Covea Insurance plc

Annual Report and Financial Statements

For the Year Ended 31 December 2012

Contents

Report of the Directors
For the Year Ended 31 December 2012

DIRECTORS	Bernard Barrere	(Appointed 13 December 2011, resigned 8 February 2012)
	Colin Batabyal	
	Graham Doswell	Chairman
	Garry Fearn	
	Jean Fleury	
	Adrian Furness	(Appointed 1 October 2012)
	Barry Hulbert	
	Henry Kenyon	
	Simon Kneller	(Appointed 1 October 2012)
	Bertrand Lefebvre	
	James Reader	(Appointed 1 October 2012)
	Derek Plummer	(Resigned 6 July 2012)
	Michel Roux	
	Dominique Salvy	
	Steven Whittaker	
SECRETARY	Annabel Wilson	(Appointed 13 December 2012)

The Directors of Covea Insurance plc submit the annual report and audited financial statements of the Company for the year ended 31 December 2012

PRINCIPAL ACTIVITY

The principal activity of the Company continues to be the underwriting of non-life insurance business in the United Kingdom The business conducted is principally motor, fire and other damage to property and liability

On 1 October 2012, Provident Insurance plc (Provident) and Gateway Insurance Company Limited (Gateway) transferred their businesses and operations into the Company, Provident by way of a transfer under Part VII of the Financial Services and Markets Act 2000 Gateway's business was transferred by way of a Part VII transfer carried out in parallel with an Insurance Business Transfer under Gibraltar law and overseen by the Gibraltar Financial Services Commission (FSC) The Company changed its name from MMA Insurance plc to Covea Insurance plc, immediately following the transfer Provident and Gateway ceased trading on 30 September 2012 Provident was de-authorised by the FSA on 1 October 2012 Gateway was de-authorised by the FSC on 2 October 2012

REVIEW OF THE BUSINESS

The Company's key performance indicators for the year were as follows

	2012 £ 000	2011 £ 000
Gross written premium	307,030	230,478
Operating profit on technical account	4,667	11,942
Total profit after tax	4,336	6,359
Invested funds	677,099	320,755
Shareholders' funds	199,086	95,346

Following the transfers of business noted above, the Company's performance in 2012 comprises twelve months trading of its existing business and three months (October to December) trading of each of the Provident and Gateway businesses The pre-tax profits of Provident and Gateway for the period from 1 January to 30 September 2012 were £13,898,000 and £3,632,000 respectively

Pre-tax profits for the twelve months are after charging one-off costs associated with the above transfers, and the integration of the transferred operations, of £6,418,000 These costs comprise professional fees and communication costs associated with the Part VII transfers, the costs of rebranding the Company's operations as Covea Insurance, and other one-off costs relating to the integration of the three businesses These costs are included within net operating expenses

The integration has been completed successfully and the Directors are confident that the Company is well placed to deliver its objectives in 2013 and beyond The Directors' intention is to grow the business profitably across all classes, with a particular focus on expanding its commercial lines proposition

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for approving the Company's strategy and the Company's risk appetite in the implementation of that strategy The Company has established a risk management framework, the primary objectives of which are to protect the Company from events that hinder the achievement of the Company's performance objectives The principal risks and uncertainties facing the Company are classified under strategic, insurance, credit, investments/ liquidity and compliance

<u>Strategic</u>

The Company operates in a highly competitive market which has changed in structure substantially over recent years, particularly so far as distribution and technology are concerned The Company has sought to address these challenges in its strategic approach

<u>Insurance</u>

The Company is exposed to insurance risk arising due to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Company at the time of underwriting, and to fluctuations in the timing and amount of claim settlements and other insurance-related expenses There is inherent uncertainty in the estimation of general insurance claim reserves as this process involves the projection of future events that are uncertain Actual results will therefore vary from our estimates Settlements can be affected by recent and future changes to court awards and changes to legal and court procedures, and the market approach to dealing with large claims The Company has in place a range of procedures, systems and controls designed to manage and mitigate these risks covering all aspects of its insurance activities, including underwriting and pricing, claims management, reserving and the use of reinsurance As part of these controls, claims case estimates are reviewed on a regular basis and overall account reserves are subject to internal actuarial review quarterly This is supplemented by external independent review twice a year

Excess of loss reinsurance cover is in place limiting the Company's exposure in respect of individual loss events to a maximum of £1 3m (indexed in line with inflation)

Catastrophe cover is purchased in respect of property-based risks to limit the Company's exposure to extreme weather events Reinsurance placements are only made with appropriately-rated reinsurers

Credit Risk

The Company is exposed to credit risk in respect of amounts recoverable from reinsurers and intermediaries and amounts deposited with banks and other financial institutions

To mitigate the risk arising from reinsurance contracts, the Company spreads its reinsurance cover over a number of reinsurers to limit the amount outstanding from any one reinsurer In addition the Company only deals with reinsurers with a good credit rating Credit insurance is used to manage credit risks relating to the Company's intermediaries

Investment & Liquidity Risk

The Company manages liquidity risk through regular cash flow forecasts and monitoring It also holds substantial invested funds This represents the funds covering liabilities to policyholders, and the shareholders' assets The Company is exposed to the risk of adverse fluctuations in the market value of these investments and/or variations in the income from them To address this, a prudent investment approach is adopted with the majority of the funds invested in bonds or the money market

The Company's cash portfolio can only be deposited with highly-rated banks There are limits on the maximum exposure to any one counterparty, based upon external credit ratings The majority of the Company's bond portfolio is invested in UK government securities

FUTURE TRADING

The Company's business activities, risk management objectives, details of its exposures to insurance, financial and other risks, together with the factors likely to affect its future development, performance and position are set out in the Directors' report above

The Directors believe that the Company is well placed, post integration of the transferred business, to manage its business risks successfully despite the current uncertain economic outlook After making enquiries, the Directors are satisfied that the Company has adequate resources for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements

DIRECTORS

The Directors who served during the period and up to the date of signing the financial statements are disclosed on page 1 of this annual report

Barry Hulbert and Bertrand Lefebvre retire by rotation and, being eligible, offer themselves for re-election

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

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

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

CHARITABLE CONTRIBUTIONS

Contributions totalling £8k were made during the year (2011 £11k), comprising various small donations made for charity purposes

EMPLOYEE INVOLVEMENT

Employee involvement in the Company's activities and interest in its progress is encouraged by a variety of means These include regular team briefings, staff meetings and newsletters It is also Company policy to consult and discuss with employees on matters likely to affect their interests through an Employee Representative Team

DISABLED PERSONS

It is the Company's policy to make no differentiation between the disabled and the able-bodied in recruitment, career development and promotions Arrangements are made where possible for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities

CREDITOR PAYMENT POLICY

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with At 31 December 2012 the amount outstanding in other creditors did not exceed agreed payment terms, which are most commonly thirty days from date of invoice (2011 Thirty days)

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

1 so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2012 of which the auditors are unaware, and
2 each has taken all steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

AUDITORS

The auditors, PricewaterhouseCoopers LLP, were re-appointed during the year and, having indicated their willingness to continue in office, a resolution that they be re-appointed will be proposed at the annual general meeting

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards 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 accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for the maintenance and integrity of the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

By order of the board

A Wilson
Company Secretary
19 March 2013

We have audited the financial statements of Covea Insurance plc for the year ended 31 December 2012, which comprise the Technical Account – General Business, Non-Technical Account, Statement of Total Recognised Gains and Losses, Balance Sheet, the Accounting policies and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement for insurance companies to maintain equalisation provisions The nature of equalisation provisions, the amounts set aside at 31 December 2012 and the effect of the movement in those provisions during the year on shareholders' funds, the balance on the general business technical account and profit before tax, are disclosed in note 18

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 1, 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

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

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 In addition, we read all the financial and non-financial information in the Covea Insurance plc annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER 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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required 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

Craig Gentle (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
22 March 2013

Profit & Loss Account
For the Year Ended 31 December 2012

TECHNICAL ACCOUNT - GENERAL BUSINESS

		2012		2011	
Earned premiums, net of reinsurance	Notes	£ 000	£ 000	£ 000	£ 000
Gross premiums written			307,030		230,478
Outward reinsurance premiums			(31,214)		(14,396)
Net premiums written			275,816		216,082
Change in the gross provisions for unearned premiums	17	14,015		2,992	
Change in the provision for unearned premiums, reinsurers' share	17	(1,737)		-	
Change in the net provision for unearned premiums			12,278		2,992
Earned premiums, net of reinsurance			288,094		219,074
Allocated investment return transferred from the non-technical account			10,293		11,199
			298,387		230,273
Claims incurred, net of reinsurance					
Gross amount		(172,955)		(153,689)	
Reinsurers' share		12,506		11,619	
Net of reinsurance		(160,449)		(142,070)	
Change in the provision for claims	17				
Gross amount		(44,659)		17,255	
Reinsurers' share		38,031		6,542	
Net of reinsurance		(6,628)		23,797	
Claims incurred, net of reinsurance			(167,077)		(118,273)
Change in the equalisation provision	17, 18		(3,620)		(3,078)
Other technical income			1,672		1,723
Net operating expenses	3		(124,695)		(98,703)
Balance on the general business technical account			4,667		11,942

Profit & Loss Account
For the Year Ended 31 December 2012

NON – TECHNICAL ACCOUNT

	Notes	2012 £ 000	2012 £ 000	2011 £ 000	2011 £ 000
Balance on the general business technical account			4,667		11,942
Total investment return	4	9,696		6,644	
Allocated investment return transferred to the technical account - general business		(10,293)		(11,199)	
			(597)		(4,555)
Expected return on pension fund assets	22	1,527		1,804	
Interest on pension scheme liabilities		(1,537)		(1,804)	
		(10)		-	
			(10)		-
Exchange adjustments			69		(2)
Profit on ordinary activities before tax			4,129		7,385
Tax on profit on ordinary activities	8		207		(1,026)
Profit for the financial year			4,336		6,359

There are no discontinued operations

Statement of Total Recognised Gains and Losses
For the Year Ended 31 December 2012

	2012		2011	
	£ 000	£ 000	£ 000	£ 000
Profit after tax for the financial year		4,336		6,359
Pension fund payment	(396)		(406)	
Tax @ 24 5% on pension fund payment (2011 26 5%)	97		108	
		(299)		(298)
Revaluation reserve		258		-
Total recognised gains for the year		4,295		6,061

There are no material differences between the result on ordinary activities before taxation and the result for the financial period as shown above and the historical cost equivalent

Balance Sheet
As at 31 December 2012

	Notes	2012 £ 000	2012 £ 000	2011 £ 000	2011 £ 000
Assets					
Investments					
Investments in group undertakings and participating interests		1		1	
Other financial investments		625,202		280,048	
	10		625,203		280,049
Reinsurers' share of technical provisions					
Provision for unearned premiums		24,759		-	
Claims outstanding	16	216,605		42,648	
			241,364		42,648
Debtors					
Debtors arising out of direct insurance operations	11	52,173		38,161	
Debtors arising out of reinsurance operations		1,219		1,587	
Other debtors	12	11,894		7,017	
			65,286		46,765
Other assets					
Tangible fixed assets	13	3,767		823	
Cash at bank and in hand		51,897		40,707	
			55,664		41,530
Prepayments and accrued income					
Accrued interest		2,798		2,868	
Deferred acquisition costs		39,798		32,047	
Other prepayments and accrued income		2,396		1,761	
			44,992		36,676
Pension fund asset	22		-		-
Total Assets			1,032,509		447,668

Covea Insurance plc Registration number 613259

Balance Sheet
As at 31 December 2012

	Notes	2012 £ 000	2012 £ 000	2011 £ 000	2011 £ 000
Liabilities & Shareholders funds					
Capital and reserves					
Called up share capital	14	126,145		25,000	
Revaluation reserve		258		-	
Profit and loss account	15	72,683		70,346	
Total equity shareholders' funds			199,086		95,346
Technical provisions					
Provisions for unearned premiums	17	210,018		116,269	
Claims outstanding	16, 17	581,424		216,862	
Equalisation provision	16, 17, 18	9,242		5,622	
			800,684		338,753
Creditors					
Creditors arising out of direct insurance operations		142		-	
Creditors arising out of reinsurance operations		4,694		1,519	
Other creditors including taxation and social security	20	9,750		7,386	
			14,586		8,905
Accruals and deferred income	21		18,153		4,664
Total Liabilities			1,032,509		447,668

These financial statements and related notes on pages 13 to 37, were approved by the Board of Directors on 19 March 2013 and were signed on its behalf by

James Reader
Chief Executive

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the requirements of Schedule 3 and Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups made under the Companies Act 2006, and with the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers (the ABI SORP)

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

CONSOLIDATION

The Company is a subsidiary company owned by an EU parent and is exempt from the requirement to prepare group accounts by virtue of Section 400 of the Companies Act 2006 (see note 24)

BASIS OF ACCOUNTING

The principal accounting policies followed by the Company are set out below

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

PREMIUMS

Written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards reinsurance business being reinsured

UNEARNED PREMIUMS

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of risk The provision for unearned premium is calculated on a daily pro rata basis

CLAIMS INCURRED AND OUTSTANDING

Claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years

The provision for claims outstanding is made on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs The provision also includes the estimated cost of claims incurred, but not reported at the balance sheet date The number of claims expected and their anticipated final cost are projected from the Company's statistical history Projections are made separately for each class of business, based on information available up to one month after the balance sheet date It is assumed that the Company's statistical history will provide a suitable base for projection, and that trends included in the data will be maintained The impacts of case law and legislation are also taken into account Their impact on the statistical base and current reserves is assessed

Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided Any differences between provisions and subsequent settlements are dealt with in the technical account - general business of later years

ACQUISITION COSTS

Acquisition costs, comprising commission and other direct costs related to the acquisition of insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date

UNEXPIRED RISKS PROVISION

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date is expected to exceed the provision for unearned premiums, net of deferred acquisition costs The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available up to one month after the balance sheet date Investment income is taken into account in calculating the need for, and amount of, any provision

EQUALISATION PROVISION

Amounts are set aside as equalisation provisions in accordance with the FSA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date Notwithstanding this, they are required by Schedule 3 and Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups (made under the Companies Act 2006) to be included within technical provisions in the balance sheet

REINSURANCE

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

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each of the reinsurance companies The reinsurers' share of claims incurred, in the profit and loss account, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the profit and loss account as 'Outward reinsurance premiums' when due

INVESTMENT RETURN

Dividends are included as investment income when the investments to which they relate are declared 'ex-dividend' Rents and interest income are recognised on an accruals basis, as are investment expenses

Investment return, comprising investment income and realised and unrealised investment gains and losses, and investment expenses are included initially within the non-technical account

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price, or latest carrying value if investments are carried at amortised cost

Investment return is allocated from the non-technical account to the technical account - general business so as to reflect the longer term investment return on investments attributable to the general insurance business in the technical account - general business The allocation is based on the longer-term rate of investment return on investments supporting the technical provisions and shareholders' funds

INVESTMENTS

Investments, consisting of listed investments and deposits with credit institutions, are stated at their market values at the end of the year

Unrealised investment gains and losses are calculated as the difference between the valuation at the balance sheet date and their valuation at the last balance sheet date or purchase price, if acquired during the year Unrealised investment gains and losses include adjustments in respect of unrealised gains and losses recorded in prior years which have been realised during the year and are reported as realised gains and losses in the current profit and loss account

Associated and subsidiary companies are included at cost

CASH FLOW STATEMENT

In accordance with Financial Reporting Standard 1, the Company has not presented a cash flow statement as the Company's cash flows have been consolidated with those of its ultimate parent company Covéa Sgam Group (see Note 24)

TAXATION

The taxation charge in the non-technical account is based on the taxable profit for the year

DEFERRED TAX

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account Deferred tax is calculated at the rates at which it is expected that the tax will arise Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses Deferred tax balances are not discounted

Resultant deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

TANGIBLE ASSETS

Expenditure on computer equipment, motor vehicles, fixtures, fittings and office equipment and land and buildings is capitalised and depreciated over the estimated useful economic lives of the assets on a straight-line basis Depreciation is not charged on the land within the land and buildings The periods used are as follows

Computer Equipment	-	3 to 5 years
Motor Vehicles	-	3 to 5 years
Fixtures, Fittings and Office Equipment	-	5 years
Freehold buildings	-	30 years

Depreciation is charged to the technical account - general business and is included in net operating expenses Freehold buildings are shown at their current market value after depreciation, and these are valued at their open market value by an independent chartered surveyor every three years

FOREIGN CURRENCIES

UK Pounds Sterling is the functional currency of all activities with the exception of the French branch, the functional currency of which is the Euro

Transactions in foreign currencies are recorded at the rate ruling at 31 December each year or at the contracted rate if the transaction is covered by a forward exchange contract Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate Exchange differences arising from transactions are taken to the profit and loss account Exchange differences arising from the retranslation of the opening net investment in foreign business operations are taken to the statement of realised gains and losses

OPERATING LEASES

Rentals payable under operating lease are charged to the profit and loss account over the lease terms

PENSION COSTS

The Company operates a defined contribution scheme and defined benefit scheme

The Company's defined benefit pension scheme was closed to further benefit accrual on 31 December 2009 Pension costs are assessed in accordance with the advice of independent qualified actuaries based on the last full actuarial assessment as at 1 January 2009 This has been updated as at 31 December 2012 as required by FRS 17 using the projected unit method The Company has borne all expenses relating to the scheme

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of total recognised gains and losses for the period to the extent they are attributable to shareholders The attributable deferred taxation is shown separately in the statement of total recognised gains and losses

The Company continues to operate a defined contribution scheme for its employees

DIVIDENDS

Interim dividends are recognised when paid and final dividends are booked as a liability when they are approved by the members passing a written resolution

INDUSTRY LEVIES

The amount charged in respect of the Financial Services Compensation Scheme levy is based on the premium written in the year, at the rate expected to be charged by the Scheme in respect of that period, if any The amount charged in respect of the Motor Insurers' Bureau, which is based on the Company's share of the motor insurance market, reflects an estimate of the levy applicable to premiums written during the year The amount charged in respect of the Employers' Liability Tracing Office is also charged on the basis of Employers' Liability gross written premiums written in the year

1. INSURANCE PORTFOLIO TRANSFER

On 1 October 2012, Provident Insurance plc (Provident) and Gateway Insurance Company Limited (Gateway) transferred their businesses and operations into the Company, Provident by way of a transfer under Part VII of the Financial Services and Markets Act 2000 Gateway's business was transferred by way of a part VII transfer carried out in parallel with an Insurance Business Transfer under Gibraltar law and overseen by the Gibraltar Financial Services Commission

	Provident Insurance plc 2012 £ 000	Gateway Insurance Company Limited 2012 £ 000	Total transfer 2012 £ 000
Assets			
Land and Buildings	1,311	-	1,311
Other Financial Investments	296,379	-	296,379
Reinsurance Assets	157,144	5,286	162,430
Receivables	34,110	-	34,110
Deferred Tax Asset	2,572	-	2,572
Deferred acquisition costs, prepayments and accrued income	11,084	73	11,157
Tangible assets	568	-	568
Other Debtors	736	206	942
Cash at Bank	13,117	26,841	39,958
Total Assets	**517,021**	**32,406**	**549,427**
Liabilities			
Technical Provisions	(404,405)	(23,971)	(428,376)
Creditors	(4,383)	(673)	(5,056)
Other Liabilities	(14,850)	-	(14,850)
Total Liabilities	**(423,638)**	**(24,644)**	**(448,282)**
Net assets transferred on 1 October 2012	**93,383**	**7,762**	**101,145**

To support this transfer, there was a corresponding increase in share capital from the parent company (see note 14)

2. SEGMENTAL REPORTING

(a) All contracts of insurance were concluded in the United Kingdom (2011 - same)

(b) Analysis of gross written premiums, gross earned premiums, gross incurred claims, gross operating expenses and the reinsurance result

2012	Motor	Fire and other damage to property	Liability	Others	TOTAL
	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	115,563	132,049	17,740	41,678	307,030
Gross earned premiums	128,231	127,900	18,028	46,886	321,045
Gross incurred claims	(142,498)	(69,067)	1,253	(7,303)	(217,614)
Gross operating expenses	(28,969)	(53,455)	(7,893)	(37,983)	(128,300)
Gross technical result	(43,235)	5,378	11,388	1,601	(24,869)
Reinsurance result	29,708	(7,917)	(614)	14	21,191
Net technical result	(13,527)	(2,539)	10,774	1,614	(3,678)
Equalisation provision	-	(3,620)	-	-	(3,620)
Allocated investment return	5,138	3,315	1,436	404	10,293
Other technical income	931	440	71	230	1,672
Balance on technical account	(7,458)	(2,404)	12,281	2,248	4,667
Net technical provisions excluding equalisation reserves	383,685	111,672	36,907	17,814	550,078

2011	Motor	Fire and other damage to property	Liability	Others	TOTAL
	£ 000	£ 000	£ 000	£ 000	£ 000
Gross written premiums	72,016	112,046	18,350	28,066	230,478
Gross earned premiums	64,176	110,355	19,066	39,873	233,470
Gross incurred claims	(60,448)	(59,609)	(10,902)	(5,475)	(136,434)
Gross operating expenses	(13,911)	(44,392)	(7,462)	(33,499)	(99,264)
Gross technical result	(10,183)	6,354	702	899	(2,228)
Reinsurance result	13,550	(8,708)	(554)	38	4,326
Net technical result	3,366	(2,354)	148	937	2,098
Change in equalisation provision	-	(3,078)	-	-	(3,078)
Allocated investment return	4,864	3,884	1,724	727	11,199
Other technical income	915	495	80	233	1,723
Balance on technical account	9,145	(1,053)	1,952	1,898	11,942
Net technical provisions excluding equalisation reserves	124,761	102,875	44,115	18,732	290,483

3. NET OPERATING EXPENSES

	2012 £ 000	2011 £ 000
Acquisition costs		
Commission expense	89,635	70,459
Others	4,345	3,666
	93,980	74,125
Change in deferred acquisition costs	2,897	7,210
	96,877	81,335
Administration expenses	28,531	16,747
Motor Insurers Bureau levy	1,408	928
Financial Services Compensation Scheme Levy	1,020	254
Other Levies	464	-
Gross operating expenses	128,300	99,264
Reinsurance commissions	(3,605)	(561)
	124,695	**98,703**

Exceptional costs associated with the business transfers are included within net operating expenses

Included in administration expenses is auditor's remuneration in respect of audit services amounting to £157,000, (2011 - £109,300) and in respect of non-audit services amounting to £12,000 (2011 - £6,800)

Administrative expenses also include

	2012 £ 000	2011 £ 000
Depreciation of tangible assets	556	460
Operating lease rentals	1,531	1,580
Gain on disposals of tangible assets	4	18
Gain on revaluation of freehold buildings	152	-

4. INVESTMENT RETURN

	2012 £ 000	2011 £ 000
Income from other financial investments	10,917	10,640
Gains on the realisation of equity investments	149	3,278
Movement in net unrealised gains/losses on investments	(1,370)	(7,274)
	9,696	6,644

5. ALLOCATED INVESTMENT RETURN

The allocation of investment return is based on the longer-term return on investments The longer-term rate of investment return is an estimate of the long-term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations

(a) Assumptions for the longer term rate of return

The return on equities is estimated with regard to historical real rates of return for the market and current inflation expectation adjusted for consensus economic and investment market forecasts of investment return

The investment return on fixed interest securities is calculated using the amortised cost basis with realised gains and losses subject to continuing amortisation over the remaining period to the maturity date

The principal assumptions underlying the calculation of the longer term investment return are as follows

	2012 %	2011 %
Equities	7 0	7 0
UK Fixed interest gilts	2 6	3 7
UK Index linked gilts	n/a	n/a
Corporate bonds	2 3	3 4

The Directors are of the opinion that these rates of return are appropriate and have been selected with a view to ensuring that returns credited to operating results are not inconsistent with the actual returns which will be earned over the longer term In respect of 2012 a change of one percent in the longer-term investment return used for equities would produce a change of £510,372 in the investment income transferred to the general business technical account (2011 £505,358)

(b) Comparison of longer term investment return with actual return

The actual return on investments attributable to general business and shareholders in the period from 1 January 2007 to 31 December 2012 is compared below with the aggregate longer-term return which would have been recognised in the balance on the technical account - general business over the same period using the rate of return described above

	2008 - 2012 £ 000	2007 - 2011 £ 000
Actual investment return attributable to shareholders dealt with in profit on ordinary activities in the non-technical account	58,240	72,288
Longer term investment return attributable to shareholders credited to operating profit and to the technical account - general business	(69,020)	(78,033)
(Deficit)	(10,780)	(5,745)
If the longer term rate of return used for equities was changed by one percent, for all of the five years, the change to the above result would be	2,645	2,795

6. DIRECTORS' EMOLUMENTS

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

	2012 £ 000	2011 £ 000
Aggregate emoluments and benefits	1,943	1,475
Compensation for loss of office	801	-
Amounts receivable under long term incentive schemes	395	-
Contributions to pension fund in respect of directors	53	36
	3,192	1,511
Highest paid director ·		
Aggregate emoluments and benefits	1,513	565
	1,513	565

The Company has a rolling 3 year long term incentive (LTIP) scheme in place A new grant has been made to the Executive Directors under the scheme, covering the performance period 2012 to 2014 The 2012 to 2014 LTIP will vest at the end of 2014 depending on the extent to which performance conditions in relation to that grant are met The amount vesting under any LTIP grant can also be reduced at the discretion of the Remuneration & Nominations Committee depending on the overall performance of the Company The amount receivable disclosed in the table above relates to the 2010 to 2012 LTIP scheme that vested at the end of the year

Two Directors are accruing retirement benefits under the Company's defined benefits pension scheme The highest paid Director's accrued pension at 31 December 2012 was £269,763 (2011 - £256,616)

7 STAFF NUMBERS AND COSTS

The average number of persons employed by the Company (including Directors) during the year was as follows

	2012	2011
Non-executive Directors	8	9
Executive Directors / Senior Management	8	6
Actuarial	9	3
Commercial	110	97
Customer Services	214	143
Finance	60	62
Risk and Compliance	4	2
Business Services	86	46
	499	368

The aggregate payroll costs in respect of these persons were as follows	2012 £ 000	2011 £ 000
Wages and salaries	17,982	12,371
Social security costs	1,850	1,268
Other pension costs	1,157	800

The total number of employees at 31 December 2012 was 815 At the date of the Part VII transfer, 1 October 2012, 420 former employees of Provident Insurance plc and a sister company, Hebble Insurance Management Services Ltd transferred in to Covea Insurance plc by way of a Transfer of Undertakings (Protection of Employment) transfer These are reflected in the average disclosed in the above note

8. TAXATION

			2012 £ 000	2011 £ 000
(a)	Current tax	UK Corporation Tax	97	1,217
		Tax (over) provided in prior years	(390)	(147)
		Total current tax	(293)	1,070
	Deferred tax	Origination and reversal of timing differences	(71)	(12)
		Adjustment in respect of previous periods	(20)	(46)
		Effect of changes in tax rates	177	14
		Deferred tax (note 19)	86	(44)
		Pension contributions	-	-
		Tax charge / (credit) for the year	(207)	1,026
	Deferred tax - Statement of recognised gains and losses			
		Pension fund payment	(97)	(108)

(b) Factors affecting current tax charge

The tax charge in the year is at a lower rate than standard rate of corporation tax in the UK of 24 5% (2011 26 5%) Differences as below

		2012 £ 000	2011 £ 000
Profit on ordinary activities before tax		4,129	7,385
	Tax on profit on ordinary activities at 24 5% (2011 26 5%)	1,012	1,957
	Expenses not deductible for tax purposes	506	13
	Income on which no further tax is payable	(516)	(392)
	Unrealised gains	-	83
	Pension contributions	(139)	(146)
	Other timing differences	320	79
	Utilisation of tax losses	(343)	-
	Group relief not paid for	(743)	(378)
	Tax (over) provided in prior years	(390)	(147)
Total current tax (Note 8a)		(293)	1,070

The main rate of UK corporation tax will reduce from 24% to 23% from 1 April 2013 The December 2012 Autumn Statement proposed to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014

The proposed further reduction to 21% is expected to be included in the Finance Bill 2013

The carried forward losses, which are the largest balance in the deferred tax asset, are expected to be utilised by the end of 2013 As a result the effect of the further changes from 23% to 21% relating to the remaining deferred tax balance at the balance sheet date would be to further reduce the deferred tax asset by £40,000

9. DIVIDEND

	2012 £ 000	2011 £ 000
Amount paid to equity shareholders	1,700	-

The Directors are proposing a dividend of £6 6m in respect of 2012 A £1 7m dividend was paid in 2012 in respect of 2011 (2010, paid in 2011 - nil)

10. FINANCIAL INVESTMENTS

	Market value		Cost	
	2012 £ 000	2011 £ 000	2012 £ 000	2011 £ 000
Equities	52,842	49,598	44,161	43,640
Bonds	377,757	182,345	377,780	178,448
Deposits with credit institutions	194,603	48,105	194,603	48,105
Subsidiary company	1	1	1	1
	625,203	280,049	616,545	270,194
Listed investments included in the above	430,599	231,943	421,941	222,088

The subsidiary company is Gateway Insurance Agency Ltd, registered in England, with a holding of 100% ordinary shares This company is dormant

11. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2012 £ 000	2011 £ 000
Amounts owed by intermediaries	45,510	31,537
Amounts owed by policyholders	6,663	6,624
	52,173	38,161

12. OTHER DEBTORS

	2012 £ 000	2011 £ 000
Salvage and subrogation recoveries	269	1,183
Amounts owed by group companies	6,154	4,713
Deferred tax asset	2,732	245
Other debtors	2,739	876
	11,894	7,017

13. TANGIBLE ASSETS

	Computer equipment	Fixtures, fittings and equipment	Motor vehicles	Land & buildings	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
Cost					
At 1 January 2012	3,341	2,840	135	-	6,316
Transfer in per Part VII	5,936	735	-	1,440	8,111
Additions	894	305	13	-	1,212
Revaluation	-	-	-	450	450
Disposals	(34)	(7)	(14)	-	(55)
At 31 December 2012	10,137	3,873	134	1,890	16,034
Depreciation					
At 1 January 2012	2,979	2,469	45	-	5,493
Transfer in per Part VII	5,588	516	-	128	6,232
Charge for the year	345	182	20	9	556
Elimination in respect of disposals	(33)	(7)	(14)	-	(54)
Revaluation	-	177	-	(137)	40
At 31 December 2012	8,879	3,337	51	-	12,267
Net Book Value					
At 31 December 2012	1,258	536	83	1,890	3,767
At 31 December 2011	362	371	90	-	823

Land and buildings represent freehold properties occupied by the Company for its own activities Land and buildings were valued on 1st February 2013 for the purpose of the financial statements at their open market value of £1,890,000 by Keith Cannon, an independent chartered surveyor

If land and buildings had not been revalued they would have been included at the following amounts

	2012
	£'000
Cost	2,610
Aggregate depreciation based on cost	(1,142)
Net book amount based on cost	1,468

14 SHARE CAPITAL

	2012 £ 000	2011 £ 000
Authorised ordinary shares 135,000,000 (2011 40,000,000) Ordinary shares of £1 each	135,000	40,000
Allotted, called up and fully paid 126,144,691 (2011 25,000,000) Ordinary shares of £1 each	126,145	25,000

15 PROFIT AND LOSS ACCOUNT

	2012 £ 000	2011 £ 000
As at 1 January	70,346	64,286
Retained profit for the year	4,336	6,358
Dividend paid	(1,700)	-
Pension fund payment (net of tax)	(299)	(298)
As at 31 December	72,683	70,346

16. CLAIMS OUTSTANDING

2012	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	529,946	189,710	340,236
Provision for claims incurred but not reported	45,501	26,895	18,606
	575,447	216,605	358,842
Claims handling expenses	5,977	-	5,977
	581,424	216,605	364,819

2011	Gross £ 000	Reinsurance £ 000	Net £ 000
Notified outstanding claims	166,043	30,288	135,755
Provision for claims incurred but not reported	48,390	12,360	36,030
	214,433	42,648	171,785
Claims handling expenses	2,429	-	2,429
	216,862	42,648	174,214

17. TECHNICAL PROVISIONS (INCLUDING PRIOR YEAR RUN-OFF OF CLAIMS PROVISION)

	Unearned Premium (Gross)	Unearned Premium (Net of Reinsurance)	Outstanding claims (Gross)	Outstanding claims (Net of Reinsurance)	Claims Equalisation Reserve
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2011	119,261	119,261	235,846	199,739	2,544
Movement in Provision	(2,992)	(2,992)	(17,255)	(23,797)	3,078
Movement in Salvage & subrogation	-	-	(1,729)	(1,729)	-
At 1 January 2012	116,269	116,269	216,862	174,213	5,622
Transfer in per Part VII	107,764	81,268	320,817	184,891	-
Movement in Provision	(14,015)	(12,278)	44,659	6,628	3,620
Movement in Salvage & subrogation	-	-	(914)	(914)	-
At 31 December 2012	210,018	185,259	581,424	364,818	9,242

Prior year claims provision

Claims incurred, net of reinsurance, are shown after taking account of movements in the estimates of costs of claims provisions outstanding at the start of the period These movements are the differences between the net technical provision for outstanding claims at the beginning of the period, and the sum of net claims payments and the net technical provision for outstanding claims at the end of the period for those claims

	2012	2011
	£ 000	£ 000
Decrease in cost estimate of prior years claims (net of reinsurance)	8,647	316

18 EQUALISATION PROVISION

These provisions, which are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, are required by Schedule 3 and Schedule 6 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance groups (made under the Companies Act 2006) to be included within technical provisions in the balance sheet, notwithstanding that they do not represent liabilities at the balance sheet date The movement in equalisation provisions during the year resulted in a decrease in the general business - technical account result and the profit before taxation of £3,620,000 (2011 – decrease of £3,078,000)

The creation of the equalisation provision has the cumulative effect of decreasing shareholders' funds by £6,978,000 (2011 – decrease of £4,132,000) after taking into account taxation

19. DEFERRED TAXATION

Full provision has been made for deferred taxation, at 23% (2011 - 25%) as follows

	2012		2011	
	£ 000	£ 000	£ 000	£ 000
Revaluation of investments		216		313
Delayed relief for pension contributions		(131)		(289)
Other timing differences		(683)		(269)
Tax losses available		(2,134)		-
		(2,732)		(245)
Deferred tax liability / (asset) at beginning of year		(245)		(201)
Movements in year on				
Revaluation of investments	(97)		(82)	
Delayed relief for pension contributions	158		146	
Other timing differences	(325)		(76)	
Tax losses available	369			
	105		(12)	
Prior year adjustment	(20)		(46)	
Effect of rate change	-		14	
Current taxation (Note 8)		85		(44)
Transferred in from Provident Insurance Plc and Gateway Insurance Company Limited		(2,572)		
Deferred tax (asset)/ liability at end of year		(2,732)		(245)

20. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2012	2011
	£ 000	£ 000
Corporation taxation payable	-	517
Other taxes including insurance premium tax and social security costs	6,994	4,865
Due to group companies	452	485
Other creditors	2,304	1,519
	9,750	7,386

21. ACCRUALS AND DEFERRED INCOME

	2012 £000	2011 £000
Deferred reinsurance commission	6,673	-
Motor Insurers Bureau levy	3,905	1,258
Financial Services Compensation Scheme	1,412	415
Other accruals and deferred income	6,163	2,991
	18,153	4,664

22. PENSION BENEFIT

The Company operates two pension schemes The assets of both schemes are held independently and separately from those of the Company in trust-administered accounts

Defined contribution scheme

This scheme is open to employees who became eligible to join on or after 1 January 2001 Former members of the defined benefits scheme, who are current employees, became eligible to join this scheme from 1 January 2010 Benefits are based on contributions made to the scheme by the Company during the employee's membership Former employees of Provident Insurance plc and Hebble Insurance Management Services Ltd who transferred to the Company on 1 October 2012 are also eligible to participate in this scheme

Defined benefit scheme

The Company operates a defined benefit scheme in the UK which closed to further accrual with effect from 31 December 2009 A full actuarial valuation was carried out as at 31 December 2011 and updated to 31 December 2012 by a qualified actuary, independent of the Company The major assumptions used by the actuary are shown below

The Company makes annual payments to the scheme of £406,000 payable by 31 March each year, the first of which was due by 31 March 2011, in accordance with the Schedule of Contributions and Recovery Plan dated 29 March 2010

As the defined benefit pension scheme was closed to further benefit accrual as at the end of 2009, there will be no further accrual of current service cost and accordingly there is no charge recognised within the profit and loss account The expected return on assets has been restricted to the interest cost on scheme liabilities as required under FRS 17 Also, the net surplus assets arising at the year end have not been recognised on the balance sheet, given there will be no future economic benefits arising in the form of reduced contribution The net surplus assets cannot be recognised by the Company until all benefits have been paid to its members or the scheme is bought out, in agreement with the trustees

FRS 17 disclosures

The present values of scheme liabilities, fair value of its assets and the resultant surplus/(deficit) are as follows

	31/12/2012 £'000s	31/12/2011 £'000s	31/12/2010 £'000s
Fair value of scheme assets	38,947	36,406	35,097
Present value of scheme liabilities	37,298	32,996	(33,780)
Surplus (Deficit) in scheme	1,649	3,410	1,317
Unrecognised surplus	1,649	3,410	1,317
(Liability) / Asset to be recognised	-	-	-
Deferred tax	-	-	-
Net (liability) / asset to be recognised	-	-	-

Reconciliation of opening and closing balances of the present value of the scheme liabilities

	Period ending 31/12/2012 £'000s	**Period ending 31/12/2011 £'000s**
Scheme liabilities at start of period	32,996	33,780
Interest cost	1,537	1,804
Actuarial losses (gains)	3,349	(1,822)
Benefits paid and death in service insurance premiums	(584)	(766)
Scheme liabilities at end of period	37,298	32,996

Reconciliation of opening and closing balances of the fair value of scheme assets

	Period ending 31/12/2012 £'000s	**Period ending 31/12/2011 £'000s**
Fair value of scheme assets at start of period	36,406	35,097
Expected return on scheme assets	1,527	1,804
Actuarial gains (losses)	1,192	(135)
Contributions by the Company	406	406
Benefits paid	(584)	(766)
Fair value of scheme assets at end of year	38,947	36,406

The actual return on the scheme assets over the period ending 31 December 2012 was £2,719,000

Total expense recognised in profit and loss account

	Period ending 31/12/2012 £'000s	**Period ending 31/12/2011 £'000s**
Interest cost	1,537	1,804
Expected return on scheme assets	(1,527)	(1,804)
Total (expense) / income recognised in profit and loss	10	-

Statement of total recognised gains and losses

	Period ending 31/12/2012 £'000s	Period ending 31/12/2011 £'000s
Difference between expected and actual return on scheme assets		
Amount gain (loss)	1,192	(135)
Experience gains and losses arising on the scheme liabilities		
Amount gain (loss)	(1,377)	(313)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities		
Amount gain (loss)	(234)	2,135
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable)		
Amount gain (loss)	(419)	1,687
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable		
Amount gain (loss)	23	(2,093)
Total amount recognised in statement of total recognised gains and losses:		
Amount. gain (loss)	(396)	(406)

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since adoption of FRS17 is a loss of £962,000

Assets

	31/12/2012 £'000s	31/12/2011 £'000s	31/12/2010 £'000s
Equity	22,740	14,765	18,781
Bonds	5,825	6,104	4,499
Other (cash etc)	695	4,364	3,979
Gilts	8,981	10,450	7,140
Property	706	723	698
Total Assets	**38,947**	**36,406**	**35,097**

None of the fair values of the assets shown above include any of the Company's own financial instruments or any property occupied by, or other assets used by, the Company

Assumptions

	31/12/2012 % per annum	31/12/2011 % per annum	31/12/2010 % per annum
Rate of discount	4 40%	4 70%	5 40%
Inflation (RPI)	3 00%	3 10%	3 50%
Inflation (CPI)	2 00%	2 40%	Not applicable
Salary increases	Not applicable	Not applicable	Not applicable
Allowance for pension in payment increases of RPI or 5% p a if less	2 60%	3 05%	3 40%
Allowance for revaluation of deferred pensions of CPI or 5% p a if less	2 00%	2 40%	Not applicable
Allowance for revaluation of deferred pensions of RPI or 5% p a if less	Not applicable	Not applicable	3 50%
Allowance for commutation of pension for cash at retirement	65% of Post A day	65% of Post A day	None

The mortality assumptions adopted at 31 December 2012 imply the following life expectancies

Male retiring at age 63 in 2012	24 0 years (2011 23 9)
Female retiring at age 63 in 2012	26 2 years (2011 26 1)
Male retiring at age 63 in 2032	25 9 years (2011 25 8)
Female retiring at age 63 in 2032	28 2 years (2011 28 1)

Expected long term rates of return

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates The long-term expected return on bonds is determined by reference to UK long-dated government and corporate bond yields at the balance sheet date The long-term expected rate of return on equities is based on the rate of return on bonds with an allowance for out-performance

The expected long-term rates of return applicable at the start of each period are as follows

	Period commencing 01/01/2012 % per annum	Period commencing 01/01/2011 % per annum
Equity	5 80%	7 20%
Bonds	4 70%	5 40%
Other (cash etc)	1 20%	2 50%
Gilts	2 80%	4 20%
Property	5 30%	6 70%
Overall for scheme	4 19%	5 82%

Amounts for the current and previous four years

	2012 £'000s	2011 £'000s	2010 £'000s	2009 £'000s	2008 £'000s
Fair value of scheme assets	38,947	36,406	35,097	29,240	24,969
Present value of scheme liabilities	35,560	32,996	33,780	32,124	24,411
Surplus / (deficit) in scheme	1,649	3,410	1,317	(2,884)	558
Experience adjustment on scheme assets	1,192	(135)	1,655	2,686	(6,911)
Experience adjustment on scheme liabilities	(1,377)	(313)	(185)	(561)	(112)

23. COMMITMENTS

Annual commitments in respect of non-cancellable operating leases are as follows

	Land and buildings		Vehicles	
	2012	2011	2012	2011
	£ 000	£ 000	£ 000	£ 000
Operating leases which expire within one year	119	100	98	-
Operating leases which expire between one and five years	1,215	1,188	15	98

The Company has an annual commitment of £519k in respect of software licence fees (2011 £343k)

24. ULTIMATE PARENT COMPANY

(a) Covea Insurance plc is a member of Covéa Group It is a wholly-owned subsidiary of MMA Holdings UK plc, a company registered in England and Wales

MMA Holdings UK Plc is a wholly-owned subsidiary of Le Mans Conseil, a company registered in France Prior to 28 December 2012, Le Mans Conseil was controlled by both MMA IARD Assurances Mutuelles and MMA VIE Assurances Mutuelles, companies registered in France, which controlled all the share capital and 100% of the voting rights MMA IARD Assurances Mutuelles and MMA VIE Assurances Mutuelles are affiliated to Covea Sgam

With effect from the 28th of December 2012, Le Mans Conseil is wholly owned by Covea Cooperations, a company registered in France Covea Cooperations is controlled by MMA IARD Assurances Mutuelles, MMA Vie Assurances Mutuelles, La Garantie Mutuelle des Fonctionnaires, Assurances Mutuelles de France, MAAF Assurances, DAS Assurances Mutuelles, Catalogne Participations and MAAF Sante These companies own all the share capital and control 100% of the voting rights of Covéa Cooperations, are registered in France and are affiliated to Covéa Sgam

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

(b) Group company balances

Included in balances arising out of reinsurance operations are the following

	2012	2011
Due to/(from) fellow group companies	(677)	(1,179)

Other Group company balances are reflected in notes 12 and 20

25. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption within FRS 8 from disclosure of those transactions between the Company and fellow members of the Covéa Sgam group of companies whose voting rights are wholly owned by the ultimate parent

There were no other material related party transactions

Company Information
For the Year Ended 31 December 2012

REGISTERED AND HEAD OFFICE	Norman Place Reading RG1 8DA Registered in England 613259
WEB ADDRESS	www coveainsurance co uk
BANKERS	HSBC Bank plc PO Box 125 2nd Floor 62-76 Park Street London SE1 9DZ
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 31 Great George Street Bristol BS1 5QD