587	530
Fair value	42,071	29,865

**Notes to the Financial Statements
For the Year Ended 31 December 2016**
10. INVESTMENTS (continued)
b) Fair value hierarchy

FRS 102 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price. This level includes listed debt instruments on exchanges (e.g. London Stock Exchange).

Level 2 – When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place.

Level 3 – If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

	31 December 2016			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Investments designated at fair value through Statement of income and retained earnings:				
Debt securities and other fixed-income securities	42,071	-	-	42,071
Total	42,071	-	-	42,071

	31 December 2015			
	Restated Level 1	Level 2	Level 3	Restated Total
	£'000	£'000	£'000	£'000
Investments designated at fair value through Statement of income and retained earnings:				
Debt securities and other fixed-income securities	29,865	-	-	29,865
Total	29,865	-	-	29,865

11. CALLED UP SHARE CAPITAL

	2016 £'000	2015 £'000
Authorised		
10,000,000 (2015: 10,000,000) Ordinary £1 Shares	10,000	10,000
Allotted, issued called up and fully paid		
7,500,000 (2015: 7,500,000) Ordinary £1 Shares	7,500	7,500

There is a single class of ordinary share. There are no restrictions on the distribution of dividends and repayment of capital.

Notes to the Financial Statements
For the Year Ended 31 December 2016

12. TECHNICAL PROVISIONS AND REINSURERS' SHARE OF TECHNICAL PROVISIONS

The total recognised technical provisions at the year end amounted to £41,805,000 (2015: £44,347,000) and the total recognised reinsurers' share of technical provisions amounted to £5,403,000 (2015: £9,125,000).

During the year, the Company recognised a net change of £4,637,000 (2015: £4,620,000) in the Statement of Income and Retained Earnings in respect of reinsurance.

Reconciliation of net technical provisions

	2016			2015		
	Gross technical provision	Reinsurers' share of technical provision	Net technical provision	Gross technical provision	Reinsurers' share of technical provision	Net technical provision
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	44,347	9,125	35,222	45,941	12,704	33,237
Reserve projected to 31 December	(4,839)	(2,490)	(2,349)	(5,299)	(3,256)	(2,043)
Reserve updated with actual data	915	307	608	5,086	(306)	5,392
Impact of changes in assumptions	1,390	(1,482)	2,872	(1,056)	(17)	(1,039)
Other movements	(8)	(57)	49	(325)	-	(325)
Balance at 31 December	41,805	5,403	36,402	44,347	9,125	35,222

The amounts presented in the above tables for changes to models represent the stepped changes in the technical provisions from their opening balances to their closing balances during the year. The step involving updating with actual data reflects the movement in the in-force policies during the period and includes the impact of new policies. The impact on technical provisions of changes to premium rates on reviewable products is shown in "Other movements".

Process used to determine assumptions

The valuation has been carried out using an unearned premium method for group business and creditor business. For all other individual business a gross premium method has been used.

The main assumptions used in the measurement of technical provisions relate to mortality, morbidity, persistency, investment returns and expenses.

Discount rate assumptions are generally based either on the gross redemption yield or the internal rate of return of the assets backing the insurance contract liabilities, less an adjustment to reflect credit risk.

Mortality, morbidity and persistency assumptions are generally developed using a blend of recent experience and industry trends, and include a prudent margin for adverse deviation. Experience is monitored through regular studies at entity level, the results of which are reflected both in the pricing of new products and in the measurement of existing contracts.

Expense assumptions are developed based on the entity level incurred maintenance expenses, allocated to policy level and then increased for inflation. A prudent margin for adverse deviation is added to individual components of the expense assumptions.

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

12. TECHNICAL PROVISIONS AND REINSURERS' SHARE OF TECHNICAL PROVISIONS (continued)

Process used to determine assumptions (continued)

The principal assumptions used to calculate the long term business provision are as follows:

	2016		2015	
	Interest Rate	Mortality / Mobidity Rate	Interest Rate	Mortality / Mobidity Rate
Term Life Assurance - Underwritten	1.00%	125% TM00 sel	1.75%	125% TM00 sel
Term Life Assurance – Armed forces	1.00%	125% TM00 ult + 550% OpsDeath 2008	1.75%	125% TM00 ult + 1000% OpsDeath 2008
Term Life Assurance – Guaranteed Acceptance	1.78%	175% TM00 ult	2.95%	175% TM00 ult
Term Life Assurance - Other	1.00%	125% TM00 ult	1.75%	125% TM00 ult
Whole of Life - GBP	1.78%	200% Year 1, 125% thereafter ELT 15 age adjusted	2.95%	275% Year 1, 200% thereafter ELT 15
Whole of Life - EUR	1.62%	200% Year 1, 125% thereafter ILT 14 age adjusted	2.72%	275% Year 1, 200% thereafter ILT 14
Stand Alone Critical Illness	1.78%	187.5% of reinsurer rates	2.95%	187.5% of reinsurer rates
Group Life Assurance	n/a	n/a	n/a	n/a
Creditor Single Premium	n/a	n/a	n/a	n/a

13. OTHER DEBTORS

	2016 £'000	2015 £'000
Amounts due from parent undertaking	-	86
Amounts due from related undertaking	90	-
Corporation Taxation	-	442
Other debtors	2	2
	<u>92</u>	<u>530</u>

14. DEFERRED TAXATION

Provision for other charges is made up of:

	2016 £'000	Restated 2015 £'000
Deferred tax liability for deferred acquisition costs	(29)	(57)
Deferred tax asset on transitional adjustment	329	380
	<u>300</u>	<u>323</u>

The calculation of the deferred taxation balance at the year end takes into account the reduction in the UK main corporation tax rate to 20%, effective from 1 April 2015, and the further reduction to 19% enacted from April 2017 and to 17% from April 2020. The value of the net reversal of deferred tax balances expected to occur within twelve months after the reporting date is £30,000 (2015: £29,000).

**Notes to the Financial Statements
For the Year Ended 31 December 2016**

15. OTHER CREDITORS

	2016 £'000	Restated 2015 £'000
Other creditors	326	468
Amounts due to parent undertaking	763	348
Corporation Taxation	261	-
Deferred tax liability	29	57
	<u>1,379</u>	<u>873</u>

16. POST BALANCE SHEET EVENTS

No significant events affecting the Company have occurred since the end of the year.

17. RELATED PARTY DISCLOSURES

Advantage has been taken of the exemption under FRS 102 section 33 (Related Party Disclosures) not to disclose transactions between entities, whose voting rights are wholly controlled within the MMA Holdings UK Plc, a member of Covéa Group of companies.

18. ULTIMATE HOLDING COMPANY

The Company is a member of Covéa Group. It is a wholly owned subsidiary of Covéa Insurance Services Limited, which in turn is a wholly owned subsidiary of MMA Holdings UK Plc, both companies registered in England and Wales.

MMA Holdings UK Plc is a wholly-owned subsidiary of Covéa Cooperations, a company registered in France. Covéa Cooperations is controlled by MMA IARD Assurances Mutuelles, MMA Vie Assurances Mutuelles, DAS Assurances Mutuelles, La Garantie Mutuelle des Fonctionnaires, Assurances Mutuelles de France, MAAF Assurances, and MAAF Santé. These companies own all the share capital and control 100% of the voting rights of Covéa Cooperations, are registered in France and are affiliated to Covéa Sgam.

Covéa Sgam prepares the consolidated financial statements of the Covéa Group, copies of which can be obtained from MMA Holdings UK plc, Norman Place, Reading RG1 8DA.

Company Information
For the Year Ended 31 December 2016

REGISTERED AND HEAD OFFICE	Norman Place Reading RG1 8DA
WEB ADDRESS	www.coveainsurance.co.uk
REGULATORS	Prudential Regulation Authority Financial Conduct Authority
BANKERS	Royal Bank of Scotland plc Bank of Scotland plc Barclays Bank plc Lloyds Bank plc HSBC Bank plc
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP 2 Glass Wharf Bristol BS2 0FR
REGISTERED NUMBER	00911235