

Registered Number: 307622

Directors' Report and Accounts 2014

British Reserve Insurance Company Limited

THURSDAY



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COMPANIES HOUSE

Directors: N D Brettell

S J Brimicombe

M J Churchlow

J M Dye

Secretary: R C Jack-Kee

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

Registered Number: 307622

Strategic Report

The Directors present their Strategic Report for the year ended December 31, 2014.

Principal activities and review of the business

The Company is authorised to underwrite most classes of general insurance business. The Company is an FCA and PRA regulated insurer. 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 2014.

During 2014, the underwriting of the Allianz Musical Instruments business was moved to Allianz Insurance Plc. This transfer is expected to complete during 2015 and therefore the gross written premiums for 2015 are expected to be minimal. The run-off of claims related to this business will continue throughout 2015.

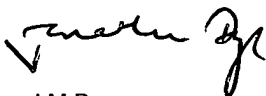
The results for the year are set out in the Income Statement on page 6. The profit for the year amounted to £4.2m (2013: £2.7m). At the year end, the Company had net assets of £37.8m (2013: £32.8m).

Principal risks and uncertainties

The principal risks facing the Company are Insurance risk and Financial risk.

The Company's policies in respect of the management of these risks and uncertainties are set out in Note 22 on page 27.

By order of the Board



J M Dye
Director

March 13, 2015

Directors' Report

The Directors present their Directors' Report and audited financial statement for the year ended December 31, 2014.

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, 2014 (2013: £nil).

Financial instruments

The Company's policies in respect of its use of financial instruments are set out in Note 22 on page 27.

Directors

The names of the current Directors are shown on page 1. All served throughout this period save for N D Brettell who served from his appointment as a Director on March 17, 2014.

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.

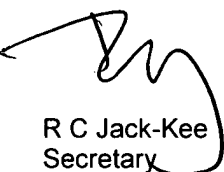
Directors' responsibility to the auditors

So far as the Directors are aware there is no relevant audit information of which the Company auditor is 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 auditor is aware of that information.

Auditors

During the year, KPMG Audit Plc resigned as auditors of the Company and were replaced by KPMG LLP. In accordance with section 487 of the Companies Act 2006, the auditors will be deemed reappointed and KPMG LLP will therefore continue in office.

By order of the Board



R C Jack-Kee
Secretary

March 13, 2015

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

The Directors are responsible for preparing the Strategic Report, 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.

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, 2014 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 Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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, 2014 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 Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 Raisbeck (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

March 13, 2015

Statement of comprehensive income for the year ended December 31, 2014

	Notes	2014 £000	2013 £000
Gross earned premiums	3	8,055	7,846
Reinsurers' share of gross earned premiums	3	(9)	(11)
Net insurance revenue		8,046	7,835
Net realised gains		11	21
Currency gains/(losses)		124	(50)
Investment income	4	835	931
Other revenue		970	902
Total revenue		9,016	8,737
Gross insurance claims paid		(2,101)	(3,379)
Reinsurers' share of gross insurance claims paid		377	1,466
Gross change in insurance liabilities		2,248	3,659
Reinsurers' share of gross change in insurance liabilities		(776)	(3,955)
Net insurance claims		(252)	(2,209)
Commission		(678)	(633)
Other operating and administrative expenses	5	(2,737)	(2,338)
Other expenses		(3,415)	(2,971)
Total claims and expenses		(3,667)	(5,180)
Profit before tax		5,349	3,557
Income tax expense	7	(1,141)	(829)
Net profit for the year wholly attributable to the equity holders		4,208	2,728
Other comprehensive income			
Net change in fair value of available for sale financial assets		933	(1,147)
Net change in fair value of available for sale financial assets transferred to profit and loss		(57)	–
		876	(1,147)
Tax on fair value of available for sale financial assets movement	7	(178)	289
Other comprehensive income for the period, net of tax		698	(858)
Total comprehensive income for the period		4,906	1,870

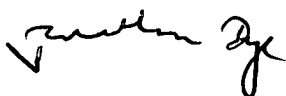
The notes on pages 10 to 34 are an integral part of these financial statements

Balance sheet as at December 31, 2014

	Notes	2014 £000	2013 £000
Assets			
Deferred tax asset	18 (a)	–	3
Deferred acquisition costs	8	932	1,565
Reinsurance assets	9	3,057	3,629
Accrued income	10	400	538
Available for sale financial assets	11	38,603	37,088
Insurance receivables	12	2,209	2,371
Other receivables	13	4,561	23
Cash and cash equivalents	14	748	430
Total assets		50,510	45,647
Equity and Liabilities			
Issued capital and reserves attributable to equity holders of the parent			
Share capital	15	5,000	5,000
Fair value reserve		1,162	464
Retained earnings		31,592	27,384
Total equity		37,754	32,848
Liabilities			
Deferred tax liability	18(a)	274	–
Insurance contracts liabilities	16	7,844	10,406
Insurance related payables	19	–	2
Tax payable	18 (b)	1,036	539
Accruals and other payables	20	3,602	1,852
Total liabilities		12,756	12,799
Total liabilities and shareholders' equity		50,510	45,647

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 13, 2015 and signed on its behalf by:



J M Dye
Director

Statement of cash flows for the year ended December 31, 2014

	Notes	2014 £000	2013 £000
Cash generated from operations			
Cash generated from operating activities	21	60	(1,377)
Interest received		835	931
Income tax paid	18(b)	(545)	(1,206)
Net cash flow from operating activities		350	(1,652)
Net increase/(decrease) in cash and cash equivalents		350	(1,652)
Cash and cash equivalents at the beginning of the year		430	2,113
Effects of exchange rate changes on cash and cash equivalents		(32)	(31)
Cash and cash equivalents at the end of the year		748	430

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

Statement of changes in equity for the year ended December 31, 2014

	Share capital £000	Fair value reserve £000	Retained earnings £000	Total £000
Balance as at January 1, 2013	5,000	1,322	24,656	30,978
Net change in fair value of available for sale	–	(1,147)	–	(1,147)
Tax on fair value of available for sale financial assets movement	–	289	–	289
Net profit for the year	–	–	2,728	2,728
Total recognised income for the year	–	(858)	2,728	1,870
Balance as at December 31, 2013	5,000	464	27,384	32,848
Net change in fair value of available for sale	–	933	–	933
Net change in fair value of available for sale transferred to profit or loss	–	(57)	–	(57)
Tax on fair value of available for sale financial assets movement	–	(178)	–	(178)
Net profit for the year	–	–	4,208	4,208
Total recognised income for the year	–	698	4,208	4,906
Balance as at December 31, 2014	5,000	1,162	31,592	37,754

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

Notes to the financial statements for the year ended December 31, 2014

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, 2014 were authorised for issue in accordance with a resolution of the Directors on March 13, 2015.

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.

Notes to the financial statements for the year ended December 31, 2014

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.

Notes to the financial statements for the year ended December 31, 2014

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 (I). 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.

Notes to the financial statements for the year ended December 31, 2014

1. Accounting Policies (continued)

(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 dependent on both the probability of an insured event and the magnitude of its potential effect.

(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.

Notes to the financial statements for the year ended December 31, 2014

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.

Notes to the financial statements for the year ended December 31, 2014

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 £4,268k (2013: £6,312k).

Notes to the financial statements for the year ended December 31, 2014

3. Net insurance revenue

		2014	2013
	Note	£000	£000
(a) Gross written premiums			
Direct insurance		7,537	8,039
Total general insurance contracts premium revenue	16	7,537	8,039
Gross change in unearned premium provision	16	518	(193)
Total gross earned premiums		8,055	7,846
(b) Reinsurers' share of gross written premiums			
Direct insurance		(9)	(11)
Total reinsurers' share of general insurance contracts premium revenue	16	(9)	(11)
Total reinsurers' share of gross earned premiums on insurance contracts		(9)	(11)
Total net insurance revenue		8,046	7,835

4. Investment income

	2014	2013
	£000	£000
Available for sale financial assets interest income	835	931
Total investment income	835	931

5. Other operating and administrative expenses

	2014	2013
	£000	£000
Acquisition costs	1,199	1,969
Movement in deferred acquisition costs	633	(376)
Administration expenses	905	745
Total other operating and administrative expenses	2,737	2,338

Notes to the financial statements for the year ended December 31, 2014**6. Auditors remuneration**

In respect of the Company for the year ended December 31, 2014 auditors' remuneration in their capacity as such, amounted to £4,100 (2013: £4,100).

7. Income tax expense

	2014 £000	2013 £000
(a) Current year tax charge		
Current tax:		
United Kingdom corporation tax charge @ 21.5% (2013: 23.25%)	864	814
Total current tax	864	814
Deferred tax:		
Origination of temporary differences (note 18)	277	15
Total deferred tax	277	15
Total income tax expense	1,141	829

With effect from April 1, 2015 the standard rate of corporation tax will be reduced to 20% from 21%, the applicable corporation tax rate for the year 2015 will be 20.25%.

	2014 £000	2013 £000
(b) Tax charged/(credited) to equity		
Current tax	178	(289)
Total tax charged/(credited) to equity	178	(289)

	2014 £000	2013 £000
(c) Reconciliation of tax charge		
Profit before tax	5,349	3,557
Tax at 21.5% (2013: 23.25%)	1,150	827
Tax effect of:		
Transfer pricing adjustment	1	(8)
Prior year adjustment	(10)	10
Total tax charge for the year	1,141	829

	2014 £000	2013 £000
(d) Tax paid for cash flow purposes		
Current tax payable at January 1	539	1,220
Amounts charged to the income statement	1,141	829
Amounts charged/(credited) to equity	178	(289)
Movement in the deferred tax liability in the income statement	(277)	(15)
Tax paid during the year	(545)	(1,206)
Current tax payable at December 31	1,036	539

Notes to the financial statements for the year ended December 31, 2014**8. Deferred acquisition costs**

	2014 £000	2013 £000
At January 1	1,565	1,189
Costs deferred during the year	1,877	2,978
Amortisation charge for the year	(2,510)	(2,602)
At December 31	932	1,565

9. Reinsurance assets

	Note	2014 £000	2013 £000
Reinsurers' share of insurance contracts liabilities	16	3,057	3,629
Total reinsurance assets		3,057	3,629

10. Accrued income

	2014 £000	2013 £000
Interest	400	538
Total accrued income	400	538

11. Financial assets

	2014 £000	2013 £000
Available for sale financial assets		
At fair value		
Debt securities		
Listed	38,282	36,786
Total debt securities at fair value	38,282	36,786
Deposits with credit institutions	321	302
Total available for sale financial assets at fair value	38,603	37,088

At cost		
Debt securities		
Listed	36,801	36,182
Total debt securities at amortised cost	36,801	36,182
Deposits with credit institutions	321	302
Total available for sale financial assets at cost	37,122	36,484

Notes to the financial statements for the year ended December 31, 2014**12. Insurance receivables**

	2014 £000	2013 £000
Due from policyholders	2,154	2,318
Due from agents, brokers and intermediaries	55	53
Total insurance receivables	2,209	2,371

	2014 £000	2013 £000
Current insurance receivables	2,209	2,371

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

13. Other receivables

	2014 £000	2013 £000
Amounts due from related parties	4,551	–
Other	10	23
Total other receivables	4,561	23

	2014 £000	2013 £000
Current other receivables	4,561	23

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

14. Cash and cash equivalents

	2014 £000	2013 £000
Cash at bank	748	430
Total cash and cash equivalents	748	430

All deposits are subject to an average variable interest rate of 0% (2013: 0%) and have an average maturity of 1 day (2013: 1 day). The carrying amounts disclosed above reasonably approximate fair values at year end.

Notes to the financial statements for the year ended December 31, 2014**15. Share capital**

	Allotted, called up and fully paid	
	2014	2013
	£000	£000
5,000,000 Ordinary shares of £1 each	5,000	5,000

16. Insurance contracts liabilities

	2014			2013		
	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	1,946	(888)	1,058	2,154	(1,051)	1,103
Provision for claims incurred but not reported	2,322	(2,169)	153	4,158	(2,578)	1,580
Total claims reported and IBNR	4,268	(3,057)	1,211	6,312	(3,629)	2,683
Provision for unearned premiums	3,576	–	3,576	4,094	–	4,094
Total general insurance contracts liabilities	7,844	(3,057)	4,787	10,406	(3,629)	6,777
Current general insurance contracts liabilities	3,230	(306)	2,924	4,794	(363)	4,431
Non current general insurance contracts liabilities	4,614	(2,751)	1,863	5,612	(3,266)	2,346

Notes to the financial statements for the year ended December 31, 2014**16. Insurance contracts liabilities (continued)**

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

	2014			2013		
	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	6,312	(3,629)	2,683	10,151	(7,764)	2,387
Foreign exchange adjustment	204	(204)	–	(180)	180	–
	6,516	(3,833)	2,683	9,971	(7,584)	2,387
Claims incurred in the current accident year	1,794	–	1,794	3,501	–	3,501
Movement on claims incurred in prior accident years	(1,941)	399	(1,542)	(3,781)	2,489	(1,292)
Claims paid during the year	(2,101)	377	(1,724)	(3,379)	1,466	(1,913)
At December 31	4,268	(3,057)	1,211	6,312	(3,629)	2,683

The provision for unearned premiums may be analysed as follows:

	2014			2013		
	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	4,094	–	4,094	3,901	–	3,901
Premiums written in the year	7,537	(9)	7,528	8,039	(11)	8,028
Premiums earned during the year	(8,055)	9	(8,046)	(7,846)	11	(7,835)
At December 31	3,576	–	3,576	4,094	–	4,094

Notes to the financial statements for the year ended December 31, 2014

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.

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.

Notes to the financial statements for the year ended December 31, 2014

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

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Gross of reinsurance	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Accident year	5,968	4,746	20,491	22,776	16,941	3,138	3,392	3,205	3,454	1,739	
One year later	5,053	1,858	16,075	18,576	17,501	1,767	1,712	1,645	2,034		
Two years later	4,795	1,760	16,051	16,501	17,569	1,570	1,680	1,645			
Three years later	4,796	1,814	16,064	16,561	17,483	1,565	1,678				
Four years later	4,778	1,773	16,075	16,547	17,482	1,564					
Five years later	4,788	1,786	16,025	16,547	17,482						
Six years later	4,792	1,766	16,025	16,547							
Seven years later	4,753	1,766	16,025								
Eight years later	4,753	1,766									
Nine years later	4,753										
Ten years later											
Current estimate of cumulative claims	4,753	1,766	16,025	16,547	17,482	1,564	1,678	1,645	2,034	1,739	65,233
Cumulative payments	(4,753)	(1,766)	(16,025)	(16,547)	(17,482)	(1,564)	(1,678)	(1,639)	(1,982)	(1,239)	(64,675)
Reserve in respect of prior years											3,710
Total gross liability as per the balance sheet (see note 16)	-	-	-	-	-	-	-	6	52	500	4,268

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Net of reinsurance	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Accident year	2,898	3,188	3,266	3,423	1,272	3,137	3,392	3,205	3,454	1,739	
One year later	1,988	1,858	1,745	4,019	1,832	1,767	1,711	1,645	2,034		
Two years later	1,730	1,760	1,720	1,944	1,899	1,569	1,679	1,645			
Three years later	1,731	1,814	1,734	2,004	1,814	1,564	1,677				
Four years later	1,713	1,773	1,745	1,990	1,813	1,563					
Five years later	1,723	1,786	1,695	1,990	1,814						
Six years later	1,727	1,766	1,695	1,990							
Seven years later	1,688	1,766	1,695								
Eight years later	1,688	1,766									
Nine Years later	1,688										
Ten years later											
Current estimate of cumulative claims	1,688	1,766	1,695	1,990	1,814	1,563	1,677	1,645	2,034	1,739	17,611
Cumulative payments to date	(1,688)	(1,766)	(1,695)	(1,990)	(1,814)	(1,563)	(1,677)	(1,639)	(1,982)	(1,239)	(17,053)
Reserve in respect of prior years											653
Total net liability as per the balance sheet (see note 16)	-	-	-	-	-	-	-	6	52	500	1,211

Notes to the financial statements for the year ended December 31, 2014**17. Insurance contracts and reinsurance assets – terms, assumptions and sensitivities (continued)**

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 2014 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.

18. Tax assets and liabilities

	2014 £000	2013 £000
Deferred tax liability/(asset)	274	(3)
Tax payable	1,036	539
Total tax liability	1,310	536

	2014 £000	2013 £000
(a) Deferred tax liability/(asset)		
At January 1	(3)	(18)
Claims equalisation reserve	305	(30)
Provisions and other temporary differences	(28)	45
At December 31	274	(3)

With effect from April 1, 2015 the standard rate of corporation tax will be reduced to 20% from 21%, the applicable corporation tax rate for the year 2015 will be 20.25%.

	2014 £000	2013 £000
At January 1	(3)	(18)
Amounts charged to the income statement	277	15
At December 31	274	(3)

	2014 £000	2013 £000
(b) Tax payable		
At January 1	539	1,220
Amounts charged to the income statement	864	814
Amounts charged/(credited) to equity	178	(289)
Tax payments during the year	(545)	(1,206)
At December 31	1,036	539

	2014 £000	2013 £000
Current tax payable	1,036	539

Notes to the financial statements for the year ended December 31, 2014**19. Insurance related payables**

	2014 £000	2013 £000
Arising out of direct insurance operations		
Third parties	–	–
Arising out of Reinsurance operations	–	2
Total other insurance financial liabilities	–	2
	2014 £000	2013 £000
Current	–	2

20. Accruals and other payables

	2014 £000	2013 £000
Amounts due to related parties	2,948	668
Other	654	1,184
Total accruals and other payables	3,602	1,852

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

Notes to the financial statements for the year ended December 31, 2014

21. Cash generated from operating activities

	Notes	2014 £000	2013 £000
Net profit before tax		5,349	3,557
Investment income (including realised gains)	4	(846)	(952)
<i>Non cash items</i>			
Amortisation of deferred acquisition costs	8	2,510	2,602
Amortisation of available for sale financial assets		164	244
Net acquisition costs deferred during the year	8	(1,877)	(2,978)
Currency (gains)/losses		(124)	50
Purchase of available for sale financial assets		(11,014)	(9,034)
Proceeds from sale of available for sale financial assets		10,359	10,294
<i>Changes in working capital</i>			
Decrease in reinsurance assets	16	572	4,135
Decrease in accrued income		138	161
Decrease/(increase) in insurance receivables	12	162	(119)
(Increase)/decrease in other receivables	13	(4,538)	77
Decrease in insurance contracts liabilities	16	(2,562)	(3,646)
Decrease in insurance related payables	19	(2)	(144)
Increase/(decrease) in accruals and other payables	20	1,750	(5,616)
Increase/(decrease) in deposits with credit institutions		19	(8)
Cash generated from operations		60	(1,377)

Notes to the financial statements for the year ended December 31, 2014

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 dependent 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. 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 exposure to a single catastrophe event is £50m (2013: £50m).

The Company participates in a Group reinsurance arrangement offering protection for a single catastrophe event is up to a maximum claim of £646m (2013: £608m). In order to protect its risk capital from extreme events the Group also purchases catastrophe reinsurance for loss events in excess of £646m (2013: £608m) up to a limit of £766m (2013: £896m).

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.

Notes to the financial statements for the year ended December 31, 2014**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 2014			
Speciality pecuniary	559	–	559
Other	3,709	(3,057)	652
Total	4,268	(3,057)	1,211

	Gross £000	Reinsurers' share £000	Net £000
Claims liabilities 2013			
Speciality pecuniary	2,082	–	2,082
Other	4,230	(3,629)	601
Total	6,312	(3,629)	2,683

Note 17 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 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

Notes to the financial statements for the year ended December 31, 2014**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, 2014 the average duration of the fixed interest and cash and cash equivalent portfolios was 2.5 years (2013: 2.6 years) compared with the mean duration of the insurance contracts liabilities which is estimated to be 1.1 years (2013: 1.2 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:

	2014 £000	2013 £000
US Dollars		
Assets	4,669	5,222
Liabilities	(2,566)	(3,292)

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.

	2014 Profit/(loss) £000	2014 Equity £000	2013 Profit/(loss) £000	2013 Equity £000
Interest rate risk				
+100 basis points shift in yield curves	–	(889)	–	(668)
-100 basis points shift in yield curves	–	953	–	715
Currency risk				
10% increase in US Dollar	210	159	193	146
10% decrease in US Dollar	(210)	(159)	(193)	(146)

Notes to the financial statements for the year ended December 31, 2014

22. 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 dependent 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. The largest counterparty risk at December 31, 2014 was £3.1m (2013: £3.6m).

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
2014	£000	£000	£000	£000	£000	£000	£000	£000
Reinsurance assets	–	3,057	–	–	–	–	–	3,057
Available for sale financial assets	19,812	16,505	1,965	–	–	–	–	38,282
Deposit with credit institutions	–	321	–	–	–	–	–	321
Insurance receivables	–	–	–	–	–	–	2,209	2,209
Cash and cash equivalents	–	–	748	–	–	–	–	748
Total £000	19,812	19,883	2,713	–	–	–	2,209	44,617
Percent	44.4	44.5	6.1	–	–	–	5.0	100.0

Notes to the financial statements for the year ended December 31, 2014**22. Risk management policies (continued)**

2013	AAA £000	AA £000	A £000	BBB £000	BB £000	Captive £000	Not rated £000	Total
Reinsurance assets	–	–	–	–	–	–	3,629	3,629
Available for sale financial assets	19,619	16,362	805	–	–	–	–	36,786
Deposit with credit institutions	–	302	–	–	–	–	–	302
Insurance receivables	–	–	–	–	–	–	2,371	2,371
Cash and cash equivalents	–	430	–	–	–	–	–	430
Total £000	19,619	17,094	805	–	–	–	6,000	43,518
Percent	45.1	39.3	1.8	–	–	–	13.8	100.0

Fair value hierarchy

The following table shows a three-level fair value hierarchy for financial assets held at fair value depending on the inputs used to determine that fair value. There were no transfers between the levels during the year.

Level 1: quoted prices in active markets for identical assets. Additional criteria was applied to Corporate Bonds which were only included if they were AAA-rated and government-backed. Other Corporate Bonds were included in Level 2.

Level 2: Corporate Bonds which did not meet the criteria necessary to qualify for Level 1.

Level 3: inputs that are not based on observable market data.

	Fair value of as December 31,	Level 1	Level 2	Level 3
2014	£000	£000	£000	£000
Available for sale financial assets				
Government and government agency bonds	17,616	17,616	–	–
Corporate bonds	20,666	1,654	19,012	–
Deposits with credit institutions	321	321	–	–
Total	38,603	19,591	19,012	–
2013	£000	£000	£000	£000
Available for sale financial assets				
Government and government agency bonds	19,570	19,570	–	–
Corporate bonds	17,216	2,551	14,665	–
Deposits with credit institutions	302	302	–	–
Total	37,088	22,423	14,665	–

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 2014 £000	Insurance receivables 2014 £000	Reinsurance assets 2013 £000	Insurance receivables 2013 £000
Neither past due or impaired	3,057	2,364	3,629	2,526
General bad debt provision	–	(155)	–	(155)
Total	3,057	2,209	3,629	2,371

Notes to the financial statements for the year ended December 31, 2014

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, 2014 amounted to £38.6m (2013: £37.1m) plus cash and cash equivalents of £0.7m (2013: £0.4m). 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 Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) which sets out certain minimum capital requirements. It is the Company's policy to hold capital well in excess of that specified by the FCA and PRA 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 £37.8m (2013: £32.8m).

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

Notes to the financial statements for the year ended December 31, 2014

23. Ultimate parent undertaking

The immediate parent undertaking is Allianz Insurance plc, a company registered in England and Wales. The ultimate parent undertaking, Allianz Societas Europaea, is incorporated in Germany and is the parent of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Copies of the group accounts are available on request from Allianz Societas Europaea, Königinstrasse 28, 80802 München, Germany.

Allianz Holdings plc is the parent undertaking of the smallest group of undertakings of which the Company is a member and for which group accounts are drawn up. Allianz Holdings plc is incorporated in England and Wales and group accounts are available 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:

	2014 £000	2013 £000
Transaction entered into with related parties		
Administration and claims handling services received from fellow subsidiary company	2,242	2,750
Reinsurance premiums paid to parent	–	11
Group tax relief from other related parties, fellow subsidiary company	–	–

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:

	2014 £000	2013 £000
Due to related parties		
Parent company		
As at January 1	546	6,574
Decrease during the year	(546)	(6,028)
As December 31	–	546
Fellow subsidiary companies		
As at January 1	122	122
Increase during the year	2,826	–
As December 31	2,948	122

Notes to the financial statements for the year ended December 31, 2014

25. Related party transactions (continued)

	2014 £000	2013 £000
Due from related parties		
Parent company		
As at January 1	—	—
Increase during the year	4,551	—
As December 31	4,551	—