

Registered Number 307622

Directors' Report and Accounts 2011

British Reserve Insurance Company Limited

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British Reserve Insurance Company Limited

Directors' report

Directors: D A Torrance (Chairman)
S J Brimicombe
J Dye
M J Churchlow

Secretary: R C Jack-Kee

Registered Office: 57 Ladymead, Guildford, Surrey, GU1 1DB

Registered Number 307622

The Directors present their Report and audited financial statement for the year ended December 31, 2011

Results and Dividend

The results for the year are set out in the Income Statement on page 6

The Directors do not recommend the payment of a dividend for the year ended December 31, 2011 (2010 £nil)

Principal activities and review of the business

The Company is authorised to underwrite most classes of general insurance business. Currently the Company underwrites musical instrument insurance under the brand name of "Allianz Musical Instruments". During 2009 it ceased to underwrite other specialist insurance. This business was 100% reinsured and hence there is no impact on the Company's profit. Allianz Re Dublin Limited took over the management of the Company's closed portfolio of London Market insurance business, previously handled by the Company and which is 100% reinsured to Allianz Re Dublin Limited. There are no plans to undertake additional business activities in 2012. Gross written premiums are expected to continue at the same level in 2012 as 2011 as the Company continues to write musical instrument insurance business.

Directors

The names of the current Directors are shown above. All served throughout the year save for M J Churchlow who served from his appointment as a Director on January 28, 2011.

Principal risks, uncertainties and financial instruments

The Company's policies in respect of the management of its principal risks, uncertainties and financial instruments are set out in Note 22 on page 28.

Suppliers

It is the policy of the Company to make known to and agree the terms of payment with its suppliers when entering into transactions with them and to keep to those terms. Payment practice for the year to December 31, 2011 was 9 days (2010 4 days) calculated in accordance with the relevant statutory regulations.

Going concern

The Directors are satisfied that the Company has adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the Annual Report and Accounts.

British Reserve Insurance Company Limited

Directors' report

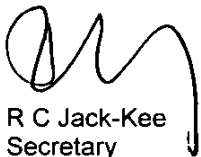
Directors' responsibility to the auditors

So far as the Directors are aware there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

The Auditors KPMG Audit Plc will be deemed to have been reappointed at the end of 28 days beginning with the day on which copies of these report and accounts are sent to Members.

By order of the board



R C Jack-Kee
Secretary

March 6, 2012

British Reserve Insurance Company Limited

Statement of Directors' responsibilities in respect of the Directors' Report and the Financial Statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRSs as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

British Reserve Insurance Company Limited

Independent auditor's report

to the members of British Reserve Insurance Company Limited

We have audited the financial statements of British Reserve Insurance Company Limited for the year ended December 31, 2011 set out on pages 6 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at December 31, 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

British Reserve Insurance Company Limited

Independent auditor's report

to the members of British Reserve Insurance Company Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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



Murray Alexander Raisbeck (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

March 6, 2012

British Reserve Insurance Company Limited

Statement of comprehensive income for the year ended December 31, 2011

	Notes	2011 £000	2010 £000
Gross earned premiums	3	7,055	6,774
Reinsurers' share of gross earned premiums	3	(3)	(101)
Net insurance revenue		7,052	6,673
Net realised gains		–	12
Currency gains		1	97
Investment income	4	1,008	957
Other revenue		1,009	1,066
Total revenue		8,061	7,739
Gross insurance claims paid		(1,894)	(1,770)
Reinsurers' share of gross insurance claims paid		106	108
Gross change in insurance liabilities		(339)	(234)
Reinsurers' share of gross change in insurance liabilities		(47)	203
Net insurance claims		(2,174)	(1,693)
Commission		(670)	(692)
Other operating and administrative expenses	5	(2,262)	(1,928)
Other expenses		(2,932)	(2,620)
Total claims and expenses		(5,106)	(4,313)
Profit before tax		2,955	3,426
Income tax expense	7	(758)	(949)
Net profit for the year wholly attributable to the equity holders		2,197	2,477
Other comprehensive income			
Net change in fair value of available for sale financial assets		156	(40)
		156	(40)
Tax on fair value of available for sale financial assets movement	7	(30)	11
Other comprehensive income for the period, net of tax		126	(29)
Total comprehensive income for the period		2,323	2,448

The notes on pages 10 to 34 are an integral part of these financial statements

British Reserve Insurance Company Limited

Balance sheet as at December 31, 2011

	Notes	2011 £000	2010 £000
Assets			
Deferred tax asset	18 (a)	20	–
Deferred acquisition costs	8	1,056	1,058
Reinsurance assets	9	8,452	8,440
Accrued income	10	597	319
Available for sale financial assets	11	37,346	31,632
Insurance receivables	12	1,999	1,282
Other receivables	13	3	–
Cash and cash equivalents	14	3,829	4,791
Total assets		53,302	47,522
Equity and Liabilities			
Issued capital and reserves attributable to equity holders of the parent			
Share capital	15	5,000	5,000
Fair value reserve		658	532
Retained earnings		21,503	19,306
Total equity		27,161	24,838
Liabilities			
Insurance contracts liabilities	16	14,945	14,368
Deferred tax liability	18 (a)	–	360
Insurance related payables	19	46	7
Tax payable	18 (b)	785	937
Accruals and other payables	20	10,365	7,012
Total liabilities		26,141	22,684
Total liabilities and shareholders' equity		53,302	47,522

The notes on pages 10 to 34 are an integral part of these financial statements

These financial statements were approved by the Board of Directors on March 6, 2012 and signed on its behalf by



D A Torrance
Director

British Reserve Insurance Company Limited

Statement of cash flows for the year ended December 31, 2011

	Notes	2011 £000	2010 £000
Cash generated from operations			
Cash generated from operating activities	21	(637)	2,258
Interest received		1,008	957
Income tax paid	18(b)	(1,320)	(1,442)
Net cash flow from operating activities		(949)	1,773
Net increase in cash and cash equivalents		(949)	1,773
Cash and cash equivalents at the beginning of the year		4,791	2,979
Effects of exchange rate changes on cash and cash equivalents		(13)	39
Cash and cash equivalents at the end of the year		3,829	4,791

The notes on pages 10 to 34 are an integral part of these financial statements

British Reserve Insurance Company Limited

Statement of changes in equity for the year ended December 31, 2011

	Share capital £000	Fair value reserve £000	Retained earnings £000	Total £000
Balance as at January 1, 2010	5,000	561	16,829	22,390
Net change in fair value of available for sale	–	40	–	(40)
Tax on fair value of available for sale financial assets movement	–	11	–	11
Net profit for the year	–	–	2,477	2,477
Total recognised income for the year	–	(29)	2,477	2,448
Balance as at December 31, 2010	5,000	532	19,306	24,838
Net change in fair value of available for sale	–	156	–	156
Tax on fair value of available for sale financial assets movement	–	(30)	–	(30)
Net profit for the year	–	–	2,197	2,197
Total recognised income for the year	–	126	2,197	2,323
Balance as at December 31, 2011	5,000	658	21,503	27,161

The notes on pages 10 to 34 are an integral part of these financial statements

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

1. Accounting Policies

1.1 Company and its operations

British Reserve Insurance Company Limited is registered in England and Wales and is authorised to transact most classes of general insurance business

The registered office is 57 Ladymead, Guildford, Surrey, GU1 1DB, United Kingdom. The financial statements for the year ended December 31, 2011 were authorised for issue in accordance with a resolution of the Directors on March 6, 2012.

1.2 Statement of compliance

The financial statements of British Reserve Insurance Company Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

1.3 Basis of preparation

The financial statements have been prepared on the historical cost basis except for the following:

- Available for sale financial assets

The financial statements are compiled on a going concern basis.

1.4 Summary of significant accounting policies

British Reserve Insurance Company Limited has identified the accounting policies that are most significant to its business operations and the understanding of its results. These accounting policies are those which involve the most complex or subjective decisions or assessments, and relate to insurance provisions, deferred acquisition costs, the ascertainment of fair values of financial assets and liabilities and the determination of impairment losses. In each case, the determination of these is fundamental to the financial results and position and requires management to make complex judgements based on information and financial data that may change in the future periods.

Since these involve the use of assumptions and subjective judgements as to future events and are subject to change, the use of different assumptions or data could produce materially different results.

The significant accounting policies adopted in the presentation of the financial statements are set out in the following paragraphs:

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

1. Accounting Policies (continued)

(a) Deferred acquisition costs

Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised on a straight line basis. All other acquisition costs are recognised as an expense when incurred.

An impairment review is performed at each reporting date and the carrying value is written down to the recoverable amount.

(b) Income taxes

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the income statement, except to the extent that income taxes relating to items recognised directly in equity are recognised in equity.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantially enacted at the balance sheet date together with adjustments to tax payable in respect of prior years.

Deferred income tax is provided in full using the liability method and all temporary difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred income tax assets are only recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. The carrying amount of the deferred income tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Group tax losses are utilised when available. Consideration paid for group relief is accounted for in the financial statements as though the payment had been made to the relevant tax authorities.

(c) Reinsurance assets

The Company assumes and cedes reinsurance in the normal course of business. Reinsurance assets primarily include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Premiums on reinsurance assumed are recognised as revenue in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Amounts due to reinsurers are estimated in a manner consistent with the associated reinsured policies and in accordance with the reinsurance contract. Premiums ceded and claims reimbursed are presented on a gross basis.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the balance sheet and are not included in reinsurance assets or liabilities. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured.

An impairment review is performed on all reinsurance assets when an indication of impairment occurs. Reinsurance assets are impaired only if there is objective evidence that the Company may not receive all amounts due to it under the terms of the contract and that this can be measured reliably.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

1. Accounting Policies (continued)

(d) Fair value of financial assets and liabilities

Financial assets and liabilities are initially stated at fair value. Listed investments are stated at the bid market price at the close of business on the balance sheet date.

(e) Financial assets

The Company classifies its investments as available for sale financial assets.

All purchases of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase the asset. All sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to the counterparty.

All investments are initially recognised at fair value plus the transaction costs that are directly attributable to the acquisition of the investment. A financial asset shall be derecognised when the contractual right to receive cash flows expire or when the asset is transferred.

Available for sale financial assets after initial recognition are measured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment the cumulative gain or loss previously reported in equity is transferred to the income statement.

Impairments

The carrying value of all financial assets is reviewed for impairment whether events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

In order to determine whether negative revaluations on investment securities correctly represent impairment, all investment securities for which the market value has either fallen significantly below cost price or been below cost price for a considerable period of time, are individually reviewed. A distinction is made between negative revaluations due to general market fluctuations and due to issuer specific developments. The impairment review focuses on issuer specific developments regarding financial condition and future prospects, taking into account the intent and ability to hold the securities under the long term investment strategy of the Company.

For available for sale assets, a significant prolonged decline in the fair value indicates an impairment. For available for sale financial assets the impairment loss is the difference between its current fair value and its original cost.

(f) Insurance receivables

Insurance receivables are recognised in a manner consistent with the premium income recognition as detailed in the revenue recognition accounting policy (l). The carrying value is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

(g) Fair value reserve

The fair value reserve relates to the change in fair values of available for sale financial assets.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less at the date of placement free of any encumbrances.

(i) Product classification

Insurance contracts are defined as those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependant on both the probability of an insured event and the magnitude of its potential effect.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

1. Accounting Policies (continued)

(j) Insurance contracts liabilities

Insurance contract liabilities

Insurance contract liabilities are based on the estimated ultimate costs of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Significant delays can be experienced in the notification and settlement of certain type of claims, the ultimate cost of which cannot be known with certainty at the balance sheet date.

Provision for unearned premiums

The proportion of written premiums, gross of commission payable to intermediaries, attributable to subsequent periods is deferred as unearned premium. The change in the provision for unearned premium is taken to the income statement in the order that revenue is recognised over the period of the risk.

Liability adequacy test

At each balance sheet date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition cost assets. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Any inadequacy is immediately charged to the income statement by establishing an unexpired risk provision.

(k) Provision for other liabilities

A provision is recognised when the Company has a present legal or constructive obligation, as a result of a past event, which is probable, will result in an outflow of resources and when a reliable estimate of the obligation can be made. If the effect is material, the provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects a current market assessment for the time value of money and, where appropriate, the risk is specific to the liability.

The Company recognises the provision for onerous contracts when the expected benefits to be derived from contracts are less than the unavoidable costs of meeting the obligations under the contracts.

(l) Revenue recognition

Premium income

Premiums written are recognised on policy inception and earned on a pro rata basis or for risks where a pro rata basis is inappropriate a basis consistent with the risk profile over the term of the related policy coverage.

Estimates of premiums written as at the balance sheet date but not yet processed, are assessed based on estimates from underwriting or past experience and are included in premiums earned, on a pro rata basis.

Investment income

Interest income is recognised in the income statement as it accrues, taking into account the effective yield of the assets or an applicable floating rate. Interest income includes the amortisation of any discount or premium.

Realised gains and losses recorded in the income statement

Realised gains and losses on available for sale financial assets are calculated as the difference between the net sales proceeds and the original or amortised cost. Realised gains and losses are recognised in the income statement when the sale transaction occurred.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

1. Accounting Policies (continued)

(m) Claims

Claims incurred include all claim losses occurring during the year, whether reported or not, including the related handling costs and reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function

(n) Finance cost

Interest payable is recorded in the period in which it is incurred

(o) Foreign currency translation

The Company's presentation and functional currency is Sterling. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year end are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non monetary items that are measured in terms of historical costs are translated using the exchange rate as at the date of initial transaction. Non monetary items measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement unless required to be taken to equity

(p) Off setting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the assets and settle the liability simultaneously

(q) Current, non current disclosure

For each asset and liability line item amounts expected to be recovered or settled within twelve months after the balance sheet date will be classified as current at the balance sheet date and the remaining balance as non current

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

2. Use of estimates, assumptions and judgements

The Company makes estimates assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates assumptions and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Claims liability arising from insurance contracts

Estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. It can take a significant period of time before the ultimate claims costs can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet claims provision. The primary technique adopted by management in estimating the costs of notified and IBNR claims is that of using past claim settlement trends to predict future claims settlement trends. Further details of the claims estimation process are described in note 17. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. Claims provisions are not discounted for the time value of money except for claims being settled by periodic payments.

The carrying value at balance sheet date for these insurance contracts is £14,945k (2010: £14,368k).

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

3. Net insurance revenue

		2011	2010
	Note	£000	£000
(a) Gross written premiums			
Direct insurance		7,234	6,926
Total general insurance contracts premium revenue	16	7,234	6,926
Gross change in unearned premium provision	16	(179)	(152)
Total gross earned premiums		7,055	6,774
(b) Reinsurers' share of gross written premiums			
Direct insurance		(3)	(101)
Total reinsurers' share of general insurance contracts premium revenue	16	(3)	(101)
Total reinsurers' share of gross earned premiums on insurance contracts		(3)	(101)
Total net insurance revenue		7,052	6,673

4. Investment income

	2011	2010
	£000	£000
Available for sale financial assets interest income	996	951
Cash and cash equivalents interest income	12	6
Total investment income	1,008	957

5 Other operating and administrative expenses

	2011	2010
	£000	£000
Acquisition costs	1,291	1,213
Movement in deferred acquisition costs	2	(327)
Administration expenses	969	1,042
Total other operating and administrative expenses	2,262	1,928

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

6. Auditors remuneration

In respect of the Company for the year ended December 31, 2011 auditors' remuneration in their capacity as such, amounted to £4,100 (2010 £4,100)

7 Income tax expense

	2011 £000	2010 £000
(a) Current year tax charge		
Current tax:		
United Kingdom corporation tax charge @ 26.5% (2010: 28%)	1,138	948
Total current tax	1,138	948
Deferred tax:		
Origination of temporary differences (note 18)	(380)	1
Total deferred tax	(380)	1
Total income tax expense	758	949

With effect from April 1, 2012 the standard rate of corporation tax will be reduced to 25% from 26%, the applicable corporation tax rate for the year 2012 will be 25.25%

	2011 £000	2010 £000
(b) Tax charge/(credit) to equity		
Current tax	30	(11)
Total tax charge/(credit) to equity	30	(11)

	2011 £000	2010 £000
(c) Reconciliation of tax charge		
Profit before tax	2,955	3,426
Tax at 26.5% (2010: 28%)	783	959
Tax effect of:		
Disallowable expenses	(19)	–
Prior year adjustment	395	–
Adjustments to provisions	(362)	(10)
Capital allowances in excess of depreciation	(39)	–
Total tax charge for the year	758	949

	2011 £000	2010 £000
(d) Tax paid for cash flow purposes		
Current tax payable at January 1	937	1,442
Amounts charged to the income statement	758	949
Amounts credited to equity	30	(11)
Movement in the deferred tax liability in the income statement	380	(1)
Tax paid during the year	(1,320)	(1,442)
Current tax payable at December 31	785	937

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

8. Deferred acquisition costs

	2011 £000	2010 £000
At January 1	1,058	731
Costs deferred during the year	1,957	2,233
Amortisation charge for the year	(1,959)	(1,906)
At December 31	1,056	1,058

9. Reinsurance assets

	Note	2011 £000	2010 £000
Reinsurers' share of insurance contracts liabilities	16	8,452	8,440
Total reinsurance assets		8,452	8,440

10. Accrued income

	2011 £000	2010 £000
Interest	597	319
Total accrued income	597	319

11 Financial assets

	2011 £000	2010 £000
Available for sale financial assets		
At fair value		
Debt securities		
Listed	37,024	31,313
Total debt securities at fair value	37,024	31,313
Deposits with credit institutions	322	319
Total available for sale financial assets at fair value	37,346	31,632
At cost		
Debt securities		
Listed	36,129	30,573
Total debt securities at amortised cost	36,129	30,573
Deposits with credit institutions	322	319
Total available for sale financial assets at cost	36,451	30,892

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

12. Insurance receivables

	2011 £000	2010 £000
Due from policyholders	1,706	1,168
Due from agents, brokers and intermediaries	293	114
Total insurance receivables	1,999	1,282
	2011 £000	2010 £000
Current insurance receivables	1,999	1,282
Non current insurance receivables	–	–

The carrying amounts disclosed above reasonably approximate fair values at year end

13. Other receivables

	2011 £000	2010 £000
Other	3	–
Total other receivables	3	–
	2011 £000	2010 £000
Current other receivables	3	–

The carrying amounts disclosed above reasonably approximate fair values at year end

14 Cash and cash equivalents

	2011 £000	2010 £000
Cash at bank	669	1,489
Short-term deposits (including demand and time deposits)	3,160	3,302
Total cash and cash equivalents	3,829	4,791

All deposits are subject to an average variable interest rate of 0.6% (2010: 0.5%) and have an average maturity of 1 days (2010: 1 days). The carrying amounts disclosed above reasonably approximate fair values at year end.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

15. Share capital

	Allotted, issued and fully paid	
	2011	2010
	£000	£000
Ordinary shares of £1 each	5,000	5,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company

16. Insurance contracts liabilities

	2011			2010		
	Insurance contracts liabilities £000	Reinsurers' share of liabilities £000	Net £000	Insurance contracts liabilities £000	Reinsurers' share of liabilities £000	Net £000
Provision for claims reported by policyholders	4,481	(3,028)	1,453	4,225	(3,020)	1,205
Provision for claims incurred but not reported	6,797	(5,424)	1,373	6,655	(5,420)	1,235
Total claims reported and IBNR	11,278	(8,452)	2,826	10,880	(8,440)	2,440
Provision for unearned premiums	3,667	–	3,667	3,488	–	3,488
Total general insurance contracts liabilities	14,945	(8,452)	6,493	14,368	(8,440)	5,928
Current general insurance contracts liabilities	5,084	(845)	4,239	6,447	(844)	5,603
Non current general insurance contracts liabilities	9,861	(7,607)	2,254	7,921	(7,596)	325

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

16. Insurance contracts liabilities (continued)

The provision for claims reported by policyholders and claims incurred but not yet reported may be analysed as follows

	2011			2010		
	Insurance contracts liabilities £000	Reinsurers' share of liabilities £000	Net £000	Insurance contracts liabilities £000	Reinsurers' share of liabilities £000	Net £000
At January 1	10,880	(8,440)	2,440	10,409	(8,000)	2,409
Foreign exchange adjustment	59	(59)	–	237	(237)	–
	10,939	(8,499)	2,440	10,646	(8,237)	2,409
Claims incurred in the current accident year	3,392	–	3,392	3,127	–	3,127
Movement on claims incurred in prior accident years	(1,160)	(59)	(1,219)	(1,123)	(311)	(1,434)
Claims paid during the year	(1,894)	106	(1,787)	(1,770)	108	(1,662)
At December 31	11,278	(8,452)	2,826	10,880	(8,440)	2,440

The provision for unearned premiums may be analysed as follows

	2011			2010		
	Insurance contracts liabilities £000	Reinsurers' share of liabilities £000	Net £000	Insurance contracts liabilities £000	Reinsurers' share of liabilities £000	Net £000
At January 1	3,488	–	3,488	3,336	–	3,336
Premiums written in the year	7,234	(3)	7,231	6,926	(101)	6,825
Premiums earned during the year	(7,055)	3	(7,052)	(6,774)	101	(6,673)
At December 31	3,667	–	3,667	3,488	–	3,488

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

17. Insurance contracts and reinsurance assets – terms, assumptions and sensitivities

British Reserve Insurance Company Limited writes Musical Instruments policies. Risks under these policies usually cover a 12 month period.

Claims provisions (comprising provisions for claims reported by policyholders and claims incurred but not yet reported) are established to cover the ultimate costs of settling the liabilities in respect of claims that have occurred and are estimated based on the known facts at the balance sheet date. These provisions are revised quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The provision for claims reported by policy holders is generally determined on a case by case basis.

The provision for claims incurred but not reported (IBNR) is estimated by the application of the chain ladder actuarial projection techniques.

Chain ladder methods may be applied to premiums, paid claims or incurred claims (i.e. paid claims plus individual reported projection case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative data for each year that is not fully developed to produce an estimated ultimate amount for each year. Chain ladder techniques are most appropriate for mature classes of business that have a relatively stable development pattern. They are less suitable in cases where an insurer does not have a developed history for the particular class of business.

Ultimately reserving methods allow for a combination of mathematical techniques and judgement based upon experience and knowledge of the business.

There can be considerable uncertainty associated with the future outcome of the outstanding claims. Variability can come from a number of sources, including but not limited to:

- More IBNR claims being reported than expected
- Current notified claims costing more to settle in future than expected due to higher inflation than expected, adverse legal rulings or adverse impact from future government legislation
- Claims handling costs being higher than expected

It is therefore prudent to hold reserves in excess of the mean of the distribution of possible outcomes, usually referred to as the best estimate. The reserves currently held are intended to give a high degree of confidence that there will be no adverse run-off impact on the results of subsequent financial periods.

The risk analysis work carried out as part of the Company's assessment of its capital needs and as part of the reserving work includes an assessment of the possible variability of the outcome of the cost of settling outstanding claims. This was carried out using various actuarial and statistical techniques, and was based upon the Company's historical claims experience.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

17. Insurance contracts and reinsurance assets – terms, assumptions and sensitivities (continued)

Loss development triangle

Reproduced below are tables that show the development of claims over a period of time on both gross and net of reinsurance basis. The tables show that cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at each balance sheet date, together with cumulative claims as at the current balance sheet date. In the loss development triangles, the cumulative estimates and payments for each accident year are translated into pounds sterling at the exchange rates that applied at the end of each accident year.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

17. Insurance contracts and reinsurance assets – terms, assumptions and sensitivities (continued)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Gross of reinsurance	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Accident year	8,620	12,385	14,763	5,968	4,746	20,491	22,776	16,941	3,138	3,392	
One year later	8,175	11,717	13,694	5,053	1,858	16,075	18,576	17,501	1,767		
Two years later	8,167	11,714	13,653	4,795	1,760	16,051	18,501	17,569			
Three years later	8,170	11,714	13,652	4,796	1,814	16,064	16,561				
Four years later	8,177	11,708	13,648	4,778	1,773	16,075					
Five years later	8,154	11,711	13,666	4,788	1,786						
Six years later	8,157	11,710	13,644	4,792							
Seven years later	8,163	11,698	13,645								
Eight years later	8,155	11,698									
Nine years later	8,155										
Current estimate of cumulative claims	8,155	11,698	13,645	4,792	1,786	16,075	16,561	17,569	1,767	3,392	95,441
Cumulative payments to date	(8,155)	(11,690)	(13,623)	(4,753)	(1,759)	(16,030)	(16,548)	(17,467)	(1,556)	(1,265)	92,847
Reserve in respect of prior years	—	—	—	—	—	—	—	—	—	—	8,684
Total gross liability as per the balance sheet (see note 16)	—	8	22	39	27	45	13	102	211	2,127	11,278

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Net of reinsurance	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Accident year	2,029	2,480	2,635	2,898	3,188	3,266	3,423	1,272	3,137	3,392	
One year later	1,584	1,897	1,566	1,988	1,858	1,745	4,019	1,832	1,767		
Two years later	1,577	1,893	1,525	1,730	1,760	1,720	1,944	1,899			
Three years later	1,579	1,893	1,524	1,731	1,814	1,734	2,004				
Four years later	1,586	1,887	1,520	1,713	1,773	1,745					
Five years later	1,563	1,890	1,538	1,723	1,786						
Six years later	1,566	1,889	1,516	1,727							
Seven years later	1,572	1,877	1,516								
Eight years later	1,564	1,877									
Nine Years later	1,564										
Current estimate of cumulative claims	1,564	1,877	1,516	1,727	1,786	1,745	2,004	1,899	1,767	3,392	19,277
Cumulative payments to date	(1,564)	(1,869)	(1,495)	(1,688)	(1,759)	(1,700)	(1,991)	(1,798)	(1,555)	(1,265)	(16,684)
Reserve in respect of prior years	—	—	—	—	—	—	—	—	—	—	233
Total net liability as per the balance sheet (see note 16)	—	8	21	39	27	45	13	101	212	2,127	2,826

Whilst the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimates established on previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding at the end of 2011 is adequate. However, due to the inherent uncertainties in the provisioning process, it can not be assured they such balances will ultimately prove to be sufficient.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

18. Tax assets and liabilities

	2011 £000	2010 £000
Deferred tax (asset)/liability	(20)	360
Tax payable	785	937
Total tax liability	765	1,297

	2011 £000	2010 £000
(a) Deferred tax (asset)/liability		
At January 1	360	359
Claims equalisation reserve	(9)	1
Provisions and other temporary differences	(371)	
At December 31	(20)	360

	2011 £000	2010 £000
At January 1	360	359
Amounts charged to the income statement	(380)	1
At December 31	(20)	360

	2011 £000	2010 £000
(b) Tax payable		
At January 1	937	1,442
Amounts charged to the income statement	1,138	948
Amounts credited to equity	30	(11)
Tax payments during the year	(1,320)	(1,442)
At December 31	785	937

	2011 £000	2010 £000
Current tax payable	785	937
Non current tax payable	–	–

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

19. Insurance related payables

	2011 £000	2010 £000
Arising out of direct insurance operations		
Third parties	46	7
	46	7
Total other insurance financial liabilities	46	7
	2011 £000	2010 £000
Current	46	7
Non-current	–	–

20. Accruals and other payables

	2011 £000	2010 £000
Amounts due to related parties	9,500	6,423
Other	865	589
Total accruals and other payables	10,365	7,012

The estimated fair values of the amounts payable are the amounts repayable on demand and are the amounts as recorded at year end

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

21 Cash generated from operating activities

	Notes	2011 £000	2010 £000
Net profit before tax		2,955	3,426
Investment income (including realised gains)	4	(1,008)	(969)
<i>Non cash items</i>			
Amortisation of deferred acquisition costs	8	1,959	1,906
Amortisation of available for sale financial assets		368	253
Net acquisition costs deferred during the year	8	(1,957)	(2,233)
Currency gains		(1)	(97)
Purchase of available for sale financial assets		(14,916)	(7,812)
Proceeds from sale of available for sale financial assets		9,005	6,396
<i>Changes in working capital</i>			
Decrease/(increase) in reinsurance assets	16	47	(203)
Increase in accrued income		(279)	(319)
(increase)/decrease in insurance receivables	12	(717)	739
(Increase)/decrease in other receivables	13	(3)	1
Increase/(decrease) in insurance contracts liabilities	16	518	386
Increase/(decrease) in insurance related payables	19	39	(1,411)
Increase/(decrease) in accruals and other payables	20	3,353	2,195
Cash generated from operations		(637)	2,258

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

22. Risk management policies

The Company underwrites musical instrument and other specialist insurance in the United Kingdom where the majority of risk exposure is confined. The Company at one point underwrote London Market business but terminated this activity in the 1980's. There are a number of ongoing Asbestosis, Pollution and Disease exposures but the run off of this business is wholly reinsured to the Company's former parent, a fellow member of the Allianz Group. The Company also underwrote a broadly based Fire and Accident account but this business was put into run off in the late 1980's.

Insurance risk

The risk under an insurance contract is the risk that an insured event will occur, including the adequacy of the price charged for the risk and uncertainty as to the amount and time of any resulting claim. The principal risk that the Company faces under such contracts is that the actual claims will exceed the carrying value of insurance contracts liabilities. This is influenced by the frequency of claims, severity of claims and other factors dependant upon the type of the insurance contract. By the nature of an insurance contract, insurance risk is random and unpredictable therefore the actual claims costs may exceed the estimated insurance liabilities.

Risk exposure is improved by diversification across a large portfolio of similar insurance contracts, as a more diversified portfolio is less likely to be affected by specific events. Exposure is also improved by careful selection and implementation of underwriting strategies, strict claim review policies to assess all new and on going claims, as well as the careful investigation of possible fraudulent claims.

The price charged for an insurance contract is determined using actuarial techniques which take into account past experience, anticipated loss ratios, claims frequency, expected claims inflation, reinsurance costs and other relevant influences such as the Company's required return on capital. For some products the market is highly competitive and the rate determined by the application of actuarial techniques will not necessarily be obtainable. In these circumstances, the Company seeks to minimise the impact of uneconomic rates by strictly controlling the amount of business it writes in these segments and by seeking profitable niches within the segment. The Company has and will withdraw from segments of the market which do not offer the prospect of an acceptable return on capital over the medium term.

The Company limits its exposure to insured events by imposing maximum claim limits on insurance contracts. In addition, through the use of non proportional reinsurance protection the Company limits its maximum exposure to individual loss events and to catastrophic events such as weather related claims. Maximum exposure is limited to £1.7m (2010 £0.3m) of property claims. The Company uses its risk data to populate proprietary models to determine the maximum reinsurance protection it should purchase to protect its capital base from major catastrophe losses.

The Company participates in a Group reinsurance arrangement where exposure to a single catastrophe event is £590m (2010 £530m). In order to protect its risk capital from extreme events the Group also purchases catastrophe reinsurance for loss events in excess of £590m (2010 £530m) up to a limit of £1,140m (2010 £1,018m).

The purpose of these underwriting and reinsurance strategies is to limit exposure to a series of unconnected events and catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by the Board.

As detailed below under Financial – b) credit risk, reinsurance placement is limited to a small number of highly regarded reinsurers in order to ensure as far as possible that reinsurance claims are met in full. Members of the Allianz SE Group of companies are the Company's largest reinsurers.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2010

22. Risk management policies (continued)

The following table sets out the Company's concentration of insurance risk by contract

	Gross £000	Reinsurers' share £000	Net £000
Claims liabilities 2011			
Speciality pecuniary	2,593	–	2,593
Other	8,685	(8,452)	233
Total	11,278	(8,452)	2,826

	Gross £000	Reinsurers' share £000	Net £000
Claims liabilities 2010			
Speciality pecuniary	2,189	–	2,189
Other	8,691	(8,440)	251
Total	10,880	(8,440)	2,440

Note 18 sets out the development of the estimate of ultimate claims cost for claims notified in a given year. This gives an indication of the accuracy of the Company's estimation techniques for claims payments.

Financial risk

The Company is exposed to financial risk through its financial assets, reinsurance assets, insurance receivables and cash and cash equivalents held primarily to meet obligations under insurance contract liabilities. The key financial risk is that the proceeds from the realisation of assets are insufficient to meet the obligations under its insurance contracts. The most important aspects of financial risks comprise market risk, credit risk and liquidity risk.

a) Market Risk

Market risk is the risk that changes in market prices will affect the value of the Company's assets and income. The Company's liabilities have very limited exposure to these movements. The Company is exposed to market risk on all of its financial assets.

The Company manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholders' funds. A substantial part of the Company's financial assets are invested in available for sale fixed interest securities. These are quoted on a recognised stock exchange and are readily tradable. The Company has no direct exposure to Collateralised Debt Obligations, off balance sheet vehicles or any form of hybrid security. The Company does not invest in equity or property markets.

i) Interest rate risk

Interest rate risk is the risk that interest rates will change, adversely affecting the market value of the fixed interest portfolio and consequently the value of the assets that the Company has available to meet insurance contract liabilities. None of the Company's general insurance contracts include benefits which involve contractual interest payments.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

22. Risk management policies (continued)

Interest rate risk is managed by matching the duration of the fixed interest and cash and cash equivalents portfolios against the average duration of the insurance contracts liabilities. At December 31, 2011 the average duration of the fixed interest and cash and cash equivalent portfolios was 1.7 years (2010: 2.0 years) compared with the mean duration of the insurance contracts liabilities which is estimated to be 0.8 years (2010: 0.7 years).

ii) Equity risk

The Company does not invest in equity markets.

iii) Currency risk

Currency risk is the risk that fluctuations in exchange rates may lead to a material change in the value of currency denominated assets or liabilities. Currency risk is small as the majority of the Company's insurance contracts and insurance risks are either concluded or situated in the United Kingdom.

The Company has a policy of broadly matching its currency liabilities with assets denominated in the same currency in order to minimise currency risk. Excess currency assets are held to enable payments in currency to be made ahead of the reinsurance recovery which may take several months. Rebalancing of net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values. At December 31, the largest currency exposures were:

	2011 £000	2010 £000
US Dollars		
Assets	11,055	12,419
Liabilities	8,951	9,040

iv) Sensitivity to market risk

The table below shows the sensitivity of the Company's profit or loss (before tax) and equity to changes in market risk factors:

	2011 Profit/(loss) £000	2011 Equity £000	2010 Profit/(loss) £000	2010 Equity £000
Interest rate risk				
+100 basis points shift in yield curves	–	(456)	–	(374)
-100 basis points shift in yield curves	–	480	–	387
Currency risk				
10% increase in US Dollar	210	154	338	243
10% decrease in US Dollar	(210)	(154)	(338)	(243)

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

23. Risk management policies (continued)

b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. Key areas where the Company is exposed to credit risk are

- Counterparty risk in respect of debt securities, cash and cash equivalents
- Reinsurers' share of insurance liabilities
- Amounts due from reinsurers in respect of claims already paid
- Amounts due from insurance intermediaries and policyholders

The Company manages credit risk for financial assets (other than for amounts invested in government securities) and cash and cash equivalents by limiting the amount of exposure to individual counterparties. This is achieved through applying a comprehensive series of limits, determined after taking into account publicly available credit ratings and other information considered relevant. These limits are dependant upon credit rating and restrict the exposure of financial assets to each counterparty or where the counterparty is a member of a group, the exposure to the group. The broad strategy is to limit the credit risk to tolerable levels whilst at the same time taking limited and controlled advantage of the additional returns which are available for additional risk.

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment to the policyholder. In view of the potential long term exposure from insurance risks, reinsurance security is limited to a small number of highly regarded reinsurers that offer the best long term security. Reinsurance is only placed with companies that meet the Company's strict security criteria. Some reinsurance is placed with the captive reinsurance companies of the Company's major clients. Where there is significant or potentially significant exposure to an individual captive, additional measures which ensure the captives funds are diversified and prioritised for the payment of the insured liabilities are in place. The largest counterparty risk at December 31, 2011 was £8.5m (2010: £8.4m).

Insurance receivables are closely monitored via the credit control process. For amounts due from brokers, credit terms are applied which are determined by a range of factors including the type of business, size of account and financial standing. For policyholders, credit is managed so that the amount due is matched to the expired risk. Where amounts fall outside credit terms a full range of credit control procedures are applied. Where these are not successful, the debt is impaired.

The following table provides information regarding the credit risk exposure of the Company at December 31, by classifying assets according to the credit ratings of counterparties.

	AAA	AA	A	BBB	BB	Captive	Not rated	Total
2011	£000	£000	£000	£000	£000	£000	£000	£000
Reinsurance assets	–	–	–	8,452	–	–	–	8,452
Available for sale financial assets	36,262	299	463	–	–	–	–	37,024
Deposit with credit institutions	–	322	–	–	–	–	–	322
Insurance receivables	–	–	–	–	–	–	1,999	1,999
Cash and cash equivalents	3,160	669	–	–	–	–	–	3,829
Total £000	39,422	1,290	463	8,452	–	–	1,999	51,626
Percent	76.4	2.5	0.9	16.4	–	–	3.8	100.0

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

22. Risk management policies (continued)

2010	AAA £000	AA £000	A £000	BBB £000	BB £000	Captive £000	Not rated £000	Total £000
Reinsurance assets	–	8,440	–	–	–	–	–	8,440
Available for sale financial assets	30,835	478	–	–	–	–	–	31,313
Deposit with credit institutions	–	319	–	–	–	–	–	319
Insurance receivables	–	–	–	–	–	–	1,282	1,282
Cash and cash equivalents	–	2,791	2,000	–	–	–	–	4,791
Total £000	30,835	12,028	2,000	–	–	–	1,282	46,145
Percent	66.8	26.1	4.3	–	–	–	2.8	100.0

The following table shows a three-level fair value hierarchy for financial assets depending on the inputs used to determine fair value

	Thereof Fair value measurements using			
	Level 1	Level 2	Level 3	
	Quoted prices in active markets	Valuation technique- market observable inputs	Valuation technique- non-market observable inputs	
	Fair value of as December 31, 2011			
	£'000	£'000	£'000	£'000
Available for sale financial assets				
Government and government agency bonds	24,818	24,818	–	–
Corporate bonds	12,206	4,729	7,477	–
Deposits with credit institutions	322	322	–	–
Total	37,346	29,869	7,477	–

The following table provides information on the carrying value of reinsurance assets and insurance receivables. The Company has no financial assets or cash and cash equivalents that are impaired.

	Reinsurance assets 2011 £000	Insurance receivables 2011 £000	Reinsurance assets 2010 £000	Insurance receivables 2010 £000
Neither past due or impaired	8,452	2,154	8,440	1,282
General bad debt provision	–	(155)	–	–
Total	8,452	1,999	8,440	1,282

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

22. Risk management policies (continued)

c) Liquidity risk

Liquidity risk is the risk that cash might not be available to pay obligations when they fall due at a reasonable cost. The Company is exposed to daily calls on its available cash resources mainly from claims arising on insurance contracts. The investment strategy is to maintain sufficient levels of cash and cash equivalents to meet all foreseeable immediate demand. The market value of the Company's financial assets at December 31, 2011 amounted to £37.3m (2010: £31.6m) plus cash and cash equivalents of £3.8m (2010: £4.8m). All of the financial assets are held as available for sale and along with cash and cash equivalents are readily realisable. As a result the Company's exposure to potential liquidity risk is extremely low and in the various risk capital models used by the Company no capital is allocated to this risk.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk.

Compliance with Company standards is supported by a programme of periodic reviews.

Capital Management

The Company maintains sufficient capital to protect policyholders' and creditors' interests and satisfy regulators whilst creating shareholder value.

The Company is supervised by the Financial Services Authority (FSA) which sets out certain minimum capital requirements. It is the Company's policy to hold capital well in excess of that specified by the FSA plus a margin to absorb changes in both capital and capital requirements.

There have been no material changes in the Company's management of capital during the period.

The Company capital comprises total shareholders' equity excluding the level of dividends to ordinary shareholders and amounts to £27.2m (2010: £24.8m).

The Company has complied with all externally and internally imposed capital requirements throughout the period.

British Reserve Insurance Company Limited

Notes to the financial statements for the year ended December 31, 2011

23. Ultimate parent undertaking

The ultimate parent undertaking, Allianz Societas Europaea, is incorporated in Germany and copies of the Group accounts are available on request from that company at Königinstrasse 28, 80802 München, Germany

Allianz Holdings plc is the parent undertaking of the smallest group of undertakings which the Company is a member and for which group accounts are drawn up. Allianz Holdings plc is incorporated in England and Wales and the Group accounts are available on request from the Company Secretary, 57 Ladymead, Guildford, Surrey GU1 1DB

24. Contingencies and commitments

Legal proceedings and regulations

The Company operates in the insurance industry and is subject to legal proceedings in the normal course of business. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, management does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

25. Related party transactions

Transactions and balances from or to related parties

The Company enters into transactions with fellow group undertakings and key management personnel in the normal course of business. Details of significant transactions carried out during the year with related parties are as follows:

	2011 £000	2010 £000
Transaction entered into with related parties		
Administration and claims handling services received from fellow subsidiary company	2,392	2,329
Reinsurance premiums paid to parent	3	101
Group tax relief from other related parties, fellow subsidiary company	–	937

Reinsurance contracts are made at normal arm length's transaction basis.

Year end balances arising from transactions carried out with related parties are as follows:

	2011 £000	2010 £000
Due to related parties		
Parent company		
As at January 1	4,799	4,560
Increase during the year	2,656	239
As December 31	7,455	4,799
Fellow subsidiary companies		
As at January 1	1,624	1,290
Increase during the year	421	334
As December 31	2,045	1,624