Covéa Life Limited

Annual Report and Financial Statements

For The Year Ended 31 December 2020

Registered Number: 00911235

Contents

The Directors present their Strategic Report on Covéa Life Limited ("the Company") for the year ended 31 December 2020.

BACKGROUND

The Company is a life assurance company authorised in the United Kingdom which carries out contracts of life assurance and reassurance. The Company provides a range of Term Life & Critical Illness, Whole of Life, Creditor (Payment Protection) and Group Life products.

REVIEW OF PERFORMANCE

The financial results for 2020 relative to 2019 are:

	2020 £'000	2019 £'000
Gross premiums written	14,296	14,200
Technical account result	2,229	3,401
Total assets	70,181	65,664
Solvency II capital cover	288.3%	320.6%

Gross premiums written are broadly unchanged year-on-year with the book of business remaining largely composed of group schemes and the life insurance element of creditor insurance products. New schemes are increasingly contributing to premiums written as older schemes run off. The lower technical account result in 2020 is largely driven by an adverse movement in the net long-term business provision partly offset by lower net operating expenses.

Total assets have increased largely due to a growth in the carrying value of investment assets and an increase in reinsurers' share of technical provisions.

Whilst the Company has seen an increasing trend in the proportion of claims relating to Covid-19 deaths, the number and value of gross claims in the year is not significantly higher than forecast, nor when compared with prior years.

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 below are unaudited and represent the Directors' latest view of the position as at 31 December 2020.

	2020 £'000	2019 £'000
Own funds	26,507	27,081
Solvency capital requirement	9,193	8,448
Own funds in excess of SCR	17,314	18,633
Solvency II capital cover	288.3%	320.6%

Solvency II capital cover has reduced by 32.3 percentage points largely due to the higher level of proposed dividend which is treated as foreseeable in the calculation of Own Funds. Excluding the foreseeable dividend, Own Funds increased slightly due to higher investment market values partly offset by increased technical provisions.

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 in note 4.

The risks to the Company posed by the Covid-19 pandemic continue to be assessed and monitored closely, both from an operational and a financial perspective. The principal risks arising from the pandemic have been assessed as follows:

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Strategic risk
The dramatic economic slowdown arising from the pandemic is currently expected to be relatively short term. To date there is no indication that the Company's business strategy and plan will be impacted in the longer term. There is, however, a risk that the economic slowdown is deeper and lasts for a longer period of time than is currently anticipated. If that is the case, the Directors will review and adjust the business strategy and corporate plans accordingly.

Market risk
The Company's investments are held in high-quality corporate bonds and gilts, with cash held on demand in bank accounts; there is no exposure to equities. These assets have substantially maintained or increased their market value as interest rates have fallen and, as a result, the recent market volatility has had limited detrimental effect on the Company's balance sheet.

Operational risk
The Company has moved almost completely to a working-from-home model. There are some processes that continue to require office working, but these are limited. This model of working introduces new risks to the Company which continue to be monitored.

Insurance risk
Covid-19 is having an impact on the Company's insurance risk due to its effect on the timing, frequency and severity of insured events. The roll out of vaccines and the extended lockdown have acted to mitigate the risks but considerable uncertainty will remain as lockdown is eased.

Credit risk
Covid-19 could place significant strain on the reinsurance sector and, by implication, the Company's current reinsurance arrangements. The Directors continue to monitor the creditworthiness of its reinsurers based on, amongst other factors, their external credit rating.

Solvency risk
All of the above risks may affect the Company's future solvency. The Directors' assessment is that solvency will remain in excess of the regulatory requirements and they will continue to assess the solvency position and take appropriate action to ensure continuing regulatory compliance.

Risk modelling
The Directors will continue to assess the impact on the Company of different scenarios associated with the current pandemic and other events and use this information to inform their decision making.

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. Building on the Company's existing product suite and growing on the success of 2020 with new partners, its reputation in the market is strong – both as an innovator and flexible business partner. The Company will continue to develop new distribution opportunities in 2021 and beyond as it leverages its expertise across the customer journey. The Company's core focus remains on providing the highest levels of service to its customers and business partners alike, while ensuring pricing is both competitive and sustainable. The Company will maintain a conservative investment strategy and, in so doing, will manage its counterparty exposure risk.

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 the UK's exit from the European Union.

EMPLOYEES

Whilst the Company does not directly employ any employees, its business and processes are managed by individuals employed by its sister 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 number of employees of CISL, including the Executive and Non-Executive Directors across the UK Group who are remunerated by CISL but excluding three Non-Executive Directors remunerated in France, at 31 December 2020 by gender were as follows:

	Females	Males	Total
	No.	No.	No.
Directors	2	6	8
Senior Managers	87	174	261
All other employees	961	722	1,683
Total	1,050	902	1,952

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.

Management of the response to global climate change is an increasing focus for insurers. The Company's associate subsidiary, Covea Insurance plc, has appointed an Executive with responsibility for Climate Change, and continues to refine the risk appetite, policies and processes across all Covéa's UK companies to ensure that climate change is embedded into its Risk Management framework.

ANTI-BRIBERY AND CORRUPTION POLICY

The Company has an established an 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:

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

The Company has a zero tolerance approach to bribery and corruption, both within its operations and with outsourced service providers, 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.

SECTION 172 STATEMENT

The Directors of the Company are required to act in accordance with a set of duties as detailed in section 172 ("s172") of the Companies Act 2006 ("the Act"). The Act provides that a Director must act in the way that he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the matters set out in s172 of the Act. Details of how the Directors had regard to s172 are set out below.

At appointment, Directors are briefed on Directors' duties, including s172, with regular reminders throughout the year, particularly when making key or strategic decisions.

SECTION 172 STATEMENT (continued)

The Company is a member of the Covéa Group and is ultimately owned by a group of mutual insurance companies registered in France (see note 21 to the financial statements). There is open and regular engagement with the shareholder principally through representation on the Board by three shareholder representatives, all senior employees of the Covéa Group in France (noted as Non-Executive Directors in the Directors Report on page 6). There is similarly open and regular engagement with the Company's regulators, with the Directors ensuring that all ad hoc and regular reporting requirements are met.

A significant amount of Board time is allocated to the consideration of the Company's strategy, both in formal Board meetings and at a dedicated annual 'strategy day'. The Board are provided by the executive team and, where appropriate, external consultants with detailed market and regulatory context to enable an assessment to be made of the risks, challenges and opportunities facing the business and the impact on the Company's strategy to be considered. This allows the Directors to assess the likely consequences of any decisions made on the long-term strategy of the Company.

Directors assess their training and development needs annually and sessions on relevant topics are arranged accordingly. Regular updates are provided by the executive team on product and business development activities, and specific distribution partner relationships.

The key strategic decisions of the Board in the year are reflected in its approval of the business plan. The plan covers a five-year period and is designed to achieve the Company's principal strategic objective to deliver a sustainable return on capital for its shareholder. The Board considered, in particular, changing customer behaviours and needs, the competitive landscape, anticipated regulatory and legislative changes and opportunities to develop new distribution relationships. The impact of Covid-19 and the need to amend the business operating model led to increased Board activity in considering regular updates on the changes in activity, the business strategy and our employees' engagement and welfare. Customers, including policyholders and intermediaries, are essential to the Company's business and there is extensive engagement with them to ensure that we continue to provide excellent products and customer service.

The Board receives reports on employee engagement and Non-Executive Directors are given the opportunity to engage with a wider range of employees than Executive Directors and other members of the executive team. Culture is a regular Board agenda item and includes reporting on the results of an annual employee survey and review of key people measures including turnover, engagement scores and diversity.

The Board has implemented a suite of policies underpinning the Company's approach and standards in relation to ethics, risk and employee matters. Policies are reviewed at least annually by the Risk or Audit Committee for approval by the Board.

A whistle-blowing policy is in place to support individuals in raising concerns about risk, wrongdoing or malpractice witnessed at work. A report on the effectiveness of the whistle-blowing policy is reviewed by the Audit Committee and approved by the Board annually.

Customer experience is monitored closely by both the Risk Committee and the Board in terms of both their fair treatment and satisfaction with the Company's products and services. The Code of Conduct and Ethics sets out 6 essential principles which provide a framework for employees and contractors acting on the Company's behalf in their relationships with customers, employees, business partners and suppliers.

The Board monitors material outsourcing arrangements and relationships with key suppliers through regular updates from the executive team. Oversight of technology projects is provided by the Technology Committee, which is chaired by an Independent Non-Executive Director. The Audit Committee reviews supplier payment practices annually.

The Company is active in the communities in which it operates and a detailed report on the Company's community activities was provided to the Board in December. Further details of the Company's community activities and its energy usage are provided in the Report of the Directors.

By order and approval of the Board.

DocuSigned by:
AWL
ACBE68B69C74415...
Annabel Wilson
Company Secretary
30 March 2021

The Directors present their Report on the Company for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company continues to be the underwriting of life protection insurance business in the United Kingdom. Given the UK's exit from the European Union ("Brexit"), the Company ceased underwriting business in the Republic of Ireland and other EU territories during the year.

FUTURE DEVELOPMENTS

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

DIVIDEND

During 2020, a £1,000,000 dividend was declared and paid in respect of 2019 (2019: £760,000 dividend was declared and paid in respect of 2018). A dividend of £2,229,000 has been proposed in respect of 2020.

FINANCIAL RISK MANAGEMENT

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

DIRECTORS

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

DIRECTORS	Nicholas Caplan [1]	
	Stephen Clarke [1,2]	
	Jane Dale [1]	
	James Gearey	
	François Josse [1]	
	Maria Leighton	(appointed 24 March 2020)
	Pierre Michel [1]	
	Christopher Moat [1]	(appointed 17 March 2021)
	Karl Murphy [1]	(resigned 15 March 2021)
	James Reader	
	Dominique Salvy [1]	Chair
SECRETARY	Annabel Wilson	

[1] Non-Executive Directors
[2] Senior Independent Non-Executive Director

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 provisions 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.

MODERN SLAVERY ACT

The Company issued its first statement in 2017, setting out the steps it actively takes to ensure that slavery and human trafficking is not occurring in any part of its business or its supply chain. The statement is reviewed annually and is published on the Company's website.

EMPLOYEES

Whilst the Company does not have any direct 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 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. This aims to ensure that their views are taken into account when decisions are made that are likely to affect their interests. 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 relevant audit information of which the Company's auditors are unaware; and
- Each has taken all steps that he/she ought to have taken in his/her duty as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

As a result of the Mandatory Audit Firm Rotation requirement for Public Interest Entities, the Company's auditors, PricewaterhouseCoopers LLP, will resign as auditors of the Company after completion of the current year's audit. Following a competitive tender process, Mazars LLP have indicated their willingness to take up the office and a resolution to appoint them as the Company's auditors 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. The Directors are satisfied that the Company has adequate resources to continue operating for the foreseeable future. The factors which are considered have been further disclosed in the Going Concern Accounting Policy in note 3. 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. The Company's creditor payment terms are normally within 30 days. The average number of days taken by the Company to make payments to suppliers is within 30 days.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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 FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 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.

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.

DocuSigned by:
AWL
ACBE68B69C74415...
Annabel Wilson
Company Secretary
30 March 2021

Report on the audit of the financial statements

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 2020 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 and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2020; and the Statement of Income and Retained Earnings for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (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.

We have provided no non-audit services to the Company in the period under audit.

Our Audit Approach

Overview

Audit Scope	• As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.
Key audit matters	• Actuarial methodologies and assumptions used to determine the valuation of the Long Term Business Provisions ('LTBP'). • Impact of Covid-19.
Materiality	• Overall materiality: £683,000 (2019: £698,000) based on 1% of Total assets. • Performance materiality: £513,000.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, 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 artificially inflate revenue and management bias in accounting estimates and judgemental areas of the financial statements such as the LTBP. Audit procedures performed by the engagement team included:

- 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;
- Evaluation and testing of the operating effectiveness of management's controls design to prevent and detect irregularities;
- Assessment of matters reported on the Company's whistleblowing register and the results of management's investigation of such matters;
- Review of key correspondence with and reports to the Prudential Regulation Authority and / or the Financial Conduct Authority in relation to compliance with laws and regulations;
- Review of relevant meeting minutes including those of the Audit Committee, the Risk Committee, and the Technical Provisions Committee;
- Review of data regarding policyholder complaints, the Company's register of litigation and claims, Internal Audit reports, and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of LTBP described in the related key audit matter below;
- Identification and testing of 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. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

The key audit matters below are consistent with last year.

Key audit matter	*How our audit addressed the key audit matter*
Actuarial methodologies and assumptions used to determine the valuation of the Long Term Business Provisions ('LTBP')	
Refer to page 20, Summary of significant accounting policies, page 22, Critical accounting estimates and assumptions, and page 23, Note 4 to the financial statements. The LTBP are the most significant estimates in the financial statements and their valuation requires a significant degree of expert 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 expenses. These cashflows are then discounted at an appropriate rate of interest. For certain short term products a cashflow projection is not used and an unearned premium approach is used for setting the LTBP. There is significant judgement involved in setting these assumptions. Based on	We have performed a review of the methodology and assumptions used to calculate the long term business provisions as at 31 December 2020. 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. 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. We have understood and evaluated the governance process followed for the

Key audit matter	*How our audit addressed the key audit matter*
our assessment we view the following assumptions to represent the most significant risk: Persistency assumptions are set taking into account both past experience (via experience investigations) and future expected changes to policyholder behaviour due to factors such as product features and economic factors. Future changes to policyholder behaviour are difficult to predict and therefore there is judgement applied in selecting appropriate lapse assumptions. For the majority of products, the judgement involved has an immaterial impact on the LTBP. The exception to this is UIB Critical Illness, where there is also additional uncertainty due to a premium rebate feature of this product and how this may impact policyholder lapses. 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 rate of future mortality and morbidity is subjective and requires judgements, particularly for smaller books of business where there is inherent statistical variability in the result of the experience investigations. The selection of these assumptions has an immaterial impact on the LTBP for all products with the exception of UIB Critical Illness. Given the sensitivity of the LTBP to these assumptions and the level of subjectivity and judgement required, there is a heightened risk of material misstatement in the LTBP due to the selection of persistency and morbidity assumptions for the UIB Critical Illness product and therefore is a key area of audit focus.	approval of the assumptions to be used in the calculation of the LTBP. 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 We have understood the sensitivity of the LTBP to changes in assumptions. We have examined the movement in long term business provisions expected over 2020 from the actual experience to check if the movements in LTBP are in line with our expectations. We have tested the calculation of manual reserves performed by management to ensure they are reasonable, and assessed the rationale for the reserves held. The assumptions used in the calculation of the LTBP are inherently subjective. Based on the results of our testing, we concluded that the assumptions and methodology used to calculate the LTBP were appropriately supported based on the evidence obtained.
Impact of Covid-19 The impacts of the global pandemic due to Covid-19 continue to cause significant social and economic disruption up to the date of reporting. In our audit we have identified the following key impacts of Covid-19: **Ability of the entity to continue as a going concern** - There are a number of potential matters in relation to Covid-19 which could impact on the going concern status of the Company. The Directors have considered the ability of the Company to remain solvent with sufficient liquidity to meet future obligations. The Directors have also considered its requirements in respect of regulatory capital under Solvency II and the potential operational impacts on the business arising from remote working.The Directors' have concluded that the Company is a going concern.	In assessing management's consideration of the impact of Covid-19 on the Company we have performed the following procedures: •Obtained management's updated going concern assessment and challenged the rationale for the scenarios adopted and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence; •Considered management's assessment of the regulatory Solvency coverage and liquidity in management's future forecast; •Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of Covid-19); and •Enquired and understood the actions taken by management to mitigate the impacts of Covid-19, including review of Board Risk Committee minutes and attendance of all Audit Committees. We agree with the Director's conclusions in respect of going concern.
Impact on Estimation Uncertainty in the Financial Statements - The pandemic has increased the level of estimation uncertainty in the financial statements. The Directors have therefore considered how Covid-19 has impacted the key estimates that determine the valuation of material balances, particularly the LTBP.	•Considered whether there has been any impacts from remote working on the design and operating effectiveness of key controls impacting the preparation of financial statement information; and •Challenged the judgements applied by management to determine the insurance contract liabilities, in light of the emerging Covid-19 experience and by comparing these

Key audit matter	How our audit addressed the key audit matter
	relative to the Company's industry peers. We have audited the balances impacted by estimation uncertainty and believe the methodology and assumptions used by management to be reasonable.
Qualitative Disclosures in the Annual Report and Financial Statements - In addition, the Directors have considered the qualitative disclosures included in the Annual Report and Financial Statements in respect of Covid-19 and the impact that the pandemic has had, and continues to have, on the Company.	•Reviewed the appropriateness of disclosures within the Annual report and Financial Statements with respect to Covid-19 and, where relevant, considered the material consistency of this other information to the audited financial statements and the information obtained in the audit. Based on the procedures performed and evidence obtained, we consider the disclosure of Covid-19 in the financial statements to be appropriate.

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 the Company'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, distributed directly to customers and 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:

Overall materiality	£683,000 (2019: £698,000).
How we determined it	1% of Total assets.
Rationale for benchmark applied	PwC believe that the run off of the majority of the policies CLL offer as well as the significant volume of intragroup transactions mean that a P&L based metric is inappropriate to determine materiality. Furthermore, having considered capital measures PwC believe that the net assets benchmark returns an inappropriately low 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. Following this assessment we consider that total assets would be an appropriate benchmark for calculating materiality for the entity, as this is a key measurement in the determination of the capital coverage.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £513,000 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £34,174 (2019: £34,918) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining management's updated going concern assessment and challenging the rationale for the downside scenarios adopted and material assumptions made using our knowledge of the Company's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considering management's assessment of the regulatory Solvency coverage and liquidity in management's future forecast;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of Covid-19); and
- Enquiring and understanding the actions taken by management to mitigate the impacts of Covid-19 including review of Board Risk Committee minutes and attendance of all Audit Committees.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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. 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

Companies Act 2006 exception reporting

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

- we have not obtained 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.

Appointment

Following the recommendation of the Audit Committee, 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 27 years, covering the years ended 31 December 1994 to 31 December 2020.

Philip Watson

Philip Watson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
31 March 2021

Statement of Income and Retained Earnings
For the Year Ended 31 December 2020

TECHNICAL ACCOUNT – LONG-TERM BUSINESS

	Note	2020 £'000	2019 £'000
Earned Premiums, Net of Reinsurance			
Gross premiums written	5	14,296	14,200
Outward reinsurance premiums	5	(1,996)	(1,897)
		12,300	12,303
Investment Income	6	5,457	4,867
Claims Incurred, Net of Reinsurance			
Claims paid			
Gross amount		(7,363)	(8,339)
Reinsurers' share		332	525
		(7,031)	(7,814)
Change in Claims Provisions, Net of Reinsurance			
Gross amount		(22)	(56)
Reinsurers' share		(36)	138
		(58)	82
Change in Other Technical Provisions, Net of Reinsurance			
Long-term business provision, net of reinsurance			
Gross amount		(4,851)	2,621
Reinsurers' share		2,154	(1,395)
		(2,697)	1,226
Net Operating Expenses			
Acquisition costs	7	(5,981)	(6,146)
Change in deferred acquisition costs	7	(407)	(2,197)
Reinsurance commissions		1,249	1,889
Administrative expenses		(632)	(568)
Exchange gain / (loss)		98	(114)
		(5,673)	(7,136)
Tax Charge Attributable to Long-Term Business	9	(69)	(127)
BALANCE ON LONG-TERM BUSINESS TECHNICAL ACCOUNT		2,229	3,401

Statement of Income and Retained Earnings
For the Year Ended 31 December 2020

NON-TECHNICAL ACCOUNT

	Note	2020 £'000	2019 £'000
Balance on the technical account - long-term business		2,229	3,401
Tax charge attributable to balance on the technical account - long-term business	9	69	127
Profit before tax	8	2,298	3,528
Tax charge on profit	9	(69)	(127)
Profit for the Financial Year		**2,229**	**3,401**
Retained earnings account as at 1 January		18,293	15,652
Dividends paid during the period	10	(1,000)	(760)
Retained Earnings Account as at 31 December		**19,522**	**18,293**

Statement of Financial Position
As at 31 December 2020

ASSETS	Note	2020 £'000	2019 £'000
Investments	13	57,087	51,744
Reinsurers' Share of Technical Provisions			
Long-Term Business Provision		5,845	3,690
Claims outstanding		109	145
	15	5,954	3,835
Debtors			
Debtors arising out of direct insurance operations			
Policyholders	4	48	69
Intermediaries	4	437	612
Debtors arising out of reinsurance operations	4	275	220
		760	901
Other debtors	16	-	17
		760	918
Other Assets			
Cash at bank and in hand	4	4,759	7,097
Deferred Taxation	17	114	156
		4,873	7,253
Deferred Acquisition Costs	7	1,507	1,914
Total Assets		**70,181**	**65,664**

Statement of Financial Position
As at 31 December 2020

EQUITY AND LIABILITIES	Note	2020 £'000	2019 £'000
Capital and Reserves			
Called up share capital	14	7,500	7,500
Retained earnings		19,522	18,293
Total Equity		27,022	25,793
Technical Provisions			
Long-term Business Provision		38,444	33,593
Claims outstanding		682	660
	15	39,126	34,253
Creditors			
Creditors arising out of direct insurance operations		1,301	2,948
Creditors arising out of reinsurance operations		361	234
Other creditors	18	2,371	2,436
		4,033	5,618
Deferred Income	19	-	-
Total Equity and Liabilities		**70,181**	**65,664**

The financial statements on pages 15 to 37 were approved by the Board of Directors on 29 March 2021 and were signed on its behalf by:

DocuSigned by:
James Reader
DEC046B6933341E...
James Reader
Director
Covéa Life Limited
Registered number: 00911235
30 March 2021

1. GENERAL INFORMATION

The Company is a life assurance company authorised in the United Kingdom which carries out contracts of life assurance and reassurance. The Company provides a range of Term Life & Critical Illness, Whole of Life, Creditor (Payment Protection) and Group Life products.

The Company is a private limited liability company limited by shares incorporated in England and Wales 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"), "Insurance Contracts" ("FRS 103") 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 specific 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 are 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 strategic plans and business forecasts, its investment and liquidity positions and its solvency capital position for 12 months and beyond from the date of approval of these financial statements. The Company's management have maintained a regular dialogue with regulators, have complied with all externally imposed capital requirements to which the Company was subject throughout the reporting period and have managed its capital in line with its internal policy (see Risk and Capital Management disclosure in note 4).

The Company has prepared an Own Risk and Solvency Assessment ("ORSA") which has been reviewed by the Risk Committee and approved by the Board in December 2020. The ORSA assesses the current and future risks of the Company and management have documented the stress tests that have been considered with the ORSA setting out the associated impact on the Company's capital position.

Based on their review, the Directors believe that the Company will have sufficient investments and liquidity to meet its commitments as they fall due and is well placed to meet all future regulatory capital requirements, hence they are satisfied that the Company has adequate resources to continue operating for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 (note 21).

INSURANCE CONTRACTS

The Company issues insurance contracts which are contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario and that those benefits exceed those that would be payable if no insured event occurred. 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 total premiums receivable for the current period and adjustments from previous financial periods. 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 not based on a percentage of gross written premium, are included in administrative expenses as incurred.

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 against revenue when it is due for payment. Where death claims and all other claims are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the Long-Term Business Provision. Claims payable include all related internal and external claims handling costs.

Long-Term Business Provision

The Long-Term Business provision is computed by a Fellow of the Institute of Actuaries based on 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 for UPR has been used for all regular premium term business. The valuation method basis adopts the value of related assets and the derived yield, 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 the relevant factors as set by the PRA, which include sufficient margins. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance creditors/debtors

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 disclosed as financial instruments. Insurance contracts entered into by the Company under which the contract holder is another insurer 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. 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 reinsurers. 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 Eamings as 'Outward reinsurance premiums' when due.

FOREIGN CURRENCY

Transactions in foreign currencies are recorded at the rate on the Statement of Financial Position date each year. 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. The exchange rate is taken from the Financial Times. 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; current tax also includes 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 from non-refundable income or expenses. Deferred tax is measured at the tax rate of the related difference, using tax rates enacted or substantively enacted at the Statement of Financial Position date. Deferred tax is recognised in the Statement of Income and Retained Earnings for the period. Deferred tax balances are not discounted.

BASIC FINANCIAL INSTRUMENTS

Debtors / Creditors

Debtors are recognised initially at the transaction price less attributable transaction costs. Creditors are recognised initially at the transaction price plus attributable transaction costs. Debtors due within one year are subsequently measured at the undiscounted amount of the cash to be received, less any impairment losses, 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 this has a negative effect on the estimated future cash flows of that asset.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. 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.

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, (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 management fees 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 the 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 demand deposits 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 (2019: none). All management services (including certain employee services) are provided to the Company by CISL, a fellow subsidiary undertaking.

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.

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 annually 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.

The risks to the Company posed by the Covid-19 pandemic are being assessed and monitored closely, both from an operational and a financial perspective. The company has taken a variety of steps to mitigate these risks, though the position continues to evolve rapidly and the ultimate impact will depend on how the specific circumstances of the pandemic develop.

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.

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.

4. RISK AND CAPITAL MANAGEMENT (continued)

Operational Risk (continued)

As a result of the challenges associated with Brexit the Company ceased underwriting business in the Republic of Ireland and other EU territories during the year.

Compliance Risk

As a regulated entity operating in the UK insurance market, the Company is subject to a wide range of regulations and legislation as governed by the Prudential Regulation Authority and the Financial Conduct Authority. 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.

Insurance Risk

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

Management of insurance risks

The Company has in place a range of procedures, systems and controls designed to manage and mitigate these risks covering all aspects of its insurance activities; including underwriting and pricing, claims management and reserving. Prices charged for the cost of insurance risk are set at local level through a process of financial analysis. Where appropriate, individual contracts are examined and reviewed by trained underwriting staff to ensure that the premiums charged reflect the current health condition and the family medical history of the applicants. Mortality and morbidity risks are mitigated by the use of reinsurance. Management selects reinsurers based on an assessment of their credit worthiness using, amongst other factors, external credit ratings. The aggregation of risk ceded to individual 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 for the current and prior years. There is some legacy exposure to contracts in Ireland, Norway and Denmark which are running off. There are no known concentrations of risk within the UK, aside from a term life scheme provided to members of the British Armed Forces which is running off. Group coverages are provided to members of Credit Unions in the United Kingdom.

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.

	2020 £'000	2019 £'000
10 percent increase in mortality rates	(976)	(1,010)
10 percent increase in morbidity rates	(612)	(632)
20 percent increase in lapse rates	878	1,009
20 percent decrease in lapse rates	(920)	(1,071)
10 percent increase in expenses	(287)	(273)

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.

4. RISK AND CAPITAL MANAGEMENT (continued)

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 contracts that it has 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 assesses creditworthiness based on, amongst other factors, reinsurers' external credit ratings.

Investment portfolio and cash

The principal other source of credit risk arises from the assets held in the investment portfolio. The risk is that the investment counterparty encounters 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 2020
	AAA	**AA**	**A**	**BBB**	**Less than BBB**	**Non-rated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investments	7,878	27,299	20,593	1,317	-	-	57,087
Reinsurers' share of technical provisions	-	5,951	3	-	-	-	5,954
Debtors arising out of direct insurance operations	-	-	-	-	-	485	485
Debtors arising out of reinsurance operations	-	274	1	-	-	-	275
Cash at bank	-	-	4,759	-	-	-	4,759
Total financial assets	7,878	33,524	25,356	1,317	-	485	68,560
Total %	11.5%	48.9%	37.0%	1.9%	0.0%	0.7%	100.0%

							31 December 2019
	AAA	**AA**	**A**	**BBB**	**Less than BBB**	**Non-rated**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investments	8,262	26,702	16,270	510	-	-	51,744
Reinsurers' share of technical provisions	-	3,832	3	-	-	-	3,835
Debtors arising out of direct insurance operations	-	-	-	-	-	681	681
Debtors arising out of reinsurance operations	-	219	1	-	-	-	220
Other receivables	-	-	-	-	-	17	17
Cash at bank	-	57	7,040	-	-	-	7,097
Total financial assets	8,262	30,810	23,314	510	-	698	63,594
Total %	13.0%	48.4%	36.7%	0.8%	0.0%	1.1%	100.0%

4. RISK AND CAPITAL MANAGEMENT (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 2020 (2019: 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. This committee approves the Company's liquidity policies and procedures. Management is responsible for managing and monitoring the Company's liquidity position on a day to day basis. Regular reports, including exceptions and remedial action taken, are submitted 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 reinsurers' 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.

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.

4. RISK AND CAPITAL MANAGEMENT (continued)

					31 December 2020	
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial Assets	£'000	£'000	£'000	£'000	£'000	£'000
Investments	57,087	2,554	5,162	7,914	51,328	66,958
Reinsurers' share of technical provisions	5,954	(206)	(19)	528	6,455	6,758
Debtors arising out of direct insurance operations	485	485	-	-	-	485
Debtors arising out of reinsurance operations	275	275	-	-	-	275
Cash	4,759	4,759	-	-	-	4,759
Total	68,560	7,867	5,143	8,442	57,783	79,235
Financial Liabilities						
Long-term business provision	38,444	3,098	140	1,262	39,072	43,572
Claims outstanding	682	682	-	-	-	682
Creditors arising out of direct insurance operations	1,301	1,301	-	-	-	1,301
Creditors arising out of reinsurance operations	361	361	-	-	-	361
Other creditors	2,371	2,371	-	-	-	2,371
Total	43,159	7,813	140	1,262	39,072	48,287

					31 December 2019	
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial Assets	£'000	£'000	£'000	£'000	£'000	£'000
Investments	51,744	2,297	3,288	9,307	47,252	62,144
Reinsurers' share of technical provisions	3,835	(149)	(151)	(7)	5,243	4,936
Debtors arising out of direct insurance operations	681	681	-	-	-	681
Debtors arising out of reinsurance operations	220	220	-	-	-	220
Other debtors	17	17	-	-	-	17
Cash	7,097	7,097	-	-	-	7,097
Total	63,594	10,163	3,137	9,300	52,495	75,095
Financial Liabilities						
Long-term business provision	33,593	3,919	(33)	790	37,727	42,403
Claims outstanding	660	660	-	-	-	660
Creditors arising out of direct insurance operations	2,948	2,948	-	-	-	2,948
Creditors arising out of reinsurance operations	234	234	-	-	-	234
Other creditors	2,436	2,436	-	-	-	2,436
Total	39,871	10,197	(33)	790	37,727	48,681

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.

4. RISK AND CAPITAL MANAGEMENT (continued)

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 increase or decrease 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. The current year impact of a decrease in the yield curve is attributable to yields on assets being restricted to not fall below zero.

	2020 £'000	2019 £'000
100bp increase	(1,730)	(1,815)
100bp decrease	14	1,731

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 other 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. The spot rates are quoted from the Financial Times.

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

	2020		2019	
	£'000 Total assets	£'000 Total liabilities	£'000 Total assets	£'000 Total liabilities
Euro	803	527	1,585	989
Norwegian Krone	4	-	152	40
Danish Krone	63	33	86	49
US Dollar	35	23	101	28

The following exchange rates applied during the year:

	Average rates		Reporting date spot rates	
	2020	2019	2020	2019
Euro	1.1267	1.1472	1.1172	1.1802
Norwegian Krone	12.1347	11.3346	11.7037	11.6410
Danish Krone	8.3984	8.5665	8.3158	8.8189
US Dollar	1.2923	1.2992	1.3669	1.3247

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.

4. RISK AND CAPITAL MANAGEMENT (continued)

	Strengthening		Weakening	
	2020	**2019**	**2020**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Euro (10% movement)	(23)	(54)	33	66
Norwegian Krone (10% movement)	-	(10)	1	12
Danish Krone (10% movement)	(2)	(3)	4	4
US Dollar (10% movement)	(2)	(7)	1	8

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 2020, was the capital the Company was required to hold by the regulator at any point in time in accordance with its risk profile.

b) Measurement and monitoring

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

	2020	**2019**
	£'000	**£'000**
Solvency II Own funds as at 1 January	28,081	25,873
Total equity movements in UK GAAP:		
Profit for the financial year	2,229	3,401
Dividend paid	(1,000)	(760)
Movements in recognition adjustments:		
UK GAAP reserves replaced by technical provisions	(1,062)	(1,362)
Release of net Deferred Acquisition Costs	407	839
Other liabilities	15	1
Deferred tax movement on recognition adjustments	66	89
Solvency II Own funds	28,736	28,081
Foreseeable dividend	(2,229)	(1,000)
Solvency II Own funds as at 31 December	26,507	27,081

4. RISK AND CAPITAL MANAGEMENT (continued)

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 and Republic of Ireland for the current and prior year.

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

Statement of Income and Retained Earnings items

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

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

	2020 £'000 Gross	2020 £'000 Reinsurance	2019 £'000 Gross	2019 £'000 Reinsurance
United Kingdom	14,227	(1,987)	13,048	(1,838)
Republic of Ireland, Denmark	68	(4)	1,151	(59)
Other	1	(5)	1	-
	14,296	(1,996)	14,200	(1,897)

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:

	2020 £'000 Gross	2020 £'000 Reinsurance	2019 £'000 Gross	2019 £'000 Reinsurance
Single premium	845	(88)	947	(165)
Regular premium	13,451	(1,908)	13,253	(1,732)
	14,296	(1,996)	14,200	(1,897)

Included within the premiums above are gross new business premiums of £1,897,000, net after reinsurance of £1,536,000 (2019: Gross of £2,455,000, net after reinsurance of £2,169,000).

6. INVESTMENT INCOME

	2020 £'000	2019 £'000
Technical Account – Long-Term Business		
Interest income from investments	1,511	1,485
Net realised (losses) / gains from investments	(1)	40
Net unrealised gains from investments	3,947	3,342
Total Investment income	5,457	4,867

Total interest income from cash at bank amounting to £4,000 (2019: £20,000) and bank charges of £19,000 (2019: £14,000) were recognised in administrative expenses.

7. ACQUISITION COSTS

	2020 £'000	2019 £'000
Acquisition Costs		
Direct insurance commission	5,214	4,446
Others	767	1,700
	5,981	6,146
Change in deferred acquisition costs	407	2,197
	6,388	8,343

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

	2020 £'000	2019 £'000
Balance at 1 January	1,914	4,111
Incurred costs deferred	774	957
Deferred costs released	(1,181)	(3,154)
Balance at 31 December	**1,507**	**1,914**

8. PROFIT BEFORE TAX

Profit on Ordinary Activities before Tax is stated after:	**2020 £'000**	**2019 £'000**
Management charge	1,404	2,253

The management costs are initially borne by CISL and are recharged to the Company through a Group Service Agreement.

Audit services:

Fees, excluding VAT, payable to the Company's Auditors for the audit of the Company's financial statements	145	125

There were no payments to the Company's auditors in respect of non-audit services (2019: nil).

9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2020 £'000	2019 £'000
Technical Account		
Current Tax Expense		
Current year corporation tax charge at 19% (2019: 19%)	(383)	(618)
Prior year adjustments	353	547
	(30)	(71)
Deferred Tax		
Origination and reversal of temporary differences	(39)	(56)
Total Tax Charge	**(69)**	**(127)**

The profits for this accounting period are taxed at the standard rate of Corporation Tax of 19% (2019: 19%).

Factors Affecting Current and Future Tax Charges

	2020 £'000	2019 £'000
Non-Technical		
Tax Expense		
Current year corporation tax charge at 19% (2019: 19%)	-	-
Tax charge attributable to balance on long-term business	(69)	(127)
Total Tax Charge	**(69)**	**(127)**

The tax charge assessed for the year is lower (2019: the tax charge assessed was lower) than the standard effective rate of Corporation Tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	2,298	3,528
UK corporation tax charge at 19% (2019: 19%)	(437)	(670)
Rate change and related impacts	2	(4)
Prior year adjustment	353	547
Transfer pricing adjustment	13	-
Total Tax Charge	**(69)**	**(127)**

The UK standard rate of corporation tax is 19% for the year ended 31 December 2020 (2019: 19%). On 11 March 2020 the Chancellor announced in his Budget speech that the UK corporation tax rate will remain at 19% from April 2020. On 3 March 2021 the Chancellor announced in his Budget speech that the UK corporation tax rate will rise to 25% from April 2023

10. DIVIDEND

During 2020, a £1,000,000 dividend was declared and paid in respect of 2019 (2019: £760,000 dividend was declared and paid in respect of 2018). A dividend of £2,229,000 has been proposed in respect of 2020.

11. DIRECTORS' EMOLUMENTS

The aggregate amount of emoluments, including benefits in kind, paid to or receivable by Directors during the year was as follows:

	2020 £'000	2019 £'000
Emoluments	88	55
Compensation for loss of office	-	13
Employer pension contributions	1	1
	89	**69**

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 CISL'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 (2019: 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 2020 was nil (2019: nil).

The staff costs are recognised through a management recharge from CISL, as explained in note 8.

13. INVESTMENTS

	Fair value		Cost	
	2020	**2019**	**2020**	**2019**
	£'000	**£'000**	**£'000**	**£'000**
Debt securities and other fixed income securities	57,087	51,744	50,247	48,324

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.

The changes in the fair value of investments stated at fair value through the Statement of Income and Retained Earnings as at 31 December 2020 were as follows:

	2020	2019
	£'000	**£'000**
Cost	50,247	48,324
Fair value gains	6,307	2,888
Accrued Income	533	532
Fair Value	57,087	51,744

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).

13. INVESTMENTS (continued)

b) Fair value hierarchy (continued)

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 2020
	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	13,862	43,225	-	57,087
Total	13,862	43,225	-	57,087

				31 December 2019
	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	15,155	36,589	-	51,744
Total	15,155	36,589	-	51,744

14. CALLED UP SHARE CAPITAL

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
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 £39,126,000 (2019: £34,253,000) and the total recognised reinsurers' share of technical provisions amounted £5,954,000 (2019: £3,835,000).

During the year, the Company recognised a net increase of £1,703,000 (2019: net decrease of £740,000) in the Statement of Income and Retained Earnings in respect of reinsurance.

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

Reconciliation of net technical provisions

	2020			2019		
	Gross technical provision	Reinsurers' share of technical provision	Net technical provision	Gross technical provision	Reinsurers' share of technical provision	Net technical provision
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January	34,253	3,835	30,418	36,819	5,092	31,727
Changes to models	299	231	68	(28)	(28)	-
Reserve projected to 31 December	(889)	210	(1,099)	(1,349)	(99)	(1,250)
Reserve updated with actual data	2,446	1,541	905	1,543	935	608
Impact of changes in assumptions	3,489	465	3,024	195	(851)	1,046
Other movements	(472)	(328)	(144)	(2,927)	(1,214)	(1,713)
Balance at 31 December	39,126	5,954	33,172	34,253	3,835	30,418

The amounts presented in the above tables for changes to models represent the change due to the correction of models and the refinement of the modelling approach for a new scheme of business.

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.

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

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

	2020		2019	
	Interest Rate	Mortality / Morbidity Rate	Interest Rate	Mortality / Morbidity Rate
Term Life Assurance - Underwritten	0.25%	162.5% TM08 sel	1.00%	162.5% TM08 sel
Term Life Assurance – Armed forces	0.25%	125% TM08 ult + 550% OpsDeath 2008	1.00%	125% TM08 ult + 550% OpsDeath 2008
Term Life Assurance – Guaranteed Acceptance	0.91%	135% ELT17	1.47%	150% ELT17
Whole of Life - GBP	0.91%	187.5% ELT 17 age adjusted	1.47%	187.5% ELT 17 age adjusted
Whole of Life - EUR	0.91%	187.5% ILT 16 age adjusted	1.47%	187.5% ILT 16 age adjusted
Stand Alone Critical Illness	0.91%	112.5% of reassurer rates	1.47%	125% of reassurer rates
Group Life Assurance	n/a	n/a	n/a	n/a
Creditor Single Premium	0.25%	50% ELT17	1.00%	50% ELT17

16. OTHER DEBTORS

	2020 £'000	2019 £'000
Other debtors	-	17
	-	17

17. DEFERRED TAXATION

Provision for other charges is made up of:

	2020 £'000	2019 £'000
Deferred tax liability for deferred acquisition costs (note 18)	(1)	(2)
Deferred tax asset on transitional adjustment	114	156
	113	154

The calculation of the deferred taxation balance at the year end is based on the current UK corporation tax rate of 19%.

18. OTHER CREDITORS

	2020 £'000	2019 £'000
Other creditors	65	133
Amounts due to related undertaking	1,749	1,683
Corporation Tax	556	618
Deferred tax liability (note 17)	1	2
	2,371	2,436

Amounts due to 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:

	2020 £'000	2019 £'000
Balance at 1 January	-	1,358
Deferred income released	-	(1,358)
Balance at 31 December	-	-

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. It is a wholly-owned subsidiary of MMA Holdings UK plc, an unlisted public company incorporated in England and Wales

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

Covéa SGAM prepares the consolidated financial statements of the Covéa Group, copies of which can be obtained from MMA Holdings UK plc, 2 Norman Place, Reading, Berkshire, RG1 8DA.

22. FINANCIAL AND CAPITAL COMMITMENTS

At 31 December 2020, the Company had no financial commitments under non-cancellable operating leases nor any approved capital commitments (2019: nil).

Company Information
For the Year Ended 31 December 2020

Company Information
DIRECTORS

The Directors of Covéa Life Limited who served during the year ended 31 December 2020 and up to the date of signing the financial statements (unless otherwise stated) were:

	Nicholas Caplan [1]	
	Stephen Clarke [12]	
	Jane Dale [1]	
	James Gearey	
	François Josse [1]	
	Maria Leighton	(appointed 24 March 2020)
	Pierre Michel [1]	
	Christopher Moat [1]	(appointed 17 March 2021)
	Karl Murphy [1]	(resigned 15 March 2021)
	James Reader	
	Dominique Salvy [1]	Chair
SECRETARY	Annabel Wilson [1] Non-Executive Directors [2] Senior Non-Executive Director	
REGISTERED AND HEAD OFFICE	2 Norman Place Reading Berkshire RG1 8DA	
REGISTERED NUMBER	00911235	
WEB ADDRESS	www.coveainsurance.co.uk	
REGULATORS	Prudential Regulation Authority Financial Conduct Authority	
BANKERS	Royal Bank of Scotland plc Bank of Scotland plc Barclays Bank plc Lloyds Bank plc HSBC Bank plc	
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP 3 Forbury Place, 23 Forbury Road Reading Berkshire RG1 3JH	