

**Covéa Life Limited**

**Annual Report and Financial Statements**

**For The Year Ended 31 December 2018**

**Registered Number: 00911235**



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## Strategic Report For the Year Ended 31 December 2018

The Directors present their Strategic Report on Covéa Life Limited ("the Company") for the year ended 31 December 2018.

### BACKGROUND

The Company is a life insurance company offering a range of protection products for individuals in the UK and Republic of Ireland distributed through a network of intermediaries and brokers, and is a member of one of Europe's largest mutual insurance groups, Covéa. Given the uncertainties associated with the UK's exit from the European Union ("Brexit"), the Company has recently ceased underwriting business in the Republic of Ireland (£7,252,000 of the gross premiums written in 2018 related to the Republic of Ireland (2017: £6,718,000)).

### REVIEW OF PERFORMANCE

The financial results for 2018 relative to 2017 are:

|                          | 2018<br>£'000 | 2017<br>£'000 |
|--------------------------|---------------|---------------|
| Gross premiums written   | 20,365        | 22,353        |
| Technical account result | 2,539         | 3,595         |
| Profit after tax         | 2,539         | 3,595         |

Gross premiums written have decreased by 9% over the previous year as a result of a decrease in the volume of policies sold through one distribution partner.

The decrease in technical profitability is due principally to a combination of lower levels of earned premium and investment returns.

### 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. The Company 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 for 2018 are unaudited and represent the Directors' latest view of the position as at 31 December 2018.

|                              | 2018<br>£'000 | 2017<br>£'000 |
|------------------------------|---------------|---------------|
| Own funds                    | 25,111        | 22,995        |
| Solvency capital requirement | 10,099        | 10,477        |
| Own funds in excess of SCR   | 15,012        | 12,518        |
| Solvency II capital cover    | 248.6%        | 219.5%        |

### PRINCIPAL RISKS AND UNCERTAINTIES

The Board of Directors 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 20 to 27.

### FUTURE OUTLOOK

The Company's membership of the Covéa group, and its close relationship with its sister company in the UK, Covea Insurance plc, will continue to create new opportunities for the Company and it is our expectation that we will add new products and distribution relationships in 2019. We will continue to focus on providing a high-quality service to our business partners and policyholders, and on ensuring pricing is both competitive and sustainable. We will maintain a conservative investment strategy and, in so doing, will manage our counter-party exposure risk.

**Strategic Report  
For the Year Ended 31 December 2018**
**FUTURE OUTLOOK (continued)**

The UK life insurance market continues to be characterised by legislative and regulatory change and an extremely competitive environment. The Company has ceased writing any new business or renewal of policies in the Republic of Ireland and other EU territories as a result of Brexit.

**EMPLOYEES**

Whilst the Company does not directly employ any employees, its business and processes are managed by individuals employed by an associated service company, Covéa Insurance Services Limited ("CISL"). The policies of CISL including those in relation to diversity, social matters and human rights are applicable to these employees and implemented by them. The employees of CISL, including the non-executive directors who are remunerated by CISL but excluding three non-executive directors remunerated in France, at 31 December 2018 by gender were as follows:

|                     | Females | Males | Total |
|---------------------|---------|-------|-------|
| Directors           | 1       | 5     | 6     |
| Senior Managers     | 10      | 33    | 43    |
| All other employees | 1,014   | 798   | 1,812 |
| Total               | 1,025   | 836   | 1,861 |

**ENVIRONMENTAL MATTERS**

The Company is committed to implementing and maintaining a policy which recognises the benefits associated with sound environmental performance and practice, and promotes a culture of responsibility and awareness amongst employees and business partners. The Company's policy is available to all employees of CISL through the intranet and aims to:

- Meet or exceed all environmental legislation that relates to the Company;
- Wherever practicable, minimise the negative impact of the Company's activities on the environment;
- Ensure the efficient use of energy, water, fuel and other resources;
- Provide relevant training to employees so that they can fulfil their responsibilities;
- Participate in community and council initiatives to improve the local environment; and
- Explore opportunities to improve the environmental performance of the Company's buildings.

**ANTI-BRIBERY AND CORRUPTION POLICY**

The Company has an established Anti-Bribery and Corruption Policy that is reviewed at least annually. The Policy is based around the six principles laid out by the UK Government as follows:

- Proportionality
- Top-level commitment
- Risk assessment
- Due diligence
- Communication
- Monitoring and review

The Company has a zero tolerance approach to bribery and corruption and adopts consistent, robust and effective processes and systems against such practices. The Policy is available to all employees of CISL through the intranet and is reinforced by annual online training and assessments. No incidents pertaining to the Policy were recorded during the year.

By order and approval of the Board.



Annabel Wilson  
Company Secretary  
9 April 2019

## Report of the Directors For the Year Ended 31 December 2018

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The Directors present their Report on the Company for the year ended 31 December 2018.

### PRINCIPAL ACTIVITY

The principal activity of the Company continues to be the underwriting of life protection insurance business in the United Kingdom and Europe. Given the uncertainties associated with the UK's exit from the European Union ("Brexit"), the Company has recently ceased underwriting business in the Republic of Ireland.

### FUTURE DEVELOPMENTS

The details of the future developments for the Company are contained in the Strategic Report.

### DIVIDEND

During 2018, a £1,080,000 dividend was declared and paid in respect of 2017 (2017: £890,000 dividend was declared and paid in respect of 2016).

### FINANCIAL RISK MANAGEMENT

Disclosures relating to financial risk management are included in Note 4 and therefore incorporated into this report by reference.

### DIRECTORS

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

|           |                     |                              |
|-----------|---------------------|------------------------------|
| DIRECTORS | Nicholas Caplan *   |                              |
|           | Stephen Clarke *    |                              |
|           | Jane Dale *         |                              |
|           | Bertrand Lefebvre * |                              |
|           | Pierre Michel *     | (Appointed 20 February 2018) |
|           | Karl Murphy *       |                              |
|           | Edgardo Penollar    |                              |
|           | Anthony Pritchard   | (Resigned on 30 March 2018)  |
|           | James Reader        |                              |
|           | Dominique Salvy *   | Chair                        |

|           |                           |
|-----------|---------------------------|
| 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.

### 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 Report of the Directors. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period in office.

### POST BALANCE SHEET EVENTS

On 11 February 2019, 100% of the shareholding of the Company was transferred from CISL to MMA Holdings UK plc, which is also a member of the Covéa Group of companies. The ultimate parent remains the same.

### MODERN SLAVERY ACT

We welcome the Modern Slavery Act and issued 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.

**Report of the Directors  
For the Year Ended 31 December 2018**

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**EMPLOYEES**

Whilst the Company does not directly employ any employees, its business and processes are managed by individuals employed by an associated service company, CISL. The Company supports and applies the employment policies adopted by CISL.

**Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

**Employee involvement**

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through briefing groups and notifications to employees.

**DISCLOSURE OF INFORMATION TO AUDITORS**

Each of the persons who is a Director at the date of this Report confirms that:

- as far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2018 of which the Auditors are unaware; and
- each has taken all steps that he ought to have taken in his/her duty as a director in order to make him/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, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Company's Board.

**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.

**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 2018, the amount outstanding in other creditors did not exceed agreed payment terms, which are most commonly thirty days from date of invoice (2017: thirty days).

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual Report and 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;
- state whether applicable United Kingdom Accounting Standards comprising FRS 102 and applicable law have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

**Report of the Directors  
For the Year Ended 31 December 2018**

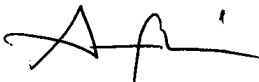
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**STATEMENT OF DIRECTORS' RESPONSIBILITIES (continued)**

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

By order and approval of the Board.



Annabel Wilson  
Company Secretary  
9 April 2019

## Independent Auditors' Report to the Members of Covéa Life Limited For the Year Ended 31 December 2018

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### Report on the audit of the financial statements

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#### Opinion

In our opinion, Covéa Life Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2018; the statement of income and retained earnings for the year then ended; the accounting policies; and the notes to the financial statements.

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

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#### Basis for opinion

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

#### Independence

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

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

We have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

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#### Our audit approach

##### Overview

- Materiality: Overall £666,349 (2017: £704,000), based on 1% of total assets.
  - Based upon the outputs of our risk assessment, along with our understanding of the Company's structure we have tailored the scope of our audit to ensure that we perform enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls, and the industry in which the Company operates. The nature, timing and extent of audit procedures performed uses the inputs of our risk assessment, along with our understanding the Company's business. In doing so, we also consider qualitative factors and check that we have sufficient coverage across all financial statement line items in the financial statements.
  - Actuarial methodologies and assumptions used to determine the valuation of long term business provisions.
- 

#### The scope of our audit

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

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

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Prudential Regulation Authority and the Financial Conduct Authority (see page 26 of the Annual Report), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure of the Company and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of insurance claims liabilities. Audit procedures performed by the engagement team included:



## Independent Auditors' Report to the Members of Covéa Life Limited For the Year Ended 31 December 2018

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported on the Company's whistleblowing register and the results of management's investigation of such matters;
- Reading key correspondence with and reports to the Prudential Regulation Authority and / or the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee, the Risk Committee and the Life Reserving and Solvency Committee;
- Reviewing the Company's register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of insurance claims liabilities described in the related key audit matter below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

### Key audit matters

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

| <b>Key audit matter</b>  | <b>How our audit addressed the key audit matter</b>  |
|--|--|
| <p><b>Actuarial methodologies and assumptions used to determine the valuation of Long Term Business Provisions ( "LTBP")</b></p> <p>The LTBP are the most significant estimates in the financial statements and their estimation requires a significant degree of judgement. When valuing the LTBP it is necessary to project expected cashflows at future time periods, including premiums, claims and expenses. These cashflows will be affected by a number of elements for which assumptions need to be made, including mortality, morbidity, lapses and expense level. These cashflows are then discounted at an appropriate rate of interest. There is significant judgement involved in setting these assumptions. For certain short term products a cashflow projection is not used and an unearned premium approach is used for setting the LTBP.</p> <p>We have assessed lapse assumptions as being the most material assumption. Lapse assumptions are driven by past experience (experience investigations) and also by future expected changes to policyholder behaviour due to other factors, such as product features and/or economic factors. Assumptions about future changes to policyholder behaviour are difficult to predict and therefore there is judgement applied when setting appropriate lapse assumptions. For mortality and morbidity, assumptions are required for the choice and percentage of standard table to be used in the calculation of the LTBP. Setting the assumed rates of future mortality and morbidity is subjective and requires judgement, particularly for smaller books of business where there is inherent statistical variability in the results from the experience investigations.</p> <p>Given the sensitivity of the LTBP to these assumptions,</p> | <p>We have performed a review of the methodology and assumptions used to calculate the LTBP as at 31 December 2018.</p> <p>We have tested management's controls over the accuracy of the data used in the calculation of the LTBP and the evidence of the input of assumptions into the valuation models. We have tested, on a sample basis, the underlying data used in the actuarial models and compared this to other items in the financial statements.</p> <p>We have tested the model used by Management to calculate the LTBP. This involved testing model controls, including management's review of model outputs, a comparison of modelled results to expectation and reconciliation to prior year position.</p> <p>We have understood the governance process followed for the approval of the assumptions to be used in the calculation of the LTBP.</p> <p>We have reviewed the evidence provided by management for maintaining or changing assumptions. We have reviewed the results from the experience investigations and the key judgements made by management in determining the assumptions to be used for mortality, morbidity and lapses, to calculate the LTBP.</p> <p>We have examined the movement in LTBP expected over 2018 from the actual experience to check if the movements in LTBP are in line with our expectations.</p> <p>We have tested the calculation of manual reserves performed by management to ensure they are reasonable.</p> <p>The assumptions used in the calculation of the LTBP are inherently subjective. Based on the results of our testing, we</p> |

**Independent Auditors' Report to the Members of Covéa Life Limited  
For the Year Ended 31 December 2018**

| <b>Key audit matter</b>  | <b>How our audit addressed the key audit matter</b>  |
|--|--|
| there is a heightened risk of material misstatement in the LTBP resulting from the assumptions used in the calculation and it is for this reason that LTBP and the assumptions used to calculate the LTBP are a key area of audit focus. | concluded that the assumptions and methodology used to calculate the LTBP were appropriately supported based on the evidence obtained. |

*How we tailored the audit scope*

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

Using the outputs of our risk assessment, along with our understanding of Covéa's structure, we scoped our audit based upon the significance of the results of individual segments of business and their distribution channel relative to the overall Company result. The Company offers a range of life insurance products to individuals and small and medium-sized businesses, distributed through a network of intermediaries and brokers, with all material insurance contracts underwritten in the United Kingdom. In scoping our audit, we also consider qualitative factors and check that we have sufficient coverage across all financial statement line items in the financial statements.

*Materiality*

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

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

|  |   |
|--|---|
| <b>Overall materiality</b>             | £666,349 (2017: £704,000).  |
| <b>How we determined it</b>            | 1% of total assets.   |
| <b>Rationale for benchmark applied</b> | In the current year we have used a total asset based measure for materiality. We believe that a Statement of Income and Retained Earnings based metric to determine materiality is not appropriate as the majority of the policies the Company offers are in run off and there is a significant volume of intragroup transactions. Furthermore, having considered capital measures PwC believe that the total assets benchmark returns the most appropriate value when considering the size and nature of the business as well as the users of the accounts and the balances and magnitudes of errors they would be concerned with. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £33,317 (2017: £35,200) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Conclusions relating to going concern**

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial

**Independent Auditors' Report to the Members of Covéa Life Limited  
For the Year Ended 31 December 2018**

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statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

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

*Strategic Report and Report of the Directors*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

**Responsibilities for the financial statements and the audit***Responsibilities of the Directors for the financial statements*

As explained more fully in the statement of Director's responsibilities for the financial statements, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

*Use of this report*

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

**Other required reporting**

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**Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

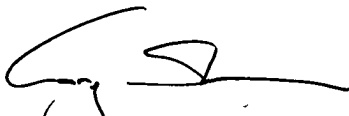
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**Independent Auditors' Report to the Members of Covéa Life Limited  
For the Year Ended 31 December 2018**

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**Appointment**

We were appointed by the Directors on 1 January 1994 to audit the financial statements for the year ended 31 December 1994 and subsequent financial periods. The period of total uninterrupted engagement is 24 years, covering the years ended 31 December 1994 to 31 December 2018.



Gary Shaw (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading  
9 April 2019

**Statement of Income and Retained Earnings**  
**For the Year Ended 31 December 2018**

**TECHNICAL ACCOUNT – LONG TERM BUSINESS**

|  | Note | 2018<br>£'000 | 2017<br>£'000 |
|--|------|---------------|---------------|
| <b>Earned Premiums, Net of Reinsurance</b>                   |      |               |               |
| Gross premiums written                                       | 5    | 20,365        | 22,353        |
| Outward reinsurance premiums                                 | 5    | (1,774)       | (1,890)       |
|  |      | 18,591        | 20,463        |
| <b>Investment income</b>                                     | 7    | (250)         | 1,405         |
| <b>Claims Incurred, Net of Reinsurance</b>                   |      |               |               |
| Claims paid  |      |               |               |
| Gross amount   |      | (12,071)      | (11,436)      |
| Reinsurers' share  |      | 620           | 890           |
|  |      | (11,451)      | (10,546)      |
| <b>Change in Claims Provisions</b>                           |      |               |               |
| Gross amount   |      | 784           | 344           |
| Reinsurers' share  |      | (331)         | (281)         |
|  |      | 453           | 63            |
| <b>Change in Other Technical Provisions</b>                  |      |               |               |
| Long term business provision, net of reinsurance             |      |               |               |
| Gross amount   |      | 3,237         | 621           |
| Reinsurers' share  |      | 449           | (148)         |
|  |      | 3,686         | 473           |
| <b>Net Operating Expenses</b>                                |      |               |               |
| Acquisition costs  | 6    | (7,332)       | (7,631)       |
| Change in deferred acquisition costs                         | 6    | (196)         | (226)         |
| Reinsurance commissions                                      |      | 249           | 137           |
| Administrative expenses                                      |      | (712)         | (846)         |
| Other income   |      | 12            | 292           |
| Exchange gain  |      | 83            | 41            |
|  |      | (7,896)       | (8,233)       |
| <b>Tax Charge Attributable to Long Term Business</b>         | 9    | (594)         | (30)          |
| <b>BALANCE ON THE TECHNICAL ACCOUNT – LONG TERM BUSINESS</b> |      | <u>2,539</u>  | <u>3,595</u>  |

**Statement of Income and Retained Earnings**  
**For the Year Ended 31 December 2018**

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**NON-TECHNICAL ACCOUNT**

|   | Note | 2018<br>£'000        | 2017<br>£'000        |
|---|------|----------------------|----------------------|
| Balance on the technical account - long term business                                   |      | 2,539                | 3,595                |
| Tax charge attributable to the balance<br>on the technical account - long term business | 9    | <u>(594)</u>         | <u>(30)</u>          |
| Shareholder's profit before tax from long term business                                 |      | 3,133                | 3,625                |
| Investment income   | 7    | -                    | -                    |
| Other charges   |      | -                    | -                    |
| Profit before tax   | 8    | <u>3,133</u>         | <u>3,625</u>         |
| Tax on profit   | 9    | <u>(594)</u>         | <u>(30)</u>          |
| <b>Profit for the Financial Year</b>  |      | <u><b>2,539</b></u>  | <u><b>3,595</b></u>  |
| Profit and retained earnings account as at 1 January                                    |      | 14,193               | 11,488               |
| Dividends paid during the year  | 10   | <u>(1,080)</u>       | <u>(890)</u>         |
| <b>Profit and Retained Earnings Account as at 31 December</b>                           |      | <u><b>15,652</b></u> | <u><b>14,193</b></u> |

**Statement of Financial Position**  
**As at 31 December 2018**

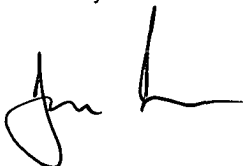
| <b>ASSETS</b>                                      | <b>Note</b> | <b>2018<br/>£'000</b> | <b>2017<br/>£'000</b> |
|--|-------------|-----------------------|-----------------------|
| <b>Investments</b>                                 | 13          | 46,589                | 43,844                |
| <b>Reinsurers' Share of Technical Provisions</b>   |             |                       |                       |
| Long Term Business Provision                       |             | 5,085                 | 4,635                 |
| Claims outstanding                                 |             | 7                     | 339                   |
|  | 15          | 5,092                 | 4,974                 |
| <b>Debtors</b>                                     |             |                       |                       |
| Debtors arising out of direct insurance operations |             |                       |                       |
| Policyholders                                      |             | 74                    | 94                    |
| Intermediaries                                     |             | 1,026                 | 1,385                 |
| Debtors arising out of reinsurance operations      |             | 78                    | 112                   |
|  |             | 1,178                 | 1,591                 |
| Other debtors                                      | 16          | 1,697                 | 289                   |
|  |             | 2,875                 | 1,880                 |
| <b>Other Assets</b>                                |             |                       |                       |
| Cash at bank and in hand                           |             | 8,065                 | 15,604                |
| Deferred Taxation                                  | 17          | 216                   | 270                   |
|  |             | 8,281                 | 15,874                |
| <b>Deferred Acquisition Costs</b>                  | 6           | 4,111                 | 4,307                 |
| <b>Total Assets</b>                                |             | <b>66,948</b>         | <b>70,879</b>         |

**Statement of Financial Position**  
**As at 31 December 2018**

| <b>EQUITY AND LIABILITIES</b>                        | <b>Note</b> | <b>2018<br/>£'000</b> | <b>2017<br/>£'000</b> |
|--|-------------|-----------------------|-----------------------|
| <b>Capital and Reserves</b>                          |             |                       |                       |
| Called up share capital                              | 14          | 7,500                 | 7,500                 |
| Profit and retained earnings                         |             | 15,652                | 14,193                |
| <b>Total Equity</b>                                  |             | <b>23,152</b>         | <b>21,693</b>         |
| <b>Technical Provisions</b>                          |             |                       |                       |
| Long Term Business Provision                         |             | 36,215                | 39,452                |
| Claims outstanding                                   | 15          | 604                   | 1,388                 |
|  |             | <b>36,819</b>         | <b>40,840</b>         |
| <b>Creditors</b>                                     |             |                       |                       |
| Creditors arising out of direct insurance operations |             | 3,664                 | 3,393                 |
| Creditors arising out of reinsurance operations      |             | 438                   | 581                   |
| Other creditors                                      | 18          | 1,517                 | 3,985                 |
|  |             | <b>5,619</b>          | <b>7,959</b>          |
| <b>Deferred Income</b>                               | 19          | <b>1,358</b>          | <b>387</b>            |
| <b>Total Equity and Liabilities</b>                  |             | <b>66,948</b>         | <b>70,879</b>         |

The notes on pages 16 to 35 are an integral part of these financial statements.

The financial statements on pages 12 to 35 were approved by the Board of Directors on 9 April 2019 and were signed on its behalf by:



James Reader  
 Director  
 Covéa Life Limited  
 Registered number: 00911235



Edgardo Penollar  
 Director  
 Covéa Life Limited  
 Registered number: 00911235



**Notes to the Financial Statements  
For the Year Ended 31 December 2018**

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**1. GENERAL INFORMATION**

Covéa 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 limited liability company limited by shares incorporated in England and the address of its registered office is 2 Norman Place, Reading, Berkshire, RG1 8DA.

**2. 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") and 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 financial statements have been prepared in accordance with the requirements of Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies.

**EXEMPTIONS FOR QUALIFYING ENTITIES UNDER FRS 102**

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of and no objection to, the use of exemptions by the Company's shareholders.

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;
- Key management personnel compensation; and
- Related party disclosures.

**3. 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 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.

**GOING CONCERN**

In assessing whether the going concern assumption is appropriate, the Board of Directors ("the Board") has reviewed the Company's ongoing financial commitments for 12 months and beyond from the date of approval of these accounts. The Board's review includes the Company's 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 Risk and Capital Management disclosure in Note 4). 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 21).

**Notes to the Financial Statements  
For the Year Ended 31 December 2018**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****INSURANCE CONTRACTS**

The Company issues insurance contracts which are contracts that transfer 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 shown below.

**Premiums**

Premiums written 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. Premiums written 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 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. Reinsurance commissions relating to such acquisition costs are deferred in the same way. 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 includes 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 15. 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 2018**

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**3. SUMMARY OF SIGNIFICANT 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 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 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 Statement of Financial Position 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.

**DIVIDENDS**

Dividends are recognised in the Statement of Changes in Equity when paid. Any amounts of Dividends not already paid but recommended by the Directors are disclosed.

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

Debtors are recognised initially at the transaction price less attributable transaction costs. Creditors are recognised initially at the 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 debtors due within one year.

Debtors are assessed at each reporting date to determine whether there is objective evidence that they are 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 debtors if it were to be sold at the reporting date. Impairment losses are recognised in Statement of Income and Retained Earnings. If 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 to the extent of any previously recognised revaluation.

**Notes to the Financial Statements  
For the Year Ended 31 December 2018**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****BASIC FINANCIAL INSTRUMENTS (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 the 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 AND EXPENSES**

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 unrealised gains or losses arising from changes in the fair value of financial assets are included within investment income in the Statement of Income and Retained Earnings.

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 date of deposit 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 (2017: none). All management services (including certain employee services) have been provided to the Company by CISL, the Company's immediate parent entity until 11 February 2019 when the parent became MMA Holdings UK plc.

**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.

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

##### (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 4 – classification of insurance and reinsurance contracts: the assessment of whether significant insurance risk has been transferred.
- Note 4 – impairment: whether there is objective evidence that reinsurance assets, insurance and other financial debtors are impaired.
- Note 13 – classification of financial assets: whether financial assets should be designated 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 15. The impact on technical provisions of changes in these assumptions is included in Note 4.

### 4. 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 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

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 4. RISK AND CAPITAL MANAGEMENT (continued)

#### KEY RISKS AND SENSITIVITIES (continued)

##### **Insurance Risk (continued)**

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 reinsurers is monitored.

##### Concentration of insurance risks

The Company's exposure to insurance risk arising from its life risk contracts is mainly within the United Kingdom and Ireland for the current 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 Statement of Income and Retained Earnings 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.

|  | 2018<br>£'000                                      | 2017<br>£'000                                      |
|--|--|--|
|  | Statement of<br>Income and<br>Retained<br>Earnings | Statement of<br>Income and<br>Retained<br>Earnings |
| 10 percent increase in mortality rates | (1,197)  | (1,343)  |
| 10 percent increase in morbidity rates | (642)  | (688)  |
| 20 percent increase in lapse rates     | 1,010  | 1,127  |
| 20 percent decrease in lapse rates     | (1,065)  | (1,172)  |
| 10 percent increase in expenses        | (292)  | (258)  |

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 debtors, the financial assets held in the Company's 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' external credit ratings.

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

**4. RISK AND CAPITAL MANAGEMENT (continued)**

**Credit Risk (continued)**

Exposure to credit risk (continued)

*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:

|  | 31 December 2018 |               |               |             |                  |              |               |
|--|------------------|---------------|---------------|-------------|------------------|--------------|---------------|
|  | AAA              | AA            | A             | BBB         | Less than<br>BBB | Non-rated    | Total         |
|  | £'000            | £'000         | £'000         | £'000       | £'000            | £'000        | £'000         |
| Investments  | 8,341            | 23,310        | 13,468        | 414         | -                | 1,056        | 46,589        |
| Reinsurers' share of technical provisions          | -                | 5,073         | 19            | -           | -                | -            | 5,092         |
| Debtors arising out of direct insurance operations | -                | -             | -             | -           | -                | 1,100        | 1,100         |
| Debtors arising out of reinsurance operations      | -                | 77            | 1             | -           | -                | -            | 78            |
| Other debtors                                      | -                | -             | -             | -           | -                | 1,697        | 1,697         |
| Cash at bank                                       | -                | 322           | 7,743         | -           | -                | -            | 8,065         |
| <b>Total financial assets</b>                      | <b>8,341</b>     | <b>28,782</b> | <b>21,231</b> | <b>414</b>  | <b>-</b>         | <b>3,853</b> | <b>62,621</b> |
| <b>Total %</b>                                     | <b>13.3%</b>     | <b>45.9%</b>  | <b>33.9%</b>  | <b>0.7%</b> | <b>0.0%</b>      | <b>6.2%</b>  | <b>100.0%</b> |

|  | 31 December 2017 |               |               |              |                  |              |               |
|--|------------------|---------------|---------------|--------------|------------------|--------------|---------------|
|  | AAA              | AA            | A             | BBB          | Less than<br>BBB | Non-rated    | Total         |
|  | £'000            | £'000         | £'000         | £'000        | £'000            | £'000        | £'000         |
| Investments  | 7,748            | 23,004        | 13,092        | -            | -                | -            | 43,844        |
| Reinsurers' share of technical provisions          | -                | 4,790         | 184           | -            | -                | -            | 4,974         |
| Debtors arising out of direct insurance operations | -                | -             | -             | -            | -                | 1,479        | 1,479         |
| Debtors arising out of reinsurance operations      | -                | 112           | -             | -            | -                | -            | 112           |
| Other debtors                                      | -                | -             | -             | -            | -                | 289          | 289           |
| Cash at bank                                       | -                | 318           | 9,016         | 6,270        | -                | -            | 15,604        |
| <b>Total financial assets</b>                      | <b>7,748</b>     | <b>28,224</b> | <b>22,292</b> | <b>6,270</b> | <b>-</b>         | <b>1,768</b> | <b>66,302</b> |
| <b>Total %</b>                                     | <b>11.7%</b>     | <b>42.6%</b>  | <b>33.6%</b>  | <b>9.5%</b>  | <b>0.0%</b>      | <b>2.6%</b>  | <b>100.0%</b> |

## Notes to the Financial Statements For the Year Ended 31 December 2018

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### 4. 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. If an asset is considered to be impaired, an impairment loss is charged to the Statement of Income and Retained Earnings. 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 2018 (2017: £nil).

Financial assets measured at fair value through Statement of Income and Retained Earnings are not subject to impairment testing, unless there is a triggering event, 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 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 for review and approval.

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.

###### *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.



**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

**4. RISK AND CAPITAL MANAGEMENT (continued)**

**Liquidity Risk (continued)**

Maturity analysis (continued)

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.

|  | <b>31 December 2018</b> |                      |                  |                  |                     |               |
|--|-------------------------|----------------------|------------------|------------------|---------------------|---------------|
|  | <b>Carrying amount</b>  | <b>Within 1 year</b> | <b>1-2 years</b> | <b>2-5 years</b> | <b>Over 5 years</b> | <b>Total</b>  |
|  | <b>£'000</b>            | <b>£'000</b>         | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>        | <b>£'000</b>  |
| <b>Financial Assets</b>                              |                         |                      |                  |                  |                     |               |
| Investments  | 46,589                  | 3,151                | 2,216            | 8,897            | 46,058              | 60,322        |
| Reinsurers' share of technical provisions            | 5,092                   | 1,238                | 50               | 174              | 5,123               | 6,585         |
| Debtors arising out of direct insurance operations   | 1,100                   | 1,100                | -                | -                | -                   | 1,100         |
| Debtors arising out of reinsurance operations        | 78                      | 35                   | 43               | -                | -                   | 78            |
| Other debtors  | 1,697                   | 1,697                | -                | -                | -                   | 1,697         |
| Cash   | 8,065                   | 8,065                | -                | -                | -                   | 8,065         |
| <b>Total</b>   | <b>62,621</b>           | <b>15,286</b>        | <b>2,309</b>     | <b>9,071</b>     | <b>51,181</b>       | <b>77,847</b> |
| <b>Financial Liabilities</b>                         |                         |                      |                  |                  |                     |               |
| Long term business provision                         | 36,215                  | 7,218                | 337              | 843              | 39,555              | 47,953        |
| Claims outstanding                                   | 604                     | 604                  | -                | -                | -                   | 604           |
| Creditors arising out of direct insurance operations | 3,664                   | 3,664                | -                | -                | -                   | 3,664         |
| Creditors arising out of reinsurance operations      | 438                     | 438                  | -                | -                | -                   | 438           |
| Other creditors                                      | 1,517                   | 1,517                | -                | -                | -                   | 1,517         |
| <b>Total</b>   | <b>42,438</b>           | <b>13,441</b>        | <b>337</b>       | <b>843</b>       | <b>39,555</b>       | <b>54,176</b> |

|  | <b>31 December 2017</b> |                      |                  |                  |                     |               |
|--|-------------------------|----------------------|------------------|------------------|---------------------|---------------|
|  | <b>Carrying amount</b>  | <b>Within 1 year</b> | <b>1-2 years</b> | <b>2-5 years</b> | <b>Over 5 years</b> | <b>Total</b>  |
|  | <b>£'000</b>            | <b>£'000</b>         | <b>£'000</b>     | <b>£'000</b>     | <b>£'000</b>        | <b>£'000</b>  |
| <b>Financial Assets</b>                              |                         |                      |                  |                  |                     |               |
| Investments  | 43,844                  | 1,719                | 3,085            | 9,307            | 42,299              | 56,410        |
| Reinsurers' share of technical provisions            | 4,974                   | 1,443                | 446              | 705              | 3,072               | 5,666         |
| Debtors arising out of direct insurance operations   | 1,479                   | 1,479                | -                | -                | -                   | 1,479         |
| Debtors arising out of reinsurance operations        | 112                     | 112                  | -                | -                | -                   | 112           |
| Other debtors  | 289                     | 289                  | -                | -                | -                   | 289           |
| Cash   | 15,604                  | 15,604               | -                | -                | -                   | 15,604        |
| <b>Total</b>   | <b>66,302</b>           | <b>20,646</b>        | <b>3,531</b>     | <b>10,012</b>    | <b>45,371</b>       | <b>79,560</b> |
| <b>Financial Liabilities</b>                         |                         |                      |                  |                  |                     |               |
| Long term business provision                         | 39,452                  | 8,527                | 847              | 1,383            | 39,803              | 50,560        |
| Claims outstanding                                   | 1,388                   | 1,388                | -                | -                | -                   | 1,388         |
| Creditors arising out of direct insurance operations | 3,393                   | 3,393                | -                | -                | -                   | 3,393         |
| Creditors arising out of reinsurance operations      | 581                     | 581                  | -                | -                | -                   | 581           |
| Other creditors                                      | 3,985                   | 3,985                | -                | -                | -                   | 3,985         |
| <b>Total</b>   | <b>48,799</b>           | <b>17,874</b>        | <b>847</b>       | <b>1,383</b>     | <b>39,803</b>       | <b>59,907</b> |

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

**4. RISK AND CAPITAL MANAGEMENT (continued)**

**Market Risk**

Market risk is the risk that the fair value of 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 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.

|                | <b>2018</b>  | <b>2017</b>  |
|----------------|--|--|
|                | <b>£'000</b>                                       | <b>£'000</b>                                       |
|                | Statement of<br>Income and<br>Retained<br>Earnings | Statement of<br>Income and<br>Retained<br>Earnings |
| 100bp increase | (1,584)  | (622)  |
| 100bp decrease | 1,645  | 219  |

Foreign exchange risk

The Company is exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than Pound 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:

|                 | <b>2018</b>             |                              | <b>2017</b>             |                              |
|-----------------|-------------------------|------------------------------|-------------------------|------------------------------|
|                 | <b>£'000</b>            | <b>£'000</b>                 | <b>£'000</b>            | <b>£'000</b>                 |
|                 | <b>Total<br/>assets</b> | <b>Total<br/>liabilities</b> | <b>Total<br/>assets</b> | <b>Total<br/>liabilities</b> |
| Euro            | 5,206                   | 2,300                        | 5,235                   | 1,545                        |
| Norwegian Krone | 914                     | 117                          | 1,406                   | 1,340                        |
| Danish Krone    | 287                     | 64                           | 272                     | 66                           |
| US Dollar       | 719                     | 28                           | 668                     | 30                           |

## Notes to the Financial Statements For the Year Ended 31 December 2018

### 4. RISK AND CAPITAL MANAGEMENT (continued)

#### Market Risk (continued)

##### Foreign exchange risk - Exposure to currency risk (continued)

The following exchange rates applied during the year:

|                 | Average rates |         | Reporting date spot rates |         |
|-----------------|---------------|---------|---------------------------|---------|
|                 | 2018          | 2017    | 2018                      | 2017    |
| Euro            | 1.1208        | 1.1433  | 1.1141                    | 1.1260  |
| Norwegian Krone | 10.8662       | 10.7152 | 11.0282                   | 11.0905 |
| Danish Krone    | 8.4189        | 8.5041  | 8.3140                    | 8.3830  |
| US Dollar       | 1.3309        | 1.3015  | 1.2736                    | 1.3512  |

##### Sensitivity to foreign exchange risk

A strengthening/(weakening) of Pound Sterling, as indicated below, against the Euro, Norwegian Krone, Danish Krone and US Dollar at the reporting date would have (decreased)/increased equity and profit or loss after tax 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 |       |
|--------------------------------|---------------|-------|-----------|-------|
|                                | 2018          | 2017  | 2018      | 2017  |
|                                | £'000         | £'000 | £'000     | £'000 |
| Euro (10% movement)            | (264)         | (335) | 323       | 410   |
| Norwegian Krone (10% movement) | (72)          | (6)   | 89        | 7     |
| Danish Krone (10% movement)    | (20)          | (19)  | 25        | 23    |
| US Dollar (10% movement)       | (63)          | (58)  | 77        | 71    |

#### 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.

Given the uncertainties associated with the UK's exit from the European Union ("Brexit"), the Company has recently ceased underwriting business in the Republic of Ireland.

#### 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 2018, was the capital the Company was required to hold by the regulator at any point in time in accordance with its risk profile.

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

4. RISK AND CAPITAL MANAGEMENT (continued)

**Capital Management (continued)**

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 Board.

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.

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.

The capital coverage of the Company has been in excess of the target set out in the internal capital management policy established by the Directors.

|  | 2018          | 2017          |
|--|---------------|---------------|
|  | £'000         | £'000         |
| <b>Solvency II Own funds as at 1 January</b>     | 24,075        | 20,709        |
| <b>Total equity movements in UKGAAP:</b>         |               |               |
| Profit for the financial year                    | 2,539         | 3,595         |
| Dividend paid                                    | (1,080)       | (890)         |
| <b>Movements in recognition adjustments:</b>     |               |               |
| UKGAAP reserves replaced by technical provisions | (779)         | (207)         |
| Release of net Deferred Acquisition Costs        | 1,167         | 613           |
| Other liabilities                                | 20            | 237           |
| Deferred tax movement on recognition adjustments | (69)          | 18            |
| <b>Solvency II Own funds</b>                     | <b>25,873</b> | <b>24,075</b> |
| Foreseeable dividend                             | (762)         | (1,080)       |
| <b>Solvency II Own funds as at 31 December</b>   | <b>25,111</b> | <b>22,995</b> |

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.

5. 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.

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

5. SEGMENTAL INFORMATION (continued)

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

|                | 2018   | 2018        | 2017   | 2017        |
|----------------|--------|-------------|--------|-------------|
|                | £'000  | £'000       | £'000  | £'000       |
|                | Gross  | Reinsurance | Gross  | Reinsurance |
| United Kingdom | 13,088 | (1,487)     | 15,601 | (1,466)     |
| European Union | 7,276  | (287)       | 6,750  | (424)       |
| Other          | 1      | -           | 2      | -           |
|                | 20,365 | (1,774)     | 22,353 | (1,890)     |

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

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

|                 | 2018   | 2018        | 2017   | 2017        |
|-----------------|--------|-------------|--------|-------------|
|                 | £'000  | £'000       | £'000  | £'000       |
|                 | Gross  | Reinsurance | Gross  | Reinsurance |
| Single premium  | 1,824  | (284)       | 3,260  | (465)       |
| Regular premium | 18,541 | (1,490)     | 19,093 | (1,425)     |
|                 | 20,365 | (1,774)     | 22,353 | (1,890)     |

Included within the premiums above are gross new business premiums of £2,740,000 net after reinsurance of £2,309,000 (2017: Gross of £3,691,000, net after reinsurance of £3,502,000).

6. ACQUISITION COSTS

|                                      | 2018  | 2017  |
|--------------------------------------|-------|-------|
|                                      | £'000 | £'000 |
| Acquisition Costs                    |       |       |
| Direct insurance commission          | 6,062 | 6,670 |
| Others                               | 1,270 | 961   |
|                                      | 7,332 | 7,631 |
| Change in deferred acquisition costs | 196   | 226   |
|                                      | 7,528 | 7,857 |

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

|                               | 2018         | 2017         |
|-------------------------------|--------------|--------------|
|                               | £'000        | £'000        |
| Balance at 1 January          | 4,307        | 4,533        |
| Incurred costs deferred       | 2,511        | 2,258        |
| Deferred costs released       | (2,707)      | (2,484)      |
| <b>Balance at 31 December</b> | <b>4,111</b> | <b>4,307</b> |

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

**7. INVESTMENT INCOME AND EXPENSES**

|  | <b>2018</b>  | <b>2017</b>  |
|--|--------------|--------------|
|  | <b>£'000</b> | <b>£'000</b> |
| <b>Technical Account – Long Term Business</b>  |              |              |
| Interest income from investments               | 1,357        | 1,356        |
| Net realised losses from investments           | (42)         | (138)        |
| Net unrealised (losses)/gains from investments | (1,565)      | 187          |
|  | (250)        | 1,405        |
| <b>Non-Technical Account</b>                   |              |              |
| Interest income from investments               | -            | -            |
| Net realised gains from investments            | -            | -            |
|  | -            | -            |
| <b>Total Investment income</b>                 | <b>(250)</b> | <b>1,405</b> |

Total interest income from cash at bank amounting to £19,000 (2017: £10,000) and bank charges of £12,000 (2017: £13,000) were recognised in administrative expenses.

**8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX**

|  |              |              |
|--|--------------|--------------|
| <b>Profit on Ordinary Activities before Tax is stated after:</b>   | <b>2018</b>  | <b>2017</b>  |
|  | <b>£'000</b> | <b>£'000</b> |
| Management charge  | 1,836        | 1,671        |
| Audit services   |              |              |
| Fees, excluding VAT, payable to the Company's Auditors for the audit of the Company's financial statements | 96           | 70           |
| Other services pursuant to legislation, including the audit of regulatory returns                          | -            | 41           |

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

|   | <b>2018</b>  | <b>2017</b>  |
|---|--------------|--------------|
|   | <b>£'000</b> | <b>£'000</b> |
| <b>Technical Account</b>                                  |              |              |
| <b>Current Tax Expense</b>                                |              |              |
| Current year corporation tax charge at 19% (2017: 19.25%) | (547)        | (655)        |
| Prior year adjustments                                    | -            | 14           |
| Group tax loss relief utilised without charge             | -            | 655          |
|   | (547)        | 14           |
| <b>Deferred Tax</b>                                       |              |              |
| Origination and reversal of temporary differences         | (46)         | (46)         |
| Prior year adjustments                                    | (1)          | 2            |
| <b>Total Tax Charge</b>                                   | <b>(594)</b> | <b>(30)</b>  |

The profits for this accounting period are taxed at the standard rate of Corporation Tax of 19% (2017: 19.25%).

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

**Factors Affecting Current and Future Tax Charges**

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| <b>Non-Technical</b>                                      |               |               |
| <b>Current Tax Expense</b>                                |               |               |
| Current year corporation tax charge at 19% (2017: 19.25%) | -             | -             |
| Tax charge attributable to balance on long-term business  | (594)         | (30)          |
| <b>Total Tax Charge</b>                                   | (594)         | (30)          |

The tax charge assessed for the year is lower (2017: the tax charge assessed was lower) than the standard effective rate of Corporation Tax in the UK of 19% (2017: 19.25%). The differences are explained below:

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| Profit on ordinary activities before tax        | 3,133         | 3,625         |
| UK corporation tax charge at 19% (2017: 19.25%) | (595)         | (698)         |
| Rate change and related impacts                 | 2             | (3)           |
| Prior year adjustment                           | (1)           | 16            |
| Group tax loss relief utilised without charge   | -             | 655           |
| <b>Total Tax Charge</b>                         | (594)         | (30)          |

The UK standard rate of corporation tax is 19.00% for the year ended 31 December 2018 (2017: 19.25%). A reduction in the rate of corporation tax from 20% to 19% became effective from April 2017. A further reduction to 17% from April 2020 was substantially enacted on 15 September 2016. Deferred tax has been provided at 17% (2017: 17%) on all timing differences.

10. DIVIDEND

During 2018, a £1,080,000 dividend was declared and paid in respect of 2017 (2017: £890,000 dividend was declared and paid in respect of 2016).

11. DIRECTORS' EMOLUMENTS

|                                | 2018<br>£'000 | 2017<br>£'000 |
|--------------------------------|---------------|---------------|
| Emoluments                     | 48            | 78            |
| Employer pension contributions | 1             | 1             |
|                                | 49            | 79            |

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 one director (2017: one) to whom retirement benefits have accrued under a defined benefit pension scheme.

12. STAFF NUMBERS AND COSTS

The total number of employees at 31 December 2018 was nil (2017: nil).

The management costs, as stated in note 8, are initially borne by CISL and are recharged to the Company through a Group Service Agreement.

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

**13. INVESTMENTS**

|   | Fair value |        | Cost   |        |
|---|------------|--------|--------|--------|
|   | 2018       | 2017   | 2018   | 2017   |
|   | £'000      | £'000  | £'000  | £'000  |
| Debt securities and other fixed income securities | 46,589     | 43,844 | 46,188 | 41,916 |

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 the fair value of investments stated at fair value through the Statement of Income and Retained Earnings as at 31 December 2018 were as follows:

|                           | 2018          | 2017          |
|---------------------------|---------------|---------------|
|                           | £'000         | £'000         |
| Cost                      | 46,188        | 41,916        |
| Fair value (losses)/gains | (102)         | 1,460         |
| Accrued Income            | 503           | 468           |
| <b>Fair Value</b>         | <b>46,589</b> | <b>43,844</b> |

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 2018 |               |          |               |
|---|------------------|---------------|----------|---------------|
|   | 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                                       | 15,454           | 31,135        | -        | 46,589        |
| <b>Total</b>  | <b>15,454</b>    | <b>31,135</b> | <b>-</b> | <b>46,589</b> |



**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

13. INVESTMENTS (continued)

b) Fair value hierarchy (continue)

|   | 31 December 2017 |               |          |               |
|---|------------------|---------------|----------|---------------|
|   | 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                                       | 17,356           | 26,488        | -        | 43,844        |
| <b>Total</b>  | <b>17,356</b>    | <b>26,488</b> | <b>-</b> | <b>43,844</b> |

14. CALLED UP SHARE CAPITAL

|  | 2018<br>£'000 | 2017<br>£'000 |
|--|---------------|---------------|
| Authorised                                       |               |               |
| 10,000,000 (2017: 10,000,000) Ordinary £1 Shares | 10,000        | 10,000        |
| Allotted, issued, called up and fully paid       |               |               |
| 7,500,000 (2017: 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.

15. TECHNICAL PROVISIONS AND REINSURERS' SHARE OF TECHNICAL PROVISIONS

The total recognised technical provisions at the year end amounted to £36,819,000 (2017: £40,840,000) and the total recognised reinsurers' share of technical provisions amounted to £5,092,000 (2017: £4,974,000).

During the year, the Company recognised a net change of £787,000 (2017: £1,292,000) in the Statement of Income and Retained Earnings in respect of reinsurance.

Reconciliation of net technical provisions

|                                  | 2018                      |  |                         | 2017                      |  |                         |
|----------------------------------|---------------------------|--|-------------------------|---------------------------|--|-------------------------|
|                                  | 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                   |
| <b>Balance at 1 January</b>      | 40,840                    | 4,974                                    | 35,866                  | 41,805                    | 5,403                                    | 36,402                  |
| Reserve projected to 31 December | (1,792)                   | 468                                      | (2,260)                 | (1,958)                   | (416)                                    | (1,542)                 |
| Reserve updated with actual data | 636                       | 103                                      | 533                     | 1,554                     | 310                                      | 1,244                   |
| Impact of changes in assumptions | (1,691)                   | (57)                                     | (1,634)                 | (436)                     | (4)                                      | (432)                   |
| Other movements                  | (1,174)                   | (396)                                    | (778)                   | (125)                     | (319)                                    | 194                     |
| <b>Balance at 31 December</b>    | <b>36,819</b>             | <b>5,092</b>                             | <b>31,727</b>           | <b>40,840</b>             | <b>4,974</b>                             | <b>35,866</b>           |

The amounts presented in the above tables 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 year and includes the impact of new policies. The impact on technical provisions of the release of the additional margin held for run-off Norwegian business of c-£1.19m is shown in "Other movements".

**Notes to the Financial Statements**  
**For the Year Ended 31 December 2018**

**15. TECHNICAL PROVISIONS AND REINSURERS' SHARE OF TECHNICAL PROVISIONS (continued)**

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.

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

|   | 2018          |                                    | 2017          |                                    |
|---|---------------|------------------------------------|---------------|------------------------------------|
|   | Interest Rate | Mortality / Morbidity Rate         | Interest Rate | Mortality / Morbidity Rate         |
| Term Life Assurance - Underwritten          | 1.50%         | 162.5% TM08 sel                    | 1.25%         | 162.5% TM08 sel                    |
| Term Life Assurance – Armed forces          | 1.50%         | 175% TM08 ult + 550% OpsDeath 2008 | 1.25%         | 175% TM08 ult + 550% OpsDeath 2008 |
| Term Life Assurance – Guaranteed Acceptance | 1.96%         | 150% ELT17                         | 1.81%         | 150% ELT17                         |
| Whole of Life - GBP                         | 1.96%         | 187.5% ELT 17 age adjusted         | 1.81%         | 187.5% ELT 17 age adjusted         |
| Whole of Life - EUR                         | 1.96%         | 187.5% ILT 16 age adjusted         | 1.61%         | 187.5% ELT 16 age adjusted         |
| Stand Alone Critical Illness                | 1.96%         | 125% of reassurer rates            | 1.81%         | 125% of reassurer rates            |
| Group Life Assurance                        | n/a           | n/a                                | n/a           | n/a                                |
| Creditor Single Premium                     | 1.50%         | 50% ELT17                          | 1.25%         | 50% ELT17                          |

**16. OTHER DEBTORS**

|                                      | 2018<br>£'000 | 2017<br>£'000 |
|--------------------------------------|---------------|---------------|
| Amounts due from parent undertaking  | 1,695         | -             |
| Amounts due from related undertaking | -             | 28            |
| Other debtors                        | 2             | 261           |
|                                      | <u>1,697</u>  | <u>289</u>    |

Amounts due from parent undertaking are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

**Notes to the Financial Statements  
For the Year Ended 31 December 2018**
**17. DEFERRED TAXATION**

Provision for other charges is made up of:

|   | 2018<br>£'000 | 2017<br>£'000 |
|---|---------------|---------------|
| Deferred tax liability for deferred acquisition costs (note 18) | (7)           | (15)          |
| Deferred tax asset on transitional adjustment                   | 216           | 270           |
|   | <u>209</u>    | <u>255</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 17%, effective from April 2020.

The value of the net reversal of deferred tax balances expected to occur within twelve months after the reporting date is £50,000 (2017: £50,000).

**18. OTHER CREDITORS**

|                                    | 2018<br>£'000 | 2017<br>£'000 |
|------------------------------------|---------------|---------------|
| Other creditors                    | 242           | 341           |
| Amounts due to parent undertaking  | 168           | 3,381         |
| Amounts due to related undertaking | 553           | -             |
| Corporation Taxation               | 547           | 248           |
| Deferred tax liability (note 17)   | 7             | 15            |
|                                    | <u>1,517</u>  | <u>3,985</u>  |

Amounts due to parent and related undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

**19. DEFERRED INCOME**

Reconciliation of the carrying amount of deferred income, being reinsurance on deferred acquisition costs, is as follows:

|                               | 2018<br>£'000 | 2017<br>£'000 |
|-------------------------------|---------------|---------------|
| Balance at 1 January          | 387           | -             |
| Income received deferred      | 1,358         | 387           |
| Deferred income released      | (387)         | -             |
| <b>Balance at 31 December</b> | <u>1,358</u>  | <u>387</u>    |

**20. 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 by MMA Holdings UK plc, a member of the Covéa Group of companies.

**21. ULTIMATE HOLDING COMPANY**

The Company is a member of the Covéa Group. At 31 December 2018 it was a wholly-owned subsidiary of CISL which in turn is a wholly-owned subsidiary of MMA Holdings UK plc, both companies registered in England and Wales. On 11 February 2019, 100% of the shareholding of the Company was transferred from CISL to MMA Holdings UK plc.

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, 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.

**Notes to the Financial Statements  
For the Year Ended 31 December 2018**

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21. ULTIMATE HOLDING COMPANY (continued)

DAS Assurances Mutuelles merged with MMA IARD Assurances Mutuelles with effect from 21 December 2018 and as a consequence is no longer a shareholder of Covéa Cooperations.

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, Berkshire, RG1 8DA.

22. FINANCIAL AND CAPITAL COMMITMENTS

At 31 December 2018, the Company had no financial commitments under non-cancellable operating leases nor any approved capital commitments (2017: nil).

23. CONTINGENT LIABILITIES

At 31 December 2018, the Company had no contingent liabilities (2017: nil).

24. POST BALANCE SHEET EVENTS

On 11 February 2019, 100% of the shareholding of the Company was transferred from CISL to MMA Holdings UK plc.

**Company Information**  
**For the Year Ended 31 December 2018**


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**DIRECTORS**

The Directors of Covéa Life Limited ("the Company") who served during the year ended 31 December 2018 and up to the date of signing the financial statements (unless otherwise stated) were:

|                     |                              |
|---------------------|------------------------------|
| Nicholas Caplan *   |                              |
| Stephen Clarke *    |                              |
| Jane Dale *         |                              |
| Bertrand Lefebvre * |                              |
| Pierre Michel *     | (Appointed 20 February 2018) |
| Karl Murphy *       |                              |
| Edgardo Penollar    |                              |
| Anthony Pritchard   | (Resigned on 30 March 2018)  |
| James Reader        |                              |
| Dominique Salvy *   | Chair                        |

**SECRETARY**

Annabel Wilson  
 \* Non-executive Directors

**REGISTERED AND HEAD OFFICE**

2 Norman Place  
 Reading  
 Berkshire  
 RG1 8DA

**WEB ADDRESS**

[www.coveainsurance.co.uk](http://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  
 3 Forbury Place,  
 23 Forbury Road  
 Reading  
 Berkshire  
 RG1 3JH

**REGISTERED NUMBER**

00911235