

Covea Insurance plc

Annual Report and Financial Statements

For the Year Ended 31 December 2016

Registered Number: 00613259

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Strategic Report For the Year Ended 31 December 2016

The Directors present their Strategic Report on Covea Insurance Plc ("the Company") for the year ended 31 December 2016.

BACKGROUND

Covea Insurance plc (the Company) is a general insurance company offering a range of products for individuals and small and medium-sized businesses, distributed directly to customers and through a network of intermediaries and brokers across the UK. The Company operates from eleven locations across the country, and is a member of one of Europe's largest mutual insurance groups, Covéa.

On 31 December 2015, Sterling Insurance Company Limited (SICL), which was acquired by the Covéa group in February 2015, transferred its business and operations into the Company, by way of a transfer under Part VII of the Financial Services and Markets Act 2000.

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 principally relates to motor, fire and other damage to property, liability, accident and health, and miscellaneous classes.

REVIEW OF PERFORMANCE

The key financial results for 2016 relative to 2015 are:

	2016 £'000	2015 £'000
Gross premiums written	666,306	473,004
Technical account result	22,738	10,719
Profit after tax	38,369	12,911
Combined operating ratio	96.2%	96.9%

The Directors are satisfied with the progress made by the Company in the first full year following the integration of the SICL business.

A new direct-to-consumer operation was launched during 2016, under the Provident Insurance brand. This represents an important development for the Company, complementing its existing intermediated distribution, and the results to date are in line with expectations. The significant increase in gross written premium relative to the prior year reflects the inclusion of the SICL business, the development of the Provident direct operation, and underlying growth across the majority of the Company's personal and commercial lines activities.

The improved level of technical profitability is mainly the result of the release of the claims equalisation provision at the beginning of the year. The carrying of an equalisation provision was a regulatory requirement at 31 December 2015, but is no longer allowable under the new Solvency II regime. As a result, the opening provision of £29,809,000 has been released through the technical account during the year.

The technical result has been adversely impacted by the recognition of a £6,199,000 increase in claims reserves to reflect the impact of the Lord Chancellor's announcement on 27 February 2017 of a reduction in the discount rate applicable to personal injury awards from 2.5% to -0.75% ("the Ogden Rate Change").

Excluding these two individually significant items, the Company has also experienced a higher than expected level of claims costs during the year, particularly in its personal lines business, which has adversely impacted the reported technical result. However, the profit after tax has benefitted from increases in the market value of its investment portfolio, notably the portion held in equities.

The segmental reporting included in note 2 to the financial statements reflects the analysis of the Company's performance between business segments specified by the Companies Act 2006, rather than the way in which the Directors manage the business.

**Strategic Report
For the Year Ended 31 December 2016**

For the purposes of this Strategic Review, the Directors consider that it is more informative to describe the performance of the business based on the segments which are used for management purposes. These can be reconciled to the reported result for 2016 as follows:

	Personal Lines Motor £'000	Personal Lines Home £'000	Commercial Lines £'000	Protection £'000	Total £'000
Gross premiums written	325,516	125,314	169,165	46,311	666,306
Technical account result	13,897	(227)	6,809	2,259	22,738

Following the transfer of SICL's business noted above, the Company's performance in 2016 comprises twelve months trading of the combined business.

Personal Lines Motor

	2016 £'000	2015 £'000
Gross premiums written	325,516	264,776
Technical account result	13,897	26,248
Combined operating ratio	94.8%	88.7%

Personal Lines Motor business represents the underwriting of insurance of UK private cars and light commercial vehicles. Motor trade and commercial fleet insurance (the results of which are reflected within the Motor third party liability and Motor other figures in note 2) are included within the Commercial Lines segment for management purposes. The Provident Insurance direct distribution operation is initially focused on private car insurance and hence the launch and development costs are reflected within this business line.

The year-on-year growth in written premiums is due to a combination of both higher customer numbers (including through Provident Insurance) and higher average premiums. The latter reflects continuing inflationary trends on claims costs and is believed to be in line with the broader market experience.

The lower level of reported underwriting profit for 2016 includes increases to net claims incurred of £4,211,000 in respect of the Ogden rate change and of £4,400,000 in respect of a reduction in the discount rate applicable to claims payable under periodic payment orders, as well as reflecting the investment in the development of Provident Insurance, and a higher than anticipated level of claims inflation, particularly in respect of vehicle repair costs; a trend which is being driven in part by the increased use of advanced technology in cars.

Personal Lines Home

	2016 £'000	2015 £'000
Gross premiums written	125,314	68,087
Technical account loss	(227)	(2,709)
Combined operating ratio	100.2%	104.4%

Personal Lines Home business represents the underwriting of insurance of UK residential properties and their contents. The year-on-year growth in premiums is in large part due to the integration of the SICL business, which wrote £58,778,000 of Home premiums in 2015.

The reported underwriting result for 2016 includes a release of £17,840,000 of claims equalisation provisions (as discussed above). That apart, the results have been adversely impacted by a significantly higher than anticipated level of claims during the year; particularly in respect of large fire and escape of water claims. This has combined with a competitive market, which has seen average premiums reduce. Underwriting and pricing actions taken towards the end of the year are expected to return the business to underlying profitability in 2017.

**Strategic Report
For the Year Ended 31 December 2016**
Commercial Lines

	2016	2015
	£'000	£'000
Gross premiums written	169,165	110,119
Technical account result/ (loss)	6,809	(10,847)
Combined operating ratio	95.5%	111.1%

Commercial Lines business represents the underwriting of a range of property and liability insurance products targeted at small and medium-sized businesses in the UK, including some commercial motor products.

The development of the Commercial Lines business continues to be a major focus for the Company, with ongoing investment in technical skills, improved products and stronger relationships with brokers. Excluding the integration of the SICL business, which wrote £45,111,000 of commercial lines premium in 2015, written premium increased by 9% over the year.

The reported underwriting profit for 2016 includes a release of £11,863,000 of claims equalisation provisions and a charge of £1,988,000 in respect of the Ogden Rate Change. Relative to the previous year, the result has also benefitted from the absence of a major weather event, such as that which hit the North of the UK in December 2015.

Protection

	2016	2015
	£'000	£'000
Gross premiums written	46,311	30,022
Technical account result	2,259	71
Combined operating ratio	95.5%	99.7%

The growth of the Protection business, as a result of the integration of the SICL business, which wrote £23,885,000 of protection premiums in 2015, has provided the Company with further diversification and a broader product offering for its key business partners. Several of the largest Protection distribution relationships are no longer generating sales of new policies, but the Directors are confident that these will continue to run off profitably and that there are good opportunities to develop both new products for these clients and new relationships.

CAPITAL MANAGEMENT AND SOLVENCY

The Company's objectives in managing its capital are to ensure that it complies at all times with regulatory requirements and that it is able to continue to deliver to its stakeholders; including its policyholders, claimants and shareholder. From 1 January 2016, the Company became subject to the new Solvency II capital regime, under which it is required to hold Own Funds in excess of its Solvency Capital Requirement (SCR). The Company has adopted the standard formula approach in calculating its SCR.

The figures below are unaudited and represent the Directors' latest view of the Company's capital position as at 31 December 2016. Final audited figures will be included in the Solvency and Financial Condition Report (SFCR), which is expected to be published on the Company's website by the end of May 2017.

	£'000
Own funds	275,361
Solvency capital requirement ("SCR")	234,227
Own funds in excess of SCR	41,134
Solvency II capital cover	117.6%

While the Company's capital position has exceeded the regulatory requirement at all times since the introduction of Solvency II, the level of cover at 31 December 2016 was lower than the target solvency cover as set out in the internal capital management policy established by the Directors. In order to address this and to provide additional capital coverage to support future growth, on 29 March 2017 the Company entered into a quota share reinsurance arrangement under which 20% of its earned premiums and claims for the period 1 January 2017 to 31 December 2019 will be ceded to a highly-rated reinsurer.

**Strategic Report
For the Year Ended 31 December 2016**

OUTLOOK AND FUTURE TRADING

The Directors' principal strategic objective for the Company is to deliver sustainable growth in business volumes and premiums, while consistently achieving an acceptable return on capital. We are confident that the Company's prospects are good, notwithstanding the challenging conditions that continue to prevail in all of its key markets.

The UK insurance market continues to be faced by a number of challenges, not least the recent Ogden Rate Change. We have assessed the impact of this on ongoing claims and reinsurance costs and expect to reflect this fully in our pricing shortly, with the result that we do not expect it to have an adverse impact on the Company's profitability for 2017.

2017 will see the Company continuing to invest in strengthening its capabilities and seeking to realise benefits from the investments already made. This will include further growth of customer numbers through the new Provident Insurance direct distribution operation.

As a result of the above, the Directors expect to deliver continued growth in written premium across most product lines in 2017 and an improved level of underwriting profitability relative to that achieved in 2016, excluding the one-off impact of the release of the claims equalisation provision.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for establishing the Company's strategy and its appetite for the risks that arise in the implementation of that strategy. A risk management framework has been established, the primary objective of which is to protect the Company from events that hinder the achievement of its performance objectives.

Details on the principal risks and uncertainties facing the Company and how they are managed are set out on pages 23 to 31.

By order and approval of the board



A Wilson
Company Secretary
31 March 2017

Report of the Directors For the Year Ended 31 December 2016

The Directors present their Directors' Report on the Company for the year ended 31 December 2016.

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 principally relates to motor, fire and other damage to property, liability, accident and health, and miscellaneous classes.

DIRECTORS

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

DIRECTORS	John Blundell	(Appointed 20 January 2016, resigned 30 April 2016)
	Stephen Clarke*	
	Simon Cooter	(Appointed 1 October 2016)
	Jane Dale *	(Appointed 22 February 2017)
	Graham Doswell *	(Resigned 14 October 2016)
	Patrice Forget *	
	Adrian Furness	
	Henry Kenyon *	
	Simon Kneller	
	Bertrand Lefebvre *	
	Edgardo Penollar	
	James Reader	
	Dominique Salvy *	Chairman

SECRETARY	Annabel Wilson
	* - non-executive directors

Adrian Furness and Patrice Forget retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting. Henry Kenyon retires by rotation and will not seek re-election in view of his intended resignation by reason of retirement.

Simon Cooter and Jane Dale, having been appointed by the Board since the last Annual General meeting, will offer themselves for re-appointment at the next Annual General Meeting.

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

GOING CONCERN

The Directors believe that the Company is well placed to manage the risks facing it. After making enquiries, the Directors are satisfied that the Company has adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

A Group company has purchased insurance to indemnify one or more of the Company's Directors against liability in respect of proceedings brought by third parties, against them in their capacity as a director, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remained in force throughout the year and as at the date of approval of this Directors' Report. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period in office.

MODERN SLAVERY ACT

We welcome the Modern Slavery Act and will issue our first statement in 2017, setting out the steps we take to ensure that slavery and human trafficking is not occurring in any part of our business or its supply chain.

POST BALANCE SHEET EVENT

On 29 March 2017 the Company entered into a quota share reinsurance arrangement under which 20% of its earned premiums and claims for the period 1 January 2017 to 31 December 2019 will be ceded to a highly-rated reinsurer.

**Report of the Directors
For the Year Ended 31 December 2016**

FINANCIAL RISK MANAGEMENT

Disclosures relating to financial risk management are included in the Risk and Capital Management Report and therefore incorporated into their report by reference.

PAYABLES PAYMENT POLICY

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2016, the amount outstanding in other payables did not exceed agreed payment terms, which are most commonly thirty days from date of invoice (2015: 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. as far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2016 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.

INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, were re-appointed during the year. A tender will be held during 2017 for audit services for the audit of the year ending 31 December 2017. A resolution will be proposed at the annual general meeting to appoint or re-appoint the auditor.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS 102) and applicable law.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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 United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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.

By order and approval of the board



A Wilson
Company Secretary
31 March 2017

**Independent Auditor's Report to the Members of Covea Insurance plc
For the Year Ended 31 December 2016**

Report on the financial statementsOur opinion

In our opinion, Covea Insurance plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended;
- the Statement of Financial Position as at 31 December 2016;
- the Risk and Capital Management report;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

Other matters on which we are required to report by exceptionAdequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**Independent Auditor's Report to the Members of Covea Insurance plc
For the Year Ended 31 December 2016**

Responsibilities for the financial statements and the auditOur responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Report of the Directors, we consider whether those reports include the disclosures required by applicable legal requirements.



Gary Shaw (Senior Statutory Auditor)

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

4 April 2017

**Statement of Comprehensive Income
For the Year Ended 31 December 2016**

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Note	2016 £'000	Restated 2015 £'000
Earned premiums, net of reinsurance			
Gross premiums written	2	666,306	473,004
Outward reinsurance premiums		(46,513)	(39,075)
Net premiums written		619,793	433,929
Change in the gross provisions for unearned premiums	16	(28,729)	(16,175)
Change in the provision for unearned premiums, reinsurers' share		76	1
Change in the net provision for unearned premiums	16	(28,653)	(16,174)
Earned premiums, net of reinsurance		<u>591,140</u>	<u>417,755</u>
Claims Incurred, net of reinsurance			
Claims paid			
Gross amount		(368,621)	(265,511)
Reinsurers' share		19,396	21,231
		(349,225)	(244,280)
Change in the provisions for claims			
Gross amount	16	(104,632)	10,668
Reinsurers' share		75,429	(20,085)
	16	(29,203)	(9,417)
Claims Incurred, net of reinsurance		<u>(378,428)</u>	<u>(253,697)</u>
Change in the equalisation provision	16, 17	29,809	(3,942)
Other technical income		4,068	1,336
Net Operating Expenses	3	<u>(223,851)</u>	<u>(150,733)</u>
BALANCE ON THE TECHNICAL ACCOUNT – GENERAL BUSINESS		<u>22,738</u>	<u>10,719</u>

**Statement of Comprehensive Income
For the Year Ended 31 December 2016**

NON-TECHNICAL ACCOUNT

	Note	2016 £'000	Restated 2015 £'000
Balance on the general business technical account		22,738	10,719
Investment return	4	20,936	5,038
Expected return on pension fund assets	21	1,268	1,342
Interest on pension scheme liabilities		(1,268)	(1,342)
		-	-
Exchange adjustments		178	(21)
Profit on ordinary activities before tax		43,852	15,736
Tax charge attributable to profit on ordinary activities	7	(5,483)	(2,825)
Profit for the financial year		38,369	12,911
Other comprehensive expense:			
Remeasurement of defined benefit obligation	21	(526)	(296)
Movement in deferred taxation relating to the pension deficit		105	60
Other comprehensive expense for the year		(421)	(236)
Total comprehensive income for the year		37,948	12,675

There are no discontinued operations.

Statement of Changes in Equity
For the Year Ended 31 December 2016

		Called up share capital	Revaluation reserve	Retained earnings	Total equity
	Notes	£'000	£'000	£'000	£'000
Balance as at 1 January 2015		126,145	258	91,046	217,449
Profit for the year		-	-	12,911	12,911
Other comprehensive income for the year		-	-	(236)	(236)
Additional share capital issued	1	27,561	-	-	27,561
Movement in Revaluation Reserve		-	1,519	-	1,519
Dividends paid	8	-	-	(5,100)	(5,100)
Balance as at 31 December 2015		153,706	1,777	98,621	254,104
Profit for the year		-	-	38,369	38,369
Other comprehensive expense for the year		-	-	(421)	(421)
Additional share capital issued	14	4,518	-	-	4,518
Dividends paid	8	-	-	(1,500)	(1,500)
Balance as at 31 December 2016		158,224	1,777	135,069	295,070

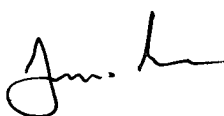
Statement of Financial Position
As at 31 December 2016

ASSETS	Note	2016 £'000	2015 £'000
Investments	9	749,984	679,926
Reinsurers' Share of technical provisions			
Provision for unearned premiums		619	543
Claims outstanding	15	219,670	144,241
		220,289	144,784
Debtors			
Debtors arising out of direct insurance operations	10	116,050	126,536
Debtors arising out of reinsurance operations		9,044	5,871
Other debtors	11	22,755	8,335
		147,849	140,742
Other assets			
Tangible assets	12	30,022	27,236
Intangible assets	13	12,124	15,327
Loan to fellow subsidiary	23c	10,151	10,288
Cash at bank and in hand		76,235	79,943
		128,532	132,794
Prepayments and accrued income			
Deferred acquisition costs	24	69,541	72,484
Other prepayments and accrued income		2,255	3,842
		71,796	76,326
Total assets		1,318,450	1,174,572

Statement of Financial Position
As at 31 December 2016

LIABILITIES	Note	2016 £'000	2015 £'000
Capital and reserves			
Called up share capital	14	158,224	153,706
Revaluation reserve		1,777	1,777
Retained earnings		135,069	98,621
Total equity		295,070	254,104
Technical provisions			
Provision for unearned premiums	16	318,505	289,776
Claims outstanding	15,16	650,247	545,915
Claims equalisation provisions	16,17	-	29,809
		968,752	865,500
Creditors			
Creditors arising out of direct insurance operations		8,578	11,493
Creditors arising out of reinsurance operations		9,201	10,443
Other creditors including taxation and social security	19	26,378	19,682
		44,157	41,618
Accruals and deferred income	20	10,471	13,350
Total liabilities		1,023,380	920,468
Total equity and liabilities		1,318,450	1,174,572

The financial statements on pages 10 to 14, and related notes on pages 15 to 50, were approved by the Board of Directors and were signed on its behalf by:



James Reader
Chief Executive
31 March 2017

**Accounting Policies
For the Year Ended 31 December 2016**

GENERAL INFORMATION

Covea Insurance plc ("the Company") is a general insurance company offering a range of products for individuals and small and medium-sized businesses, distributed directly to customers and through a network of intermediaries and brokers across the UK. It is based in eleven locations across the country, and is a member of one of Europe's largest mutual insurance groups, Covéa.

The Company is an unlisted public company incorporated in England and the address of its registered office is Norman Place, Reading, Berkshire, RG1 8DA.

STATEMENT OF COMPLIANCE

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including the Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance contracts" ("FRS 103") and the Companies Act 2006. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The financial statements have been prepared in accordance with the requirements of Schedule 3 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to Insurance Companies. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes;
- Key Management Personnel compensation; and
- Related party disclosures.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

BASIS OF PREPARATION

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

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

Where considered appropriate, the prior year disclosures have been amended to be consistent with the current year disclosures.

GOING CONCERN

The Directors believe that the Company is well placed to manage the risks facing it. After making enquiries, the Directors are satisfied that the Company has adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

CONSOLIDATION

The Company is a subsidiary company owned by an EU parent and is exempt from the requirement to prepare consolidated financial statements by virtue of Section 400 of the Companies Act 2006 (see note 23).

INSURANCE CONTRACTS

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. The Company's insurance products are classified as insurance contracts.

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

**Accounting Policies
For the Year Ended 31 December 2016**

PREMIUMS

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

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.

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 reporting date.

Commissions deferred are based on the period of the policy.

CLAIMS INCURRED

Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years.

CLAIMS PROVISIONS AND RELATED REINSURANCE RECOVERIES

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries.

**Accounting Policies
For the Year Ended 31 December 2016**

UNEXPIRED RISKS PROVISION

Provision is made where the cost of claims and expenses arising after the end of the reporting period 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 reporting date. Investment income is taken into account in calculating the need for, and amount of, any provision.

EQUALISATION PROVISION

The new Solvency II regulatory framework that came into force on the 1 January 2016 does not allow for equalisation provisions to be held and therefore the entire brought forward claims equalisation reserve has been released to the General Insurance technical account to ensure ongoing compliance with FRS103. Prior to 2016, amounts were set aside as equalisation provisions and included within technical provisions in accordance with the PRA's Handbook for the purpose of mitigating exceptionally high loss ratios in future years as required by the then Schedule 3 of SI2008/410.

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 statement of comprehensive income, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the statement of comprehensive income as 'Outward reinsurance premiums' when due.

PROPERTY AND ACCIDENT BUSINESS

Property, aviation and accident business is "short tail", that is there is not a significant delay between the occurrence of the claim and the claim being reported to the Company. The costs of claims notified to the Company at the balance sheet date are estimated on a case by case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims is projected from this data by reference to statistics which show how estimates of claims incurred in previous periods have developed over time to reflect changes in the underlying estimates of the cost of notified claims and late notifications.

MOTOR BUSINESS

The estimated cost of motor claims, excluding the cost of personal injury claims, is calculated by reference to the projected number of claims, based on statistics showing how the number of notified claims has been developed over time, and the anticipated average cost per claim, based on historical levels adjusted to allow for movements in the variables described above. The personal injury element of motor claims costs is estimated using the same method as used for liability claims described below. In addition, the estimate is assessed in the context of the historical development of paid and incurred claims and the implied loss ratios for each accident year.

LIABILITY

These claims are longer tail than for those of the other classes of business described above and so a larger element of the claims provision relates to incurred but not reported claims. Claims estimates for liability business are derived from a combination of loss ratio based estimates and an estimate based upon actual claims experience using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimate of the loss ratio based on the experience of previous years adjusted for factors such as premium rate changes and claims inflation, and on the anticipated market experience, is an important assumption in this estimation technique. In respect of liability claims, the assessment of claims inflation and anticipated market experience is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability class of business is also subject to the emergence of new types of latent claims but no allowance is included for this as at the balance sheet date.

DISCOUNTED CLAIMS PROVISIONS

Claims which are or are expected to be settled using a Periodic Payment Order give rise to a long-term liability linked to the mortality of the claimant. For these claims, the outstanding claims provisions are discounted to take account of the expected investment income receivable on the assets held to cover the provisions until final settlement of the liability.

**Accounting Policies
For the Year Ended 31 December 2016**

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 within the non-technical account.

Realised investment gains and losses are calculated as the difference between net proceeds on disposal and their purchase price.

INVESTMENTS

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The Company classifies its financial investments into the following categories:

- (i) Equities and units in unit trusts – at fair value;
- (ii) Debt securities and other fixed-income securities – at fair value; and
- (iii) Deposits with credit institutions – at fair value

Equities and units in unit trusts, Debt securities and other fixed interest securities and Deposits with credit institutions are classified as at fair value through profit or loss at inception because they form part of an investment portfolio that is managed, and whose performance is evaluated by the Company's key management personnel, on a fair value basis.

The fair values of listed investments are based on the current bid price at the reporting date or the last trading day before that date. The fair values of other unlisted investments, for which no active market exists, are established by the Directors using valuation techniques. These include use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other pricing models.

Net gains or losses arising from changes in the fair value of financial assets are presented in the statement of comprehensive income within "Unrealised gains on investments" or "Unrealised losses on investments" in the period in which they arise.

Unrealised gains and losses represent the difference between the fair value of financial assets at the reporting date and the original cost, or if they have been previously valued, those valuations at the reporting date. The movement in unrealised gains and losses recognised through the statement of comprehensive income in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investments are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

CASH FLOW STATEMENT

In accordance with Financial Reporting Standard 102, 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 (see Note 23).

TAXATION

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Accounting Policies

For the Year Ended 31 December 2016

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Deferred tax relating to investment property that is measured at fair value is measured using the tax rates and allowances that apply to sale of the asset, except for investment property that has a limited useful life and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time.

TANGIBLE ASSETS

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

At the end of each reporting period the assets' residual values and useful lives are reviewed and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(i) Land & buildings

Land and buildings include freehold and leasehold offices. 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.

(ii) Fixtures, fittings, and equipment

Fixtures, fittings, and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Depreciation and residual values

Land is not depreciated. Depreciation on other assets is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over their estimated useful lives, as follows:

Computer equipment	3 to 5 years
Motor vehicles	3 to 5 years
Fixtures, fittings and equipment	5 years
Buildings	30/ 50 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(iv) Subsequent additions and major components

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(v) Assets under construction

Assets under construction are stated at cost. These assets are not depreciated until they are available for use.

(vi) Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in statement of comprehensive income and included in administrative expenses.

**Accounting Policies
For the Year Ended 31 December 2016**

INTANGIBLE ASSETS

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software 3 to 5 years

Amortisation is charged to administrative expenses in the statement of comprehensive income. Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Costs associated with maintaining computer software are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- the Company intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

FOREIGN CURRENCIES

UK Pounds Sterling is the functional currency of all activities.

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 reporting date or if appropriate at the forward contract rate. Exchange differences arising from transactions are taken to the Statement of Comprehensive Income. Exchange differences arising from the retranslation of the opening net investment in foreign business operations are taken to Other Comprehensive Income.

OPERATING LEASES

At inception of lease contracts the Company assesses the substance of the arrangement in order to ensure that the lease is an operating lease and not a finance lease.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

PENSION COSTS

The Company operated a defined contribution scheme until 31 December 2015, and a defined benefit scheme until 14 December 2016.

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 2016. The Company has borne all expenses relating to the scheme up to 14 December 2016 when sponsorship of the scheme was transferred to MMA Holdings UK Plc.

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the reporting date are taken to other comprehensive income for the period to the extent they are attributable to shareholders. The deferred taxation attributable to the scheme is shown separately in other comprehensive income.

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.

**Accounting Policies
For the Year Ended 31 December 2016**

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 premiums written in the year. The amount charged in respect of the Flood Re levy, which is based on the Company's share of the domestic household property market, reflects the levy as determined by Flood Re applicable to premiums written in the previous year.

IMPAIRMENT OF NON-FINANCIAL ASSETS

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter, any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

PROVISIONS AND CONTINGENCIES**Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provision is not made for future operating losses.

Provisions for levies are recognised on the occurrence of the event identified by legislation that triggers the obligation to pay the levy.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are addressed below.

(i) Useful economic lives of tangible assets

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of the tangible assets and page 19 for the useful economic lives for each class of assets.

**Accounting Policies
For the Year Ended 31 December 2016**

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)**(ii) Impairment of receivables**

The Company makes an estimate of the recoverable value of trade and other receivables. When management is assessing impairment of trade and other receivables, it considers factors including the current credit rating of the debtor, the ageing profile of receivables and historical experience.

(iii) 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 at the reporting 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 reporting date. The number of claims expected and their anticipated final cost are projected using the Company's statistical history, amongst other factors.

Projections are made separately for each class of business, based on information available up to one month after the reporting 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.

In 2016, salvage and other recoveries are included with claims outstanding.

(iv) Pipeline premium

The Company makes an estimate of premiums written during the year that have not yet been notified by the financial year end ('pipeline premiums') based on prior year experience and current year business volumes. The pipeline premium is booked as written and an assessment is made of the related unearned premium provision and an estimate of claims incurred but not reported in respect of the earned element.

**Risk and Capital Management Report
For the Year Ended 31 December 2016**

OVERVIEW

This note presents information about the nature and extent of the risks arising from insurance contracts and financial instruments, and the Company's objectives, policies and processes for measuring and managing those risks.

As an insurance company, the Company is in the business of actively seeking risk with a view to adding value by managing it. The Company is exposed to financial risks from financial instruments and insurance contracts. Financial risk is categorised as either credit, liquidity or market risk (i.e. interest rate risk). Insurance contracts issued by the Company also expose the Company to insurance risk; contract holder behaviour risk and expense risk. Insurance risk is the inherent uncertainty regarding the occurrence, amount, or timing of an insured event. The Company categorises other risks as strategic risk, operational risk, and compliance risk.

As set out in the Strategic Report, the Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Company's risk management framework. Management is responsible for developing and monitoring the Company's risk management policies. Management reports regularly to the Board on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, set appropriate risk limits and controls, and monitor adherence to risk limits. Risk management policies are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

As set out in the Strategic Report, the Company's Board of Directors ("the Board") establishes the risk appetite of the organisation. For the purpose of managing risks, the Company classifies its risks into the following categories:

Strategic risk

The Company operates in highly-competitive markets, which have changed in structure substantially over recent years, particularly in respect of distribution and technology. Continued changes are inevitable and will generate both risks and opportunities.

Insurance Risk

The Company is exposed to insurance risk arising due to fluctuations in the timing, frequency and severity of insured events, relative to expectations at the time of underwriting, and to fluctuations in the timing and amount of claim settlements and other insurance-related expenses. Claim settlements can also be affected by changes to the legal framework in which they are made and court procedures. There is inherent uncertainty in the estimation of general insurance claim reserves as this process involves the projection of future events that are uncertain. The ultimate cost of claim settlements will therefore vary from our estimates.

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. Claims case estimates are reviewed on a regular basis and overall reserves are subject to internal actuarial review quarterly. This is supplemented by an annual external independent review.

Excess of loss reinsurance cover is in place limiting the Company's exposure in respect of individual loss events to a maximum of £1.0m (indexed in line with inflation). Catastrophe cover is purchased in respect of property-based risks to limit the Company's exposure to extreme weather to £10m (2015: £6.0m) per event.

Process used to decide on assumptions

The Company uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus 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 claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

Risk and Capital Management Report For the Year Ended 31 December 2016

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that different techniques or combinations of techniques have been selected for individual accident years or groups of accident years within the same class of business.

Concentration risk analysis

The concentration of insurance risk before and after reinsurance by territory in relation to the type of insurance risk accepted is summarised below, with reference to the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts:

31 December 2016						
Territory	Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom						
Gross	452,986	84,724	103,957	7,618	962	650,247
Net	252,495	80,639	88,863	7,618	962	430,577

31 December 2015						
Territory	Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
	£'000	£'000	£'000	£'000	£'000	£'000
United Kingdom						
Gross	358,314	96,688	81,403	8,400	1,110	545,915
Net	237,994	87,719	66,541	8,398	1,022	401,674

Credit Risk

Credit risk is defined as the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion. Exposure to credit risk may arise in connection with a single transaction or an aggregation of transactions (not necessarily the same type) with a single counterparty.

The Company is exposed to credit risk in respect of amounts recoverable from reinsurers and intermediaries, the financial assets held in the Companies' investment portfolio and cash held with banks.

Reinsurance and intermediaries

Once insurance contracts have been written the Company uses reinsurance agreements to transfer an element of potential insurance risk exposure from contract liabilities. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a reinsurance claim, the Company remains liable for the payment to the policyholder. To manage this exposure the Company assesses reinsurer creditworthiness based on, amongst other factors, external credit rating.

**Risk and Capital Management Report
For the Year Ended 31 December 2016**
Investment portfolio and cash

The principal other source of credit risk arises from the assets held in the investment portfolio. The risk is that the investment counterparty enters financial difficulties and the fair value of the asset diminishes or the income stream (e.g. dividends or interest payments) is not paid; alternatively the counterparty becomes insolvent and the value of the asset is written off.

The investment portfolio contains a range of assets, including equities, corporate bonds and other fixed income securities and cash deposits. The Credit Risk Policy stipulates approved counterparties, permitted investments and geographical territories, as well as detailing specific asset class and external credit rating exposure limits.

The Company's cash portfolio is deposited only with banks which are considered to provide good levels of security based upon external credit ratings, the maximum exposure to any single counterparty is limited.

The following table provides information regarding the aggregated credit risk exposure for financial assets of the Company as at 31 December:

	31 December 2016						
	AAA	AA	A	BBB	Less than BBB	Non- rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Government Bonds	-	345,514	-	-	-	-	345,514
Corporate Bonds	63,608	62,133	60,139	38,991	-	-	224,871
Equities and units in unit trusts	-	-	-	-	-	58,922	58,922
Deposits with credit institutions	-	95,628	25,049	-	-	-	120,677
Reinsurers' share of insurance contracts liabilities	-	127,786	91,646	-	-	238	219,670
Receivables arising out of direct insurance operations	-	-	-	-	-	116,050	116,050
Receivables arising out of reinsurance operations	-	1,211	7,827	-	-	6	9,044
Other receivables	-	-	-	-	-	22,755	22,755
Loan to fellow subsidiary	-	-	-	-	-	10,151	10,151
Cash	-	20,260	26,320	29,655	-	-	76,235
Total financial assets	63,608	652,532	210,981	68,646	-	208,122	1,203,889
Total %	5%	54%	18%	6%	-	17%	100%

**Risk and Capital Management Report
For the Year Ended 31 December 2016**
Investment portfolio and cash (continued)

	31 December 2015						
	AAA	AA	A	BBB	Less than BBB	Non-rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Government Bonds	311,457	-	-	-	-	-	311,457
Corporate Bonds	52,695	47,250	59,590	39,694	1,582	-	200,811
Equities and units in unit trusts	-	-	-	-	-	50,536	50,536
Deposits with credit institutions	-	72,096	45,026	-	-	-	117,122
Reinsurers' share of insurance contracts liabilities	-	77,610	66,262	143	-	226	144,241
Receivables arising out of direct insurance operations	-	-	-	-	-	126,536	126,536
Receivables arising out of reinsurance operations	-	799	4,995	-	-	77	5,871
Other receivables	-	-	-	-	-	8,335	8,335
Loan to fellow subsidiary	-	-	-	-	-	10,288	10,288
Cash	-	18,205	40,311	-	21,427	-	79,943
Total financial assets	364,152	215,960	216,184	39,837	23,009	195,998	1,055,140
Total %	35%	20%	20%	4%	2%	19%	100%

Liquidity Risk

Liquidity risk is the risk that the Company cannot make payments as they become due because there are insufficient assets in cash form.

The Company encounters potential liquidity risk exposures from its different business activities. It principally arises from its insurance contracts and the timing of the associated policyholder commitments. In the general insurance business there is the potential for increased demand for cash, above normal claims expense patterns, for example to meet adverse UK weather events.

Management of liquidity risk

The Board of Directors sets the Company's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to the Asset Allocation Committee, which approves the Company's liquidity policies and procedures. Management is responsible for managing the Company's liquidity position on a day to day basis. Reports, including exceptions and remedial action taken, are submitted regularly to management and the Asset Allocation Committee.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The risk exposure is managed using several methods and techniques, which include:

- Maintaining forecasts of cash requirements and adjusting investment management strategies as appropriate to meet these requirements, both in the short and long term;
- Holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle liabilities as these fall due;

**Risk and Capital Management Report
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Management of liquidity risk (continued)

- Forecasting additional cash demands under stressed conditions and management actions to be taken to liquidate sufficient assets to meet the increased demands; and
- Appropriate matching of the maturities of assets and liabilities. The Company undertakes asset and liability management to ensure that the duration of liabilities is broadly matched by its assets within the risk appetite of the Company.

Maturity analysis*Financial assets*

The maturity analysis presented in the table below provides an analysis of the carrying value of financial and reinsurance assets available to fund the repayment of liabilities as they arise.

The estimated contractual net cash inflows for reinsurer's share of technical provisions is based on the undiscounted future cash inflows included in the measurement of the assets. The estimated cash inflows for investments and debtors (Debtors arising out of direct insurance operations – intermediaries, Debtors arising out of reinsurance operations, and Other debtors) reflects the earliest date on which the gross undiscounted cash flows could be received assuming conditions are consistent with those at the reporting date.

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For the Year Ended 31 December 2016**
Financial liabilities and insurance contract liabilities

The maturity analysis presented in the table below reflects the estimated future contractual net cash outflows arising from the Company's financial liabilities and insurance contracts at the reporting date.

The estimated contractual net cash outflows for technical provisions is based on the undiscounted future cash inflows and outflows included in the measurement of the liabilities. The estimated cash outflows for creditors (Creditors arising out of direct insurance operations, Creditors arising out of reinsurance operations, and Other creditors) reflects the earliest date on which the gross undiscounted cash flows could be paid assuming conditions are consistent with those at the reporting date.

	31 December 2016					
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial Assets	£'000	£'000	£'000	£'000	£'000	£'000
Investments	749,984	241,715	190,656	270,830	58,622	761,823
Reinsurers' share of technical provisions	220,289	37,715	21,674	59,060	191,790	310,239
Debtors arising out of direct insurance operations	116,050	116,050	-	-	-	116,050
Debtors arising out of reinsurance operations	9,044	9,044	-	-	-	9,044
Other debtors	22,755	22,755	-	-	-	22,755
Loan to fellow subsidiary	10,151	600	10,451	-	-	11,051
Cash	76,235	76,235	-	-	-	76,235
Deferred acquisition costs	69,541	69,541	-	-	-	69,541
Other prepayments and accrued income	2,255	2,255	-	-	-	2,255
Total	1,276,304	575,910	222,781	329,890	250,412	1,378,993
Financial Liabilities						
Provisions for unearned premium	318,505	318,505	-	-	-	318,505
Claims outstanding	650,247	242,110	106,588	146,926	260,485	756,109
Creditors arising out of direct insurance operations	8,578	8,578	-	-	-	8,578
Creditors arising out of reinsurance operations	9,201	9,201	-	-	-	9,201
Other creditors including taxation and social security	26,378	26,378	-	-	-	26,378
Accruals and deferred income	10,471	10,471	-	-	-	10,471
Total	1,023,380	615,243	106,588	146,926	260,485	1,129,242

**Risk and Capital Management Report
For the Year Ended 31 December 2016**

31 December 2015						
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Investments	679,926	197,377	245,657	236,269	22,109	701,412
Reinsurers' share of technical provisions	144,784	19,503	20,725	45,370	212,713	298,311
Debtors arising out of direct insurance operations	126,536	126,536	-	-	-	126,536
Debtors arising out of reinsurance operations	5,871	894	-	4,977	-	5,871
Other debtors	8,335	8,335	-	-	-	8,335
Loan to fellow subsidiary	10,288	738	600	10,450	-	11,788
Cash	79,943	79,943	-	-	-	79,943
Deferred acquisition costs	72,484	72,484	-	-	-	72,484
Other prepayments and accrued income	3,842	3,842	-	-	-	3,842
Total	1,132,009	509,652	266,982	297,066	234,822	1,308,522
Financial Liabilities						
Provisions for unearned premium	289,776	289,776	-	-	-	289,776
Claims outstanding	545,915	211,634	93,408	123,177	277,987	706,206
Equalisation provision	29,809	29,809	-	-	-	29,809
Creditors arising out of direct insurance operations	11,493	11,493	-	-	-	11,493
Creditors arising out of reinsurance operations	10,443	10,443	-	-	-	10,443
Other creditors including taxation and social security	19,682	19,682	-	-	-	19,682
Accruals and deferred income	13,350	13,350	-	-	-	13,350
Total	920,468	586,187	93,408	123,177	277,987	1,080,759

Market risk

Market risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market prices. The Company is exposed to the following market risks: interest rate risk and equity price risk.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from interest-bearing financial assets only. Interest bearing assets comprise other financial assets at fair value through profit or loss and cash and cash equivalents which are considered to be short-term liquid assets.

The fair value of the Company's portfolio of fixed income securities is inversely correlated to changes in market interest rates. Thus if interest rates fall, the fair value of the portfolio would tend to rise and vice versa. Exposures are controlled by the setting of investment limits and managing assets and liabilities in line with the Company's risk appetite.

**Risk and Capital Management Report
For the Year Ended 31 December 2016**

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. If the interest yields had decreased / increased by 50 basis points, with all other variables held constant, this would result in additional net profit/loss for the period and increase/decrease in equity of £4.7m (2015: £4.5m).

Equity price risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Company as investments

The risks from investing in equities are managed by investing in a diverse portfolio of high quality securities ensuring that holdings are diversified across industries and concentrations in any one company or industry are limited by parameters established by the Board of Directors.

The Company sets appropriate risk limits to ensure that no significant concentrations in individual companies arise. The Company takes a long term view in investing in equities and looks to build value over a sustained period of time rather than using high level of purchases and sales in order to generate short-term gains from its equity holdings.

The sensitivity analysis for equity price risk illustrates how changes in the fair value of a financial instrument will fluctuate because of changes in equity market indices at the reporting date. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the Company's equity investments moving according to the historical correlation with the index, the net profit for the year would increase/decrease by £2.4m (2015: £2m).

Operational Risk

The Company is exposed to a range of operational risks, including those relating to the failure of processes or controls, business continuity, information security and fraud. These risks are managed through the maintenance of a comprehensive internal control environment, including the operation of a "three lines of defence model", with internal audit and a risk and compliance team supplementing the control activities of business management.

Compliance Risk

As a regulated entity operating in the UK insurance market, the Company is subject to a wide range of regulations and legislation. There is a risk of failure to comply with existing requirements or to adapt to new or changing requirements. Such a failure could result in legal action, loss of revenue, increased costs or regulatory sanction.

The Company manages these risks through the maintenance of open and constructive relationships with its regulators and of a strong internal compliance culture, and the thorough assessment of the impact of new legislation and regulations.

Capital Management**a) Policies and objectives**

The Company manages its capital resources such that its current and projected Available Capital resources exceed its regulatory requirements and achieves:

- Effective implementation of a sustainable corporate strategy;
- Compliance with capital requirements imposed by the PRA;
- Financial viability of the Company;
- Appropriate levels to address identified business risks; and
- Trust in the Company's financial strength

The Company is regulated by the Prudential Regulation Authority and is subject to insurance solvency regulations which specify the minimum amount and type of capital that must be held in addition to the assets covering the insurance liabilities.

The Company has historically managed capital in accordance with Solvency I rules and embedded in its framework the necessary tests to ensure continuous and full compliance with such regulations.

The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements and risk management and disclosure standards. The Company is required to meet a Solvency Capital Requirement ("SCR") which is calibrated to seek to ensure a 99.5% confidence of the ability to meet obligations over a 12 month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. In the period leading up to Solvency II's implementation the Company had been managing its capital having regard to Solvency II's capital requirements and definition of capital.

**Risk and Capital Management Report
For the Year Ended 31 December 2016**

The Company manages its available capital resources (Own Funds under Solvency II) to exceed the relevant regulatory requirements at all times. In addition, the Board has established a capital management policy which targets a higher level of capital coverage to provide both capacity to support growth and a degree of protection against unexpected events which might otherwise cause a breach of the regulatory requirement. Through this approach, the Company seeks to ensure its ongoing financial viability, enable effective implementation of a sustainable growth strategy, and secure the continued confidence of its stakeholders, including its policyholder, claimants and shareholders.

b) Measurement and monitoring

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

In the event that sufficient capital was not available, actions would be taken either to raise additional capital or to reduce the amount of risk accepted, thereby reducing the capital requirement, through, for example, reinsurance, reducing business volumes or a change in investment strategy.

c) Capital Statement

The Company has complied with all externally-imposed capital requirements to which it was subject throughout the reporting period. However, the level of cover at 31 December 2016 was lower than the target solvency cover as set out in internal capital management policy established by the Directors, in part due to the impact of the reduction in the Ogden discount rate. In order to address this and to provide additional capital coverage to support future growth, on 29 March 2017 the Company entered into a quota share reinsurance arrangement under which 20% of its earned premiums and claims for the period 1 January 2017 to 31 December 2019 will be ceded to a highly-rated reinsurer. The impact of this arrangement is to increase the capital coverage to a level in excess of the target as set out in the internal capital management policy.

Notes to Financial Statements
For the Year Ended 31 December 2016

1. INSURANCE PORTFOLIO TRANSFER

On 31 December 2015, Sterling Insurance Company Limited (SICL) transferred its businesses and operations into the Company; by way of a transfer under Part VII of the Financial Services and Markets Act 2000.

To support this transfer, there was a corresponding increase in share capital from the parent company. The net assets transferred on 31 December 2015 were £27,561,000.

The completion of the transfer took place in 2016 with a transfer of £4,518,000 of net assets to the Company, with a corresponding increase in share capital from the parent company (see Note 14) during the year.

2. PARTICULARS OF BUSINESS

- (a) All contracts of insurance were concluded in the United Kingdom (2015 - same).
 (b) Analysis of gross written premiums, gross earned premiums, gross incurred claims, gross operating expenses and the reinsurance result.

Gross premiums written and gross premiums earned by class of business

	Gross premiums written		Gross premiums earned	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Motor third party liability	262,748	236,650	239,633	226,459
Motor other	86,505	50,554	78,797	48,266
Fire and other damage to property	200,184	114,487	203,099	112,667
Liability	70,451	43,564	65,354	41,571
Accident and health	41,614	27,541	44,339	27,628
Miscellaneous	4,804	208	6,355	238
	<u>666,306</u>	<u>473,004</u>	<u>637,577</u>	<u>456,829</u>

Gross claims incurred, gross operating expenses and reinsurance balances by class of business

	Gross claims Incurred		Gross operating expenses		Reinsurance Balance	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Motor third party liability	242,144	134,742	54,805	52,349	51,332	(34,280)
Motor other	63,944	20,226	14,079	8,695	793	-
Fire and other damage to property	117,103	65,748	87,290	50,654	(11,682)	(203)
Liability	41,480	30,043	30,792	18,200	8,440	(1,873)
Accident and health	6,927	4,163	32,898	22,402	(4)	(5)
Miscellaneous	1,655	(79)	4,464	-	(14)	-
	<u>473,253</u>	<u>254,843</u>	<u>224,328</u>	<u>152,300</u>	<u>48,865</u>	<u>(36,361)</u>

Notes to Financial Statements
For the Year Ended 31 December 2016

3. NET OPERATING EXPENSES

	2016	2015
	£'000	£'000
Acquisition costs		
Commission expense	140,627	102,298
Others	17,151	10,022
	157,778	112,320
Change in deferred acquisition costs	2,943	(108)
	160,721	112,212
Administrative expenses	50,810	33,263
Motor Insurers' Bureau levy	4,943	4,513
Financial Services Compensation Scheme levy	1,619	695
Flood Re levy	4,269	-
Other levies	1,966	1,617
Gross operating expenses	224,328	152,300
Reinsurance commissions	(477)	(1,567)
Net Operating Expenses	223,851	150,733

Included in administrative expenses is auditors' remuneration in respect of audit services amounting to £289,000, (2015 - £221,000) and in relation to audit related assurance services amounting to £265,000 (2015 - £58,000 in respect of non-audit services work).

Administrative expenses also include:

	2016	2015
	£'000	£'000
Depreciation of tangible assets	2,002	1,314
Amortisation of intangible assets	3,471	806
Operating lease rentals	852	1,309
Loss/ (gain) on disposals of tangible assets	80	(10)

Notes to Financial Statements
For the Year Ended 31 December 2016

4. INVESTMENT RETURN

	2016	2015
	£'000	£'000
Investment Income		
Income from financial assets at fair value through profit and loss	15,023	13,059
Income from fellow subsidiary undertakings	601	1,185
Expenses associated with land or buildings	(350)	-
	15,274	14,244
Investments expenses and charges		
Other Investment management expenses	(614)	(574)
Net losses on the realisation of investments	(637)	(4,604)
Total Investment management expenses, including interest	(1,251)	(5,178)
Net unrealised gains / (losses) on investments	6,913	(4,028)
Total Investment return	20,936	5,038

The expense associated with land or buildings relates to the write down of the value of a property held for sale during 2016.

5. DIRECTORS' EMOLUMENTS

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

	2016	2015
	£'000	£'000
Aggregate emoluments and benefits	1,700	1,612
Pension contributions	108	162
	1,808	1,774
Highest paid director:		
Aggregate emoluments and benefits	479	571
	479	571

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 2016 to 2018. The 2016 to 2018 LTIP will vest at the end of 2019 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.

Notes to Financial Statements
For the Year Ended 31 December 2016

6. STAFF NUMBERS AND COSTS

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

	2016	2015
Non-executive Directors	-	6
Executive Directors / Senior Management	-	10
Actuarial and Pricing	-	36
Commercial	-	211
Claims and Customer Services	-	450
Finance	-	59
Risk and Compliance	-	13
Business Services	-	216
	-	1,001

The aggregate payroll costs in respect of these persons were as follows:

	2016	2015
	£'000	£'000
Wages and salaries	-	32,479
Social security costs	-	3,327
Other pension costs	-	2,541
	-	38,347

The total number of employees at 31 December 2016 was nil (2015 – 1,050). On 1 January 2016, all employees of the Company transferred to a fellow subsidiary, Covea Insurance Services Limited, by way of a Transfer of Undertakings (Protection of Employment) transfer.

The costs of the employees are borne by Covea Insurance Services Limited and, to the extent they are providing services to the Company, along with other costs are recharged by way of a management expense recharge. This totalled £53,682,000 for the year to 31 December 2016.

Notes to Financial Statements
For the Year Ended 31 December 2016

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

		2016	2015
		£'000	£'000
Current Tax	UK Corporation Tax	667	2,422
	Adjustment in respect of prior year	(1,012)	334
	Total current tax	(345)	2,756
Deferred Tax	Origination and reversal of timing differences	5,688	141
	Adjustment in respect of previous periods	1,040	(90)
	Effect of changes in tax rates	(900)	18
	Deferred tax (note 18)	5,828	69
	Tax charge for the year	5,483	2,825
	Equity Items:		
	Deferred tax current year credit	-	(60)
Factors affecting current tax charge			
		2016	2015
		£'000	£'000
Profit on ordinary activities before tax		43,852	15,736
	Tax on profit on ordinary activities at 20% (2015: 20.25%)	8,770	3,186
	Expenses not deductible for tax purposes	369	69
	Income on which no further tax is payable	(376)	(374)
	Effects of group relief/ other reliefs	(2,408)	-
	Transfer pricing adjustments	-	(3)
	Adjustment in respect of prior year	28	103
	Tax rate changes	(900)	18
	Other timing differences	-	(174)
Total Tax		5,483	2,825

The UK standard rate of corporation tax is 20% for the year ended 31 December 2016 (2015: 20.25%). A reduction in the rate of corporation tax from 20% to 19% will become effective from April 2017 and was substantively enacted on 18 November 2015. A further reduction to 17% from April 2020 was substantially enacted on 15 September 2016. Deferred tax has been provided at 17% (2015: 18%).

During the year beginning 1 January 2017, the net reversal of deferred tax assets and liabilities is expected to increase the corporation tax charge for the year by £263,000. This is due to the reduction in the deferred tax liability of the CER provision for which £4,968,000 is being taxed over each of the six years starting Financial year 2016. This is partially offset by capital allowances to be claimed expected to exceed depreciation in financial year 2017. The net effect is a reduction in the deferred tax liability and an increase in the corporation tax charge in the year ended 31 December 2016.

There is no expiry date on timing differences, unused tax losses or tax credits.

Notes to Financial Statements
For the Year Ended 31 December 2016

8. DIVIDEND

	2016	2015
	£'000	£'000
Amount paid to equity shareholders	1,500	5,100

A £1.5m dividend was paid in 2016 in respect of 2015 (2015: paid in respect of 2014 - £5.1m).

9. FINANCIAL INVESTMENTS

	Market Value		Cost	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Investments designated at fair value through profit or loss:				
Equities and units in unit trust	58,922	50,536	48,333	48,328
Debt securities and other fixed-income securities	570,385	512,268	569,234	512,462
Deposits with credit institutions	120,677	117,122	120,500	117,000
	<u>749,984</u>	<u>679,926</u>	<u>738,067</u>	<u>677,790</u>
Listed investments included in the above	<u>629,307</u>	<u>562,804</u>	<u>617,567</u>	<u>560,790</u>

a) Fair value changes

The changes in fair value of investments stated at fair value through profit or loss as at 31 December 2016 were as following:

	31 December 2016			
	Cost	Accrued income	Fair value gains/(losses)	Fair Value
	£'000	£'000	£'000	£'000
Investments designated at fair value through profit or loss:				
Equities and units in unit trust	48,333	-	10,589	58,922
Debt securities and other fixed-income securities	569,234	6,452	(5,301)	570,385
Deposits with credit institutions	120,500	177	-	120,677
Total	<u>738,067</u>	<u>6,629</u>	<u>5,288</u>	<u>749,984</u>

b) Fair value hierarchy

FRS 102 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (e.g. London Stock Exchange).

Notes to Financial Statements
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Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

31 December 2016			
	Level 1	Level 2	Level 3
	£'000	£'000	£'000
			Total
			£'000
Investments designated at fair value through profit or loss:			
Equities and units in unit trust	58,922	-	-
Debt securities and other fixed-income securities	570,385	-	-
Deposits with credit institutions	120,677	-	-
Total	749,984	-	-
			749,984

31 December 2015			
	Level 1	Level 2	Level 3
	£'000	£'000	£'000
			Total
			£'000
Investments designated at fair value through profit or loss:			
Equities and units in unit trust	50,536	-	-
Debt securities and other fixed-income securities	512,268	-	-
Deposits with credit institutions	117,122	-	-
Total	679,926	-	-
			679,926

10. RECEIVABLES ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016	2015
	£'000	£'000
Amounts owed by intermediaries	79,515	99,512
Amounts owed by policyholders	36,535	27,024
	116,050	126,536

Included within the receivables balance are intercompany trading balances due from Swinton Group Limited, a fellow subsidiary undertaking, of £9,492,000 (2015: £10,917,000).

Notes to Financial Statements
For the Year Ended 31 December 2016

11. OTHER RECEIVABLES

	2016	2015
	£'000	£'000
Amounts owed by group companies	16,181	1,534
Deferred tax asset (see note 18)	-	195
Corporation tax recoverable	2,671	-
Other receivables	3,903	6,606
	22,755	8,335

12. TANGIBLE ASSETS

	Computer equipment	Fixtures, fittings and equipment	Motor vehicles	Land & buildings	Assets under construction	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2016	6,331	3,944	39	14,876	10,710	35,900
Additions	1,909	1,851	-	696	-	4,456
Reclassification	-	-	-	987	-	987
Disposals	(3,124)	(2,285)	-	(695)	-	(6,104)
Assets Brought into Use	-	-	-	10,710	(10,710)	-
At 31 December 2016	5,116	3,510	39	26,574	-	35,239
Depreciation						
At 1 January 2016	5,165	3,420	34	45	-	8,664
Charge for the year	984	414	3	601	-	2,002
Elimination in respect of disposals	(3,181)	(2,263)	-	(5)	-	(5,449)
At 31 December 2016	2,968	1,571	37	641	-	5,217
Net Book Value						
At 31 December 2016	2,148	1,939	2	25,933	-	30,022
At 31 December 2015	1,166	524	5	14,831	10,710	27,236

Notes to Financial Statements
For the Year Ended 31 December 2016

13. INTANGIBLE ASSETS

	Computer software	Development Costs	Total
Cost	£'000	£'000	£'000
At 1 January 2016	9,652	12,760	22,412
Additions	1,097	-	1,097
Reclassification	-	(987)	(987)
Disposals	-	-	-
Assets Brought into Use	11,773	(11,773)	-
At 31 December 2016	22,522	-	22,522
Amortisation			
At 1 January 2016	7,085	-	7,085
Charge for the year	3,471	-	3,471
Elimination in respect of disposals	(158)	-	(158)
At 31 December 2016	10,398	-	10,398
Net Book Value			
At 31 December 2016	12,124	-	12,124
At 31 December 2015	2,567	12,760	15,327

Intangible assets represent Computer software. Development costs represent assets of this class which are not yet in use, principally in relation to the Provident Direct proposition.

14. CALLED UP SHARE CAPITAL

	2016	2015
	£'000	£'000
Authorised ordinary shares	162,561	162,561
162,561,000 (2015: 162,561,000) Ordinary shares of £1 each		
Allotted, called up and fully paid	158,224	153,706
158,224,365 (2015: 153,705,691) Ordinary shares of £1 each		

The increase in share capital (£4,518,000) relates to the corresponding addition of remaining net assets due to the transfer of the business and assets of SICL into the Company (see note 1).

There is a single class of ordinary share. There are no restrictions on the distribution of dividends and repayment of capital.

Notes to Financial Statements
For the Year Ended 31 December 2016

15. CLAIMS OUTSTANDING

2016	Gross £'000	Reinsurance £'000	Net £'000
Notified outstanding claims	639,846	215,583	424,263
Provisions for claims incurred but not reported	2,998	4,087	(1,089)
	642,844	219,670	423,174
Claims handling expenses	7,403	-	7,403
	650,247	219,670	430,577
2015	Gross £'000	Reinsurance £'000	Net £'000
Notified outstanding claims	578,312	195,216	383,096
Provisions for claims incurred but not reported	(39,609)	(50,975)	11,366
	538,703	144,241	394,462
Claims handling expenses	7,212	-	7,212
	545,915	144,241	401,674

The tables below reflect the cumulative incurred claims including both claims notified and incurred but not reported ('IBNR') for each successive accident year at each reporting date, together with the cumulative payments to date. The Company aims to maintain appropriate reserves in order to protect against adverse future claims experience and developments.

Notes to Financial Statements
For the Year Ended 31 December 2016

15. CLAIMS OUTSTANDING (continued)

Analysis of claims outstanding – gross of reinsurance	2010	2011	2012	2013	2014	2015	2016	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Initial estimate of ultimate claims costs	163,799	120,701	523,790	267,083	264,798	371,540	405,589	405,589
One year later	163,438	115,953	496,030	256,670	246,697	386,630	-	386,630
Two years later	159,415	117,436	463,685	239,314	248,242	-	-	248,242
Three years later	163,082	121,097	431,150	240,162	-	-	-	240,162
Four years later	160,128	117,130	452,169	-	-	-	-	452,169
Five years later	161,446	115,919	-	-	-	-	-	115,919
Six years later	161,785	-	-	-	-	-	-	161,785
Current estimate of cumulative claims	161,785	115,919	452,169	240,162	248,242	386,630	405,589	2,010,496
Cumulative payments to date	(160,615)	(111,719)	(354,262)	(193,214)	(191,846)	(222,759)	(169,292)	(1,403,707)
Liability recognised in Statement of Financial Position for 2010 to 2016 accident years	1,170	4,200	97,907	46,948	56,396	163,871	236,297	606,789
Liability recognised in Statement of Financial Position in respect of prior accident years								36,055
Claims handling provision								7,403
Gross general insurance claims liabilities as at 31 December 2016								650,247

Notes to Financial Statements
For the Year Ended 31 December 2016

15. CLAIMS OUTSTANDING (continued)

Analysis of claims outstanding – net of reinsurance	2010	2011	2012	2013	2014	2015	2016	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Initial estimate of ultimate claims costs	151,915	115,426	356,946	232,787	239,889	333,694	379,764	379,764
One year later	150,432	111,642	335,426	220,868	227,975	323,209	-	323,209
Two years later	147,581	111,936	320,433	208,099	223,947	-	-	223,947
Three years later	150,526	112,714	304,562	204,705	-	-	-	204,705
Four years later	148,314	110,363	296,263	-	-	-	-	296,263
Five years later	148,678	109,901	-	-	-	-	-	109,901
Six years later	150,944	-	-	-	-	-	-	150,944
Current estimate of cumulative claims	150,944	109,901	296,263	204,705	223,947	323,209	379,764	1,688,733
Cumulative payments to date	(149,827)	(107,997)	(269,930)	(177,480)	(183,296)	(215,556)	(168,914)	(1,273,000)
Liability recognised in Statement of Financial Position for 2010 to 2016 accident years	1,117	1,904	26,333	27,225	40,651	107,653	210,850	415,733
Liability recognised in Statement of Financial Position in respect of prior accident years								7,441
Claims handling provision								7,403
Net general insurance claims liabilities as at 31 December 2016								430,577

16. 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 Provision
	£'000	£'000	£'000	£'000	£'000
At 1 January 2015	210,792	210,789	492,164	337,281	15,687
Transfer in per Part VII	62,809	62,270	64,419	54,976	10,180
Movement in Provision	16,175	16,174	(10,668)	9,417	3,942
At 31 December 2015	289,776	289,233	545,915	401,674	29,809
Movement in opening provision	-	-	(300)	(300)	-
Movement in Provision	28,729	28,653	104,632	29,203	(29,809)
At 31 December 2016	318,505	317,886	650,247	430,577	-

Notes to Financial Statements
For the Year Ended 31 December 2016

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

Prior year claims provision

Claims incurred, net of reinsurance, are shown after taking account of movements in the estimates of costs of claims 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.

	Motor Liability	Other Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2016							
Decrease in cost estimate in prior years claims, net of reinsurance	16,169	5,111	(1,269)	3,401	1,078	96	24,586
	Motor Liability	Other Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2015							
Decrease in cost estimate in prior years claims, net of reinsurance	41,612	7,141	(238)	(4,250)	119	70	44,454

17. EQUALISATION PROVISION

These provisions, which were in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the reporting date, were 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 statement of financial position, notwithstanding that they did not represent liabilities at the reporting date. From 1 January 2016, the Solvency II Directive removed the requirement to recognise equalisation provisions. The elimination of the equalisation provisions during the year resulted in an increase in the general business technical account result and profit before taxation of £29,809,000 (2015 – decrease of £3,942,000). The movement in the claims equalisation provisions is disclosed in note 16.

Notes to Financial Statements
For the Year Ended 31 December 2016

18. DEFERRED TAXATION

	2016	2015
	£'000	£'000
Fixed asset timing differences	1,590	(108)
Other short term timing differences	4,238	(68)
Provision for deferred tax	<u>5,828</u>	<u>(176)</u>
Deferred tax asset at beginning of year	(195)	(245)
Fixed asset timing differences	710	156
Other short term timing differences	4,978	(15)
	<u>5,688</u>	<u>141</u>
Prior year adjustment	1,040	(231)
Prior year FRS 102 adjustments	-	141
Effect of rate change	(900)	18
Current taxation (Note 7)	<u>5,828</u>	<u>69</u>
Deferred tax liability / (asset) at end of year	5,633	(176)
Balance transferred in by Part VII transfer	<u>-</u>	<u>(19)</u>
Total deferred tax liability/ (asset)	<u>5,633</u>	<u>(195)</u>

19. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016	2015
	£'000	£'000
Other taxes including insurance premium tax and social security costs	16,376	13,933
Corporation tax	-	374
Deferred tax liability	5,633	-
Due to group companies	449	2,538
Other creditors	3,920	2,837
	<u>26,378</u>	<u>19,682</u>

20. ACCRUALS AND DEFERRED INCOME

	2016	2015
	£'000	£'000
Motor Insurers Bureau levy	5,768	4,670
Financial Services Compensation Scheme levy	1,332	946
Other accruals and deferred income	3,371	7,734
	<u>10,471</u>	<u>13,350</u>

Notes to Financial Statements
For the Year Ended 31 December 2016

21. PENSIONS

The Company has operated a defined benefit scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation was carried out at 31 December 2014 and updated to 15 December 2016 by a qualified actuary, independent of the Company. The major assumptions used by the actuary are shown below.

The most recent actuarial valuation showed a deficit of £6,559,000. The Company agreed with the trustees that it will aim to eliminate this deficit by the payment of eight annual payments of £526,000 (increasing by 3% per annum), payable by 31 March each year with the first payment due by 31 March 2016 and the last payment due by 31 March 2023.

The sponsoring employer of the pension scheme was transferred from Covea Insurance plc to its immediate holding company, MMA Holdings UK plc, on 15 December 2016. The disclosures therefore cover the period from 1 January 2016 to 14 December 2016.

The present values of scheme liabilities, fair value of its assets and defined benefit asset/(liability) are as follows:

	31/12/2016	31/12/2015	31/12/2014
	£'000	£'000	£'000
Fair value of plan assets	-	37,008	37,013
Present value of defined benefit obligation	-	34,805	36,687
Surplus in plan	-	2,203	326
Unrecognised surplus	-	2,203	326
Asset to be recognised	-	-	-
Deferred tax	-	-	-
Net asset to be recognised	-	-	-

Reconciliation of opening and closing balances of the present value of the defined benefit obligation:

	31/12/2016	31/12/2015
	£'000	£'000
Defined benefit obligation at start of year	34,805	36,687
Interest expense	1,268	1,342
Actuarial losses/ (gains)	8,967	(2,379)
Benefits paid	(4,102)	(845)
Reduction in liability following cessation as sponsoring employer	(40,938)	-
Defined benefit obligation at end of year	-	34,805

Notes to Financial Statements
For the Year Ended 31 December 2016
21. PENSIONS (continued)

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

	31/12/2016	31/12/2015
	£'000	£'000
Fair value of plan assets at start of year	37,008	37,013
Expected return on scheme assets	1,369	1,359
Actuarial gains/ (losses)	2,960	(815)
Contributions by the Company	526	296
Benefits paid	(4,102)	(845)
Reduction in assets following cessation as sponsoring employer	(37,761)	-
Fair value of scheme assets at end of year	-	37,008

The actual return on the scheme assets over the period ended 14 December 2016 was £4,329,000 (2015: £544,000).

Total expense recognised in technical account:

	31/12/2016	31/12/2015
	£'000	£'000
Interest cost	1,268	1,342
Expected return on scheme assets	(1,268)	(1,342)
Total expense recognised in the Statement of Comprehensive Income	-	-

Other comprehensive income:

	31/12/2016	31/12/2015
	£'000	£'000
Difference between expected and actual return on scheme assets: Amount: gain/ (loss)	2,960	(815)
Experience gains and losses arising on the scheme liabilities: Amount: gain/ (loss)	781	(502)
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: Amount: (loss)/ gain	(9,748)	2,881
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable) Amount: (loss)/ gain	(6,007)	1,564
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable Amount: gain/ (loss)	5,481	(1,860)
Total amount recognised in other comprehensive income: Amount: (loss)	(526)	(296)

Notes to Financial Statements
For the Year Ended 31 December 2016
21. PENSIONS (continued)

Fair Value of Plan Assets:

	31/12/2016	31/12/2015	31/12/2014
	£'000	£'000	£'000
Equity & Diversified Growth	-	24,100	23,868
Bonds	-	9,862	10,332
Other (cash etc.)	-	317	109
Gilts	-	1,856	1,890
Property	-	873	814
Total Assets	-	37,008	37,013

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

Assumptions:

	14/12/2016	31/12/2015	31/12/2014
	£'000	£'000	£'000
Rate of discount	2.80%	4.05%	3.70%
Inflation (RPI)	3.30%	3.05%	3.05%
Inflation (CPI)	2.40%	2.15%	2.05%
Salary increases	Not applicable	Not applicable	Not applicable
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.30%	3.05%	3.05%
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.40%	2.15%	2.05%
Allowance for revaluation of deferred pensions of RPI or 5% p.a. if less	Not applicable	Not applicable	Not applicable
Allowance for commutation of pension for cash at retirement	65% of Post A day	65% of Post A day	65% of Post A day

The mortality assumptions adopted at 14 December 2016 imply the following life expectancies:

Male retiring at age 63 in 2016.....	24 years (2015:23.9)
Female retiring at age 63 in 2016.....	26.1 years (2015:26.0)
Male retiring at age 63 in 2034.....	25.8 years (2015:25.7)
Female retiring at age 63 in 2034.....	28 years (2015:27.9)

Sensitivity to the principal assumptions of the scheme liabilities:

	Change in Assumption	Change in scheme Liability (approximately)
Discount rate	Decrease of 0.25% p.a	Increase by 5.3%
Rate of inflation	Increase of 0.25% p.a	Increase by 3.4%
Rate of mortality	1 year increase in life expectancy	Increase by 3.3%
Commutation	Members commute an extra 10% of Post A day pension on retirement	Decrease by 0.9%

Notes to Financial Statements
For the Year Ended 31 December 2016

22. OPERATING LEASES

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

	Land and buildings		Vehicles	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Operating leases which expire within one year	340	650	64	172
Operating leases which expire between one and five years	307	497	52	92
	647	1,147	116	264

23. ULTIMATE PARENT COMPANY

- (a) Covéa 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 Covéa Cooperations, a company registered in France. Covéa Cooperations is controlled by MMA IARD Assurances Mutuelles, MMA Vie Assurances Mutuelles, DAS Assurances Mutuelles, La Garantie Mutuelle des Fonctionnaires, Assurances Mutuelles de France, MAAF Assurances, and MAAF Santé. These companies own all the share capital and control 100% of the voting rights of Covéa Cooperations, are registered in France and are affiliated to Covéa Sgam.

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

- (b) Group company balances

Included in balances arising out of reinsurance operations are the following:

	2016	2015
	£'000	£'000
Due to fellow group companies	2,925	2,658

Other Group company balances are reflected in notes 11 and 19.

- (c) Loan to fellow subsidiary

A loan of £20,000,000 has been granted to a fellow subsidiary at a commercially agreed rate, repayable in June 2018. £10,000,000 was repaid in December 2015. The balance of the loan as at 31 December 2016, including interest accrued, is £10,151,000 (2015: 10,288,000).

24. DEFERRED ACQUISITION COSTS

The recognition of opening and closing deferred acquisition costs is as follows:

	2016	2015
	£'000	£'000
Balance as at 1 January	72,484	43,730
Part VII transfer	-	28,646
Movement in the year	(2,943)	108
Balance as at 31 December	69,541	72,484

Notes to Financial Statements
For the Year Ended 31 December 2016

25. RELATED PARTY TRANSACTIONS

Advantage has been taken of the exemption within FRS 102 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.

26. POST BALANCE SHEET EVENT

On 29 March 2017 the Company entered into a quota share reinsurance arrangement under which 20% of its earned premiums and claims for the period 1 January 2017 to 31 December 2019 will be ceded to a highly-rated reinsurer.

Company Information
For the Year Ended 31 December 2016

REGISTERED AND HEAD OFFICE	Norman Place Reading Berkshire RG1 8DA Registered in England 613259
WEB ADDRESS	www.coveainsurance.co.uk
BANKERS	HSBC Bank plc PO Box 125 2 nd Floor 62-76 Park Street London SE1 9DZ
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR
REGISTERED NUMBER	00613259