Covea Insurance plc

Annual Report and Financial Statements

For the Year Ended 31 December 2017

Registered Number: 00613259

Contents

The Directors present their Strategic Report on Covea Insurance plc ("the Company") for the year ended 31 December 2017.

BACKGROUND

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 UK, and is a member of one of Europe's largest mutual insurance groups, Covéa.

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 2017 relative to 2016 are:

	2017 £'000	2016 £'000
Gross premiums written	738,538	666,306
Technical account result	12,446	22,738
Profit after tax	24,114	38,369
Combined operating ratio	97.5%	96.2%

The Company has delivered year-on-year growth in gross premiums written of 11%, driven in large part by the continued development of its Provident Insurance direct distribution operation, which was launched in 2016. An increase in average motor premiums, partially due to the impact of the reduction in the Ogden discount rate in February 2017, and continued growth in commercial lines have also contributed to the increased premiums written.

The 2016 technical account result benefitted from a one-off release of claims equalisation provisions of £29,809,000. Excluding this, there has been a significant improvement in technical underwriting performance, with the combined operating ratio reducing to 97.5% from 101.2% (adjusted). The key factors behind this reduction are improved loss ratios on the commercial lines and home accounts, largely due to a strong focus on pricing and underwriting discipline in a competitive market environment.

The technical account result for 2017 has benefitted from positive developments in prior year claims of £24,024,000 (2016: £24,586,000). Following the Government's announcement in February 2017 of its intention to legislate to change the basis on which the Ogden discount rate is set, it has been assumed that the rate will increase to 0% from its current level of minus 0.75%; this has resulted in a £993,000 reduction in net claims reserves.

The 2017 profit after tax has benefitted from increases in the market value of the Company's investment portfolio, notably the portion held in equities, albeit to a lesser extent than was the case in 2016.

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. For the purposes of this Strategic Report, the Directors consider that it is more informative to describe the performance of the business based on the segments used for management purposes. These can be reconciled to the reported result for 2017 as follows:

	Personal Lines Motor £'000	Personal Lines Home £'000	Commercial Lines £'000	Protection £'000	Total £'000
Gross premiums written	390,532	113,165	190,425	44,416	738,538
Technical account result	11,663	(4,341)	4,253	871	12,446

Personal Lines Motor

	2017 £'000	2016 £'000
Gross premiums written	390,532	325,516
Technical account result	11,663	13,897
Combined operating ratio	95.3%	94.8%

The 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 its launch and development costs are reflected within this business line.

The year-on-year growth in premiums written is due mainly to the continued development of the Provident Insurance operation, which was launched in February 2016, but is also driven by higher average premiums in the intermediated channel. The latter reflects continuing inflationary trends on claims costs combined with the Ogden impact noted above and is consistent with the broader market experience.

Personal Lines Home

	2017 £'000	2016 £'000
Gross premiums written	113,165	125,314
Technical account loss	(4,341)	(227)
Combined operating ratio	104.9%	100.2%

The Personal Lines Home business represents the underwriting of insurance of UK residential properties and their contents. The year-on-year reduction in premiums has been driven by management action to improve the underwriting performance of the book in soft market conditions, including the exit from some poor performing accounts.

The 2016 result included a release of £17,840,000 of claims equalisation provisions (as noted above). After adjusting for this, the underwriting performance has improved significantly in 2017, albeit that we are still reporting a technical account loss. Performance continues to be impacted by higher levels of claims inflation, particularly in respect of the cost of escape of water claims and the frequency of large fire claims. Underwriting and pricing actions continue to be implemented to return the business to profitability.

Commercial Lines

	2017 £'000	2016 £'000
Gross premiums written	190,425	169,165
Technical account result	4,253	6,809
Combined operating ratio	96.8%	95.5%

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

The Commercial Lines business has continued to grow, with gross premiums written up 13% on the previous year. This has been driven by continued investment in the technical skills of our people, improved products and services, and stronger relationships with brokers.

The 2016 result included a release of £11,863,000 of claims equalisation provisions (as noted above). After adjusting for this, the underwriting performance has improved significantly in 2017 driven by a strong focus on underwriting and pricing discipline and positive development of prior year claims.

Protection

	2017 £'000	2016 £'000
Gross premiums written	44,416	46,311
Technical account result	871	2,259
Combined operating ratio	97.7%	95.5%

The Protection business represents the underwriting of a range of accident and income protection insurance products for consumers in the UK and Republic of Ireland. Gross premiums written reduced by 4% in 2017 as a result of several of the largest distribution relationships no longer generating sales of new policies. The Directors are confident that these will continue to run off profitably making a contribution to the Company's expense base and that there are good opportunities to develop both new products for these clients and new distribution relationships for its Protection products.

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 for its stakeholders including its policyholders, claimants and shareholder. The Company has adopted the standard formula approach in calculating its Solvency Capital Requirement (SCR).

The 2017 figures below are unaudited and represent the Directors' latest view of the Company's capital position as at 31 December 2017. 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 May 2018.

	2017 £'000 (unaudited)	2016 £'000
Own funds	301,701	275,362
Solvency capital requirement ("SCR")	233,214	234,227
Own funds in excess of SCR	68,487	41,135
Solvency II capital cover	129.4%	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 of 120%, 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. This new arrangement has contributed to the Solvency II capital cover exceeding the internal target as at the end of 2017.

OUTLOOK AND FUTURE TRADING

The Directors' principal strategic objective for the Company is to deliver sustainable growth in business volumes and premiums. This will be achieved through consistently delivering high-quality insurance products and services to its customers and a good return on capital to its shareholder.

The UK insurance market continues to be characterised by legislative and regulatory change and an extremely competitive environment. Uncertainties over the future level of the Ogden discount rate and the legal framework for soft tissue injury claims are likely to have a significant impact on the pricing environment for motor insurance over the coming year. 2018 will see the implementation of both the General Data Protection Regulation ("GDPR") and the Insurance Distribution Directive ("IDD"). The future prospects for the small amount of business written by the Company in respect of risks based in the Republic of Ireland will depend on the outcome of the ongoing Brexit negotiations.

Notwithstanding these challenges, the Directors are confident that the Company's prospects are good. Strong relationships with key business partners are enabling growth across all product lines in the intermediated channel, while the Provident Insurance direct operation continues to provide additional insights into customer expectations and behaviour, as well as policy count growth. Investment in new technologies and the skills and expertise of our people are supporting further improvements in the Company's existing strengths in pricing, underwriting, claims management and service delivery. These strengths will be the foundation on which the future success of the Company is built.

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 25 to 33.

EMPLOYEES

Whilst the Company does not directly employ any employees, its business and processes are managed by individuals employed by an associated service company, Covea Insurance Services Limited ("CISL"). The policies of CISL including those in relation to diversity, social matters and human rights are applicable to these employees and implemented by them. The employees of CISL at 31 December 2017 by gender were as follows:

	Females	Males	Total
Directors	2	7	9
Senior Managers	57	137	194
All other employees	825	603	1,428
Total	884	747	1,631

ENVIRONMENTAL MATTERS

The Company is committed to implementing and maintaining a policy which recognises the benefits associated with sound environmental performance and practice, and promotes a culture of responsibility and awareness amongst employees and business partners. The Company's policy is available to all employees of CISL through the intranet and aims to:

- Meet or exceed all environmental legislation that relates to the Company;
- Wherever practicable, minimise the negative impact of the Company's activities on the environment;
- Ensure the efficient use of energy, water, fuel and other resources;
- Provide relevant training to employees so that they can fulfil their responsibilities;
- Participate in community and council initiatives to improve the local environment; and
- Explore opportunities to improve the environmental performance of the Company's buildings.

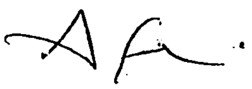
ANTI-BRIBERY AND CORRUPTION POLICY

The Company has an established Anti-Bribery and Corruption Policy that is reviewed at least annually. The Policy is based around the six principles laid out by the UK Government as follows:

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

The Company has a zero tolerance approach to bribery and corruption and adopts consistent, robust and effective processes and systems against such practices. The Policy is available to all employees of CISL through the intranet and is reinforced by annual on-line training and assessments. No incidents pertaining to the Policy were recorded during the year.

By order and approval of the Board.



A Wilson
Company Secretary
27 March 2018

The Directors present their Report of the Directors on the Company for the year ended 31 December 2017.

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	Nicholas Caplan*	(Appointed 1 June 2017)
	Stephen Clarke*	
	Simon Cooter	
	Jane Dale *	(Appointed 22 February 2017)
	Patrice Forget *	(Resigned 31 December 2017)
	Adrian Furness	
	Carol Evans (known as Carol Geldard)	(Appointed 18 April 2017)
	Henry Kenyon *	(Resigned 31 March 2017)
	Simon Kneller	(Resigned 18 April 2017)
	Bertrand Lefebvre *	
	Pierre Michel *	(Appointed 20 February 2018)
	Karl Murphy*	(Appointed 22 May 2017)
	Edgardo Penollar	
	James Reader	
	Dominique Salvy *	Chairman
SECRETARY	Annabel Wilson	
	* - non-executive directors	

Adrian Furness, James Reader and Dominique Salvy retire by rotation and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Nicholas Caplan, Pierre Michel and Karl Murphy, 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.

DIVIDEND

A £3,180,000 dividend was paid in 2017 in respect of 2016 (2016: paid in respect of 2015 - £1,500,000).

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 Report of the Directors. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period in office.

MODERN SLAVERY ACT

We welcomed the Modern Slavery Act and issued 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.

FINANCIAL RISK MANAGEMENT

Disclosures relating to financial risk management are included in the Risk and Capital Management Report and therefore incorporated into this 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 2017, the amount outstanding in other payables did not exceed agreed payment terms, which are most commonly thirty days from date of invoice (2016: 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 2017 of which the auditors are unaware; and
2. each has taken all steps that he ought to have taken in his/her duty as a director in order to make him/herself 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 following a tender process. A resolution will be proposed at the annual general meeting to appoint or re-appoint the auditors.

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"), Financial Reporting Standard 103, "Insurance contracts" ("FRS 103") 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;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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
27 March 2018

Report on the audit of the financial statements

Opinion

In our opinion, Covea Insurance plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of changes in equity for the year then ended; the accounting policies; the risk and capital management report; and the notes to the financial statements.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company.

Other than those disclosed in note 3 to the financial statements, we have provided no non-audit services to the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

- Materiality: Overall materiality £1.2 million, based on 5% of profit before tax.

- Audit Scope: Based upon the outputs of our risk assessment, along with our understanding of the Company's structure we have tailored the scope of our audit to ensure that we perform enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls, and the industry in which the Company operates. The nature, timing and extent of audit procedures performed uses the outputs of our risk assessment, along with our understanding of the Company's business. In doing so, we also consider qualitative factors and check that we have sufficient coverage across all financial statement line items in the financial statements.

- Key Audit Matters: The risk of material misstatement that had greatest effect on our audit, including the allocation of resource and effort, was the valuation of insurance contract liabilities.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Company financial statements, including but not limited to, the Companies Act 2006, Financial Conduct Authority's Handbook, the Prudential Regulation Authority's regulations and the UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures with reference to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisors, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of gross insurance contract liabilities The gross insurance claims reserves total £728.7m (2016: £650.2m). The estimation of insurance contract liabilities involves a significant degree of judgement. The liabilities are based upon management's best estimate of the ultimate cost of all claims incurred but not settled at the year end, whether reported or not, together with the related claims handling costs. A range of methods, including paid to incurred chain ladder and estimated loss ratio approach, may be used to determine these provisions. Underlying these methods are a number of explicit and implicit assumptions relating to claims incurred but not reported (IBNR), periodic payment orders (PPOs) and the ultimate severity of large bodily injury claims. The latter of which result in higher individual claims reserves and are more judgemental in terms of the development of the ultimate losses which will be incurred. Refer to the Accounting Policies (Page 18) and the Notes to the financial statements (Page 42) which refer to this matter.	We assessed management's calculations for the insurance contract liabilities by performing the following procedures: • We tested on a sample basis the underlying data to source documentation; • Using our actuarial specialist team members, we applied our industry knowledge and experience and we compared the methodology, models and assumptions against recognized actuarial practices; • Understood the design and implementation and tested the operating effectiveness of the key controls which management performs in relation to insurance reserving; • Our actuarial specialist team members performed independent re-projections on selected classes of business, particularly focusing on the most uncertain reserves. For these classes we compared our re-projected claims reserves to those booked by management, and sought to understand any significant differences; • For the remaining classes we evaluated the methodology and assumptions, or performed a key indicators (for *example; ultimate loss ratios) review to identify and follow* up any anomalies; and • We have separately reviewed the specific adjustment made in relation to the Ogden discount rate. From the evidence obtained we found the assumptions and methodology used to be appropriate. Based on the work performed we found that the assumptions used were supported by the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates.

Using the outputs of our risk assessment, along with our understanding of the Company's structure, we scoped our audit based upon the significance of the results of individual segments of business and their distribution channel relative to the overall Company result. The Company offers a range of general insurance products for individuals and small and medium-sized businesses, distributed directly to customers and through a network of intermediaries and brokers, with all material insurance contracts underwritten in the United Kingdom. In scoping our audit, we also consider qualitative factors and check that we have sufficient coverage across all financial statement line items in the financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1.2 million
How we determined it	5% of profit before tax.
Rationale for benchmark applied	In determining our materiality, we consider financial metrics which we believe to be relevant, and concluded, that profit before tax was the most relevant benchmark. We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £60,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Independent Auditors' Report to the Members of Covea Insurance plc
For the Year Ended 31 December 2017

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 27 June 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2007 to 31 December 2017.

Gary Shaw (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
28 March 2018

Statement of Comprehensive Income
For the Year Ended 31 December 2017

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Note	2017 £'000	2016 £'000
Earned premiums, net of reinsurance			
Gross premiums written	2	738,538	666,306
Outward reinsurance premiums		(182,640)	(46,513)
Net premiums written		555,898	619,793
Change in the gross provisions for unearned premiums	2, 16	(48,947)	(28,729)
Change in the provision for unearned premiums, reinsurers' share		10	76
Change in the net provision for unearned premiums	16	(48,937)	(28,653)
Earned premiums, net of reinsurance		**506,961**	**591,140**
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	2	(397,818)	(368,621)
Reinsurers' share		61,383	19,396
		(336,435)	(349,225)
Change in the provisions for claims			
Gross amount	2, 16	(78,475)	(104,632)
Reinsurers' share		88,310	75,429
	16	9,835	(29,203)
Claims incurred, net of reinsurance		**(326,600)**	**(378,428)**
Change in the equalisation provision	16, 17	-	29,809
Other technical income		8,440	4,068
Net operating expenses	3	(176,355)	(223,851)
BALANCE ON THE TECHNICAL ACCOUNT – GENERAL BUSINESS		**12,446**	**22,738**

Statement of Comprehensive Income
For the Year Ended 31 December 2017

NON-TECHNICAL ACCOUNT

	Note	2017 £'000	2016 £'000
Balance on the technical account - general business		12,446	22,738
Investment return	4	11,155	20,936
Expected return on pension fund assets	21	-	1,268
Interest on pension scheme liabilities		-	(1,268)
		-	-
Exchange adjustments		249	178
Profit on ordinary activities before tax		23,850	43,852
Tax credit/ (charge) attributable to profit on ordinary activities	7	264	(5,483)
Profit for the financial year		**24,114**	**38,369**
Other comprehensive income/ (expense):			
Owner occupied properties fair value gains transferred to retained earnings on disposal		79	-
Remeasurement of defined benefit obligation	21	-	(526)
Movement in deferred taxation relating to the pension deficit		-	105
Other comprehensive income/ (expense) for the year		**79**	**(421)**
Total comprehensive income for the year		**24,193**	**37,948**

There are no discontinued operations.

Statement of Changes in Equity
For the Year Ended 31 December 2017

	Note	Called up share capital	Revaluation reserve	Retained earnings	Total equity
		£'000	£'000	£'000	£'000
Balance as at 1 January 2016		**153,706**	**1,777**	**98,621**	**254,104**
Profit for the financial year		-	-	38,369	38,369
Other comprehensive expense for the year		-	-	(421)	(421)
Additional share capital issued	1	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**
Profit for the financial year		-	-	24,114	24,114
Owner occupied properties fair value gains transferred to retained earnings on disposal		-	(79)	79	-
Movement on disposal		-	(314)	-	(314)
Dividends paid	8	-	-	(3,180)	(3,180)
Balance as at 31 December 2017		**158,224**	**1,384**	**156,082**	**315,690**

Statement of Financial Position
As at 31 December 2017

ASSETS	Note	2017 £'000	2016 £'000
Investments	9	779,082	749,984
Reinsurers' share of technical provisions			
Provision for unearned premiums		629	619
Claims outstanding	15	307,980	219,670
		308,609	220,289
Debtors			
Debtors arising out of direct insurance operations	10	146,527	116,050
Debtors arising out of reinsurance operations		10,447	9,044
Other debtors	11	25,452	22,755
		182,426	147,849
Other assets			
Tangible assets	12	27,238	30,022
Intangible assets	13	8,494	12,124
Loan to fellow subsidiary	25b	21,274	10,151
Cash at bank and in hand		85,643	76,235
		142,649	128,532
Prepayments and accrued income			
Deferred acquisition costs	24	72,373	69,541
Other prepayments and accrued income		2,353	2,255
		74,726	71,796
Total assets		**1,487,492**	**1,318,450**

Statement of Financial Position
As at 31 December 2017

LIABILITIES	Note	2017 £'000	2016 £'000
Capital and reserves			
Called up share capital	14	158,224	158,224
Revaluation reserve		1,384	1,777
Retained earnings		156,082	135,069
Total equity		**315,690**	**295,070**
Technical provisions			
Provision for unearned premiums	16	367,452	318,505
Claims outstanding	15,16	728,722	650,247
		1,096,174	968,752
Creditors			
Creditors arising out of direct insurance operations		8,799	8,578
Creditors arising out of reinsurance operations		15,088	9,201
Other creditors including taxation and social security	19	35,615	26,378
		59,502	44,157
Accruals and deferred income	20	16,126	10,471
Total liabilities		**1,171,802**	**1,023,380**
Total equity and liabilities		**1,487,492**	**1,318,450**

The financial statements on pages 12 to 16, and related notes on pages 17 to 48, were approved by the Board of Directors and were signed on its behalf by:

James Reader
Chief Executive
27 March 2018

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, Covea.

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.

Exemptions for Qualifying Entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has taken advantage of 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.

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 are 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.

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:

Premiums

Premiums written 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

Premiums written 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 by the policy administration systems daily.

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 the 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.

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. 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 provision was released to the General Insurance technical account in 2016 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 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 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 Statement of Financial Position 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.

Investment Return

Dividends are included as investment income when the investments to which they relate are declared 'ex-dividend'. Interest income is 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 bid price or at a single price, if only one price is quoted, 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 FRS 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 arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

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.

Group Tax Relief

Group relief is surrendered to/received from other group companies for no consideration. In specific circumstances, individual group companies may reach agreement between themselves to surrender and/or receive group relief for consideration within the tax on profit on ordinary activities in the Statement of Comprehensive Income. Should group relief be surrendered to/received from other group companies for consideration, the consideration paid will reflect, at a minimum, the corporation tax amounts surrendered and/or received. These amounts are reported as expenses or benefits within the tax on profit/ (loss) on ordinary activities within 'Retained earnings'.

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

Freehold and leasehold properties are carried at depreciated fair value or depreciated initial cost if a valuation has yet to be carried out. The fair value is determined every three years by an independent chartered surveyor. Depreciation is applied to the latest fair value in accordance with section (iii) below and an impairment review is carried out at each reporting date between valuations to determine whether there are any indications of impairment.

On revaluation:

- Increases in value above carrying value, to the extent not reversing prior losses recognised in the profit and loss account, are recognised in the revaluation reserve;
- Decreases in value, to the extent not reversing prior gains recognised in the revaluation reserve, are recognised in the profit and loss account.

(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. Estimated useful lives are as follows unless a specific period is identified for a particular asset:

Computer equipment	3 to 5 years
Motor vehicles	3 to 5 years
Fixtures, fittings and equipment	3 to 5 years
Buildings - Freehold	30 years
Buildings - Leasehold	50 years
Office refurbishment - Freehold	10 years
Office refurbishment - Leasehold	50 years (or term of lease if less)

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 asset's 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 their useful lives.

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 the statement of comprehensive income and included in administrative expenses.

On disposal or retirement from use of property carried at depreciated fair value the aggregate movement in value recorded in the revaluation reserve for the property being disposed of/retired from use is transferred to Retained Earnings via a reserves transfer.

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 Pound Sterling is the functional currency of all activities.

Transactions in foreign currencies are translated at the rate prevailing at the end of the month in which they occur 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 determine whether the lease is an operating lease or 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. The Company bore 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 arose from a valuation and from updating the latest actuarial valuation to reflect conditions at the reporting date were taken to other comprehensive income for the period to the extent they were attributable to shareholders. The deferred taxation attributable to the scheme was 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.

Industry Levies

The amount charged in respect of the Financial Services Compensation Scheme levy is based on the prior year 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 Statement of Comprehensive Income, 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 the Statement of Comprehensive Income.

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 Statement of Comprehensive Income.

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 Company 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.

Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

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 21 for the useful economic lives for each class of assets.

(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.

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.

Overview

This report 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 (e.g. 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 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 £10.0m per event.

In order to provide additional capital coverage to support future growth the Company also has a quota share reinsurance arrangement under which 20% of its earned premiums and claims for the period 1 January 2017 to 31 December 2019 have been ceded to a highly-rated reinsurer.

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 (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.

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.

Change of Ogden discount rate

The estimation of technical provisions is the primary area of judgement where assumptions are used. The actuarial methods noted above and associated assumptions remain consistent with prior years with the exception of the Ogden discount rate. On 7 September 2017 the Government announced to the Stock Exchange its intention to propose legislation that would move the Ogden rate to somewhere within an indicative range of 0% to 1%. Following this announcement the Company decided to calculate its provision for personal injury claims using a discount rate of 0% (2016: minus 0.75%).

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 2017
Territory	**Motor**	**Fire and other damage to property**	**Liability**	**Accident and health**	**Miscellaneous**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
United Kingdom						
Gross	521,875	68,456	128,538	9,027	826	728,722
Net	253,143	54,593	103,918	8,311	777	420,742

						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

Sensitivity analysis

Various scenario analyses are presented to the Audit Committee alongside the internal actuarial reserves reviews when they are performed. The following specific scenarios are considered and their impact on the best estimates of the technical provisions presented:

Technical provision sensitivities as at 31 December 2017

	Net Discount rate on PPOs reduced from -1% to -2%	Life expectancy of PPO claimants increased by 10 years
2017 Increase in technical provisions (£'000)		
Gross	5,100	4,700

In addition to the above, the sensitivity of gross and net technical provisions to changes in the Ogden discount rate is also analysed:

	1% Reduction in Ogden discount rate	1% Increase in Ogden discount rate
2017 Increase/(decrease) in technical provisions (£'000)		
Gross	20,228	(13,487)
Net	1,616	(1,997)

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 of 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 Company's 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, their external credit rating.

Investment portfolio and cash

The other principal 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 2017

	AAA	AA	A	BBB	Less than BBB	Non-rated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Government Bonds	-	304,964	-	-	-	-	304,964
Corporate Bonds	75,029	63,923	80,851	48,125	-	-	267,928
Equities and units in unit trusts	-	-	-	-	-	66,587	66,587
Deposits with credit institutions	-	93,089	46,514	-	-	-	139,603
Reinsurers' share of technical provisions - claims outstanding	-	188,246	119,413	-	-	321	307,980
Debtors arising out of direct insurance operations	-	-	-	-	-	146,527	146,527
Debtors arising out of reinsurance operations	-	1,708	8,668	-	-	71	10,447
Other debtors	-	-	-	-	-	25,452	25,452
Loan to fellow subsidiary	-	-	-	-	-	21,274	21,274
Cash	-	42,173	34,567	8,903	-	-	85,643
Other prepayments and accrued income	-	-	-	-	-	2,353	2,353
Total financial assets	**75,029**	**694,103**	**290,013**	**57,028**	**-**	**262,585**	**1,378,758**
Total %	**5%**	**51%**	**21%**	**4%**	**-**	**19%**	**100%**

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 technical provisions - claims outstanding	-	127,786	91,646	-	-	238	219,670
Debtors arising out of direct insurance operations	-	-	-	-	-	116,050	116,050
Debtors arising out of reinsurance operations	-	1,211	7,827	-	-	6	9,044
Other debtors	-	-	-	-	-	22,755	22,755
Loan to fellow subsidiary	-	-	-	-	-	10,151	10,151
Cash	-	20,260	26,320	29,655	-	-	76,235
Other prepayments and accrued income	-	-	-	-	-	2,255	2,255
Total financial assets	**63,608**	**652,532**	**210,981**	**68,646**	**-**	**210,377**	**1,206,144**
Total %	**5%**	**54%**	**18%**	**6%**	**-**	**17%**	**100%**

Liquidity Risk

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

The Company encounters potential liquidity risk exposures from its different business activities. These principally arise 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 where actual claims exceed forecast, for example to meet claims resulting from the impact of adverse UK weather events.

Management of liquidity risk

The Board sets the Company's strategy for managing liquidity risk and delegates the responsibility for the oversight of the implementation of this policy to the Asset Allocation Committee, 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;
- 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 payment 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.

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	219,670	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
Other prepayments and accrued income	2,255	2,255	-	-	-	2,255
Total	**1,206,144**	**506,369**	**222,781**	**329,890**	**250,412**	**1,309,452**
Financial Liabilities						
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	**704,875**	**296,738**	**106,588**	**146,926**	**260,485**	**810,737**

Market risk

Market risk is the risk that the fair value or future cash flows of the Company's 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.

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 £6.2m (2016: £4.7m).

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 2017	
	Carrying amount	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
Financial Assets	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investments	779,082	297,631	193,006	258,526	66,694	815,857
Reinsurers' share of technical provisions	307,980	97,637	51,389	61,269	178,858	389,153
Debtors arising out of direct insurance operations	146,527	146,527	-	-	-	146,527
Debtors arising out of reinsurance operations	10,447	10,447	-	-	-	10,447
Other debtors	25,452	25,452	-	-	-	25,452
Loan to fellow subsidiary	21,274	21,274	-	-	-	21,274
Cash	85,643	85,643	-	-	-	85,643
Other prepayments and accrued income	2,353	2,353	-	-	-	2,353
Total	**1,378,758**	**686,964**	**244,395**	**319,795**	**245,552**	**1,496,706**
Financial Liabilities						
Claims outstanding	728,722	329,205	133,713	147,322	236,472	846,712
Creditors arising out of direct insurance operations	8,799	8,799	-	-	-	8,799
Creditors arising out of reinsurance operations	15,088	15,088	-	-	-	15,088
Other creditors including taxation and social security	35,615	35,615	-	-	-	35,615
Accruals and deferred income	16,126	16,126	-	-	-	16,126
Total	**804,350**	**404,833**	**133,713**	**147,322**	**236,472**	**922,340**

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.

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 £2.7m (2016: £2.4m).

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 Prudential Regulation Authority ("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 PRA 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 Solvency II regime has been effective from 1 January 2016 and established 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.

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.

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. In order 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 have been ceded to a highly-rated reinsurer. The capital coverage of the Company has consequently been in excess of the target set out in the internal capital management policy established by the Directors since that date.

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.

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.

2. PARTICULARS OF BUSINESS

(a) All contracts of insurance were concluded in the United Kingdom (2016 - 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	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Motor third party liability	319,732	262,748	280,243	239,633
Motor other	105,113	86,505	92,167	78,797
Fire and other damage to property	188,350	200,184	191,856	203,099
Liability	80,927	70,451	78,050	65,354
Accident and health	37,792	41,614	39,208	44,339
Miscellaneous	6,624	4,804	8,067	6,355
	738,538	666,306	689,591	637,577

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

	Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2017	2016	2017	2016	2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Motor third party liability	245,995	242,144	63,277	54,805	28,778	51,332
Motor other	74,650	63,944	15,543	14,079	(167)	793
Fire and other damage to property	91,147	117,103	77,386	87,290	(12,268)	(11,682)
Liability	53,503	41,480	35,075	30,792	1,052	8,440
Accident and health	8,756	6,927	29,790	32,898	(69)	(4)
Miscellaneous	2,242	1,655	5,509	4,464	(38)	(14)
	476,293	473,253	226,580	224,328	17,288	48,865

3. NET OPERATING EXPENSES

	2017	2016
Acquisition costs	**£'000**	**£'000**
Commission expense	140,790	140,627
Others	28,381	17,151
	169,171	157,778
Change in deferred acquisition costs	(2,832)	2,943
	166,339	160,721
Administrative expenses	45,156	50,810
Motor Insurers' Bureau levy	6,985	4,943
Financial Services Compensation Scheme levy	1,727	1,619
Flood Re levy	3,780	4,269
Other levies	2,593	1,966
Gross operating expenses	226,580	224,328
Reinsurance commissions	(50,225)	(477)
Net Operating Expenses	**176,355**	**223,851**

Included in administrative expenses is auditors' remuneration in respect of audit services amounting to £289,000, (2016 - £289,000) and in relation to non-audit regulatory related services amounting to £114,000 (2016 - £265,000).

Administrative expenses also include:

	2017	2016
	£'000	**£'000**
Depreciation of tangible assets	2,064	2,002
Amortisation of intangible assets	3,395	3,471
Operating lease rentals	539	852
Loss on disposals of tangible assets	1	80

4. INVESTMENT RETURN

	2017	2016
	£'000	£'000
Investment Income		
Income from financial assets at fair value through profit and loss	17,678	15,023
Income from fellow subsidiary undertakings	623	601
Expenses associated with land or buildings	350	(350)
	18,651	**15,274**
Investments expenses and charges		
Other investment management expenses	(598)	(614)
Net losses on the realisation of investments	(538)	(637)
Total investment management expenses, including interest	**(1,136)**	**(1,251)**
Net unrealised (losses)/ gains on investments	(6,360)	6,913
Total investment return	**11,155**	**20,936**

5. DIRECTORS' EMOLUMENTS

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

	2017	2016
	£'000	£'000
Aggregate emoluments and benefits	2,691	1,700
Pension contributions	96	108
	2,787	1,808
Highest paid director:		
Aggregate emoluments and benefits	752	459
Pension contributions	9	20
	761	479

The Company has a rolling 3 year long term incentive plan (LTIP) scheme in place. The 2015 to 2017 LTIP has vested and the value of the LTIP has been included in the Directors' emoluments disclosed above. The grant made in 2016 to the Executive Directors under the scheme, covering the performance period 2016 to 2018 remains in place. A new grant has been made to the Executive Directors under the scheme, covering the performance period 2017 to 2019. The 2016 to 2018 LTIP will vest at the end of 2019 and the 2017 to 2019 LTIP will vest at the end of 2020, 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.

6. STAFF NUMBERS AND COSTS

The average number of employees during the year was nil (2016 – nil). 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 £56,310,000 for the year to 31 December 2017(2016: £53,682,000).

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

		2017	2016
		£'000	£'000
Current Tax	UK Corporation Tax	507	667
	Adjustment in respect of prior year	(787)	(1,012)
	Total current tax	(280)	(345)
Deferred Tax	Origination and reversal of timing differences	(1,103)	5,688
	Adjustment in respect of prior years	1,102	1,040
	Effect of changes in tax rates	17	(900)
	Deferred tax (note 18)	16	5,828
	Tax (credit)/ charge for the year	(264)	5,483

Factors affecting current tax charge

The tax assessed for the year is lower (prior year: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017	2016
	£'000	£'000
Profit on ordinary activities before tax	23,850	43,852
Tax on profit on ordinary activities at 19.25% (2016: 20%)	4,591	8,770
Expenses not deductible for tax purposes	140	369
Income on which no further tax is payable	(421)	(376)
Effects of group relief/ other reliefs	(4,906)	(2,408)
Adjustment in respect of prior year	315	28
Tax rate changes	17	(900)
Total Tax	(264)	5,483

The UK standard rate of corporation tax is 19.25% for the year ended 31 December 2017 (2016: 20%). A reduction in the rate of corporation tax from 20% to 19% became effective from April 2017. A further reduction to 17% from April 2020 was substantially enacted on 15 September 2016. Deferred tax has been provided at 17% (2016: 17%) on all timing differences, except for the claims equalisation provision ("CEP"), which will reverse at rates between 19% and 17% between 2018 and 2021.

During the year beginning 1 January 2018, the reversal of deferred tax liabilities is expected to increase the corporation tax charge for the year by £944,000. This is due to the reduction in the deferred tax liability of the CEP provision for which £4,968,000 is being taxed over each of the six years starting financial year 2016.

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

8. DIVIDEND

	2017	2016
	£'000	£'000
Amount paid to equity shareholders	3,180	1,500

A £3,180,000 dividend was paid in 2017 in respect of 2016 (2016: paid in respect of 2015 - £1,500,000).

9. INVESTMENTS

	Market Value		Cost	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Investments designated at fair value through profit or loss:				
Equities and units in unit trust	66,587	58,922	48,341	48,333
Debt securities and other fixed-income securities	572,892	570,385	580,233	569,234
Deposits with credit institutions	139,603	120,677	139,516	120,500
	779,082	749,984	768,090	738,067
Listed investments included in the above	639,479	629,307	628,574	617,567

a) Fair value changes

The changes in fair value of investments stated at fair value through profit or loss as at 31 December 2017 were as following:

				31 December 2017
	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	48,341	-	18,246	66,587
Debt securities and other fixed-income securities	580,233	6,254	(13,595)	572,892
Deposits with credit institutions	139,516	87	-	139,603
Total	768,090	6,341	4,651	779,082

				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	738,067	6,629	5,288	749,984

9. FINANCIAL INVESTMENTS (Continued)

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).

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. The levelling of both Equities and units in unit trusts and Debt securities and other fixed-income securities have been re-assessed this year and prior year disclosure aligned accordingly.

				31 December 2017
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Investments designated at fair value through profit or loss:				
Equities and units in unit trust	-	66,587	-	66,587
Debt securities and other fixed-income securities	328,010	244,882	-	572,892
Deposits with credit institutions	139,603	-	-	139,603
Total	467,613	311,469	-	779,082

				31 December 2016
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Investments designated at fair value through profit or loss:				
Equities and units in unit trust	-	58,922	-	58,922
Debt securities and other fixed-income securities	352,027	218,358	-	570,385
Deposits with credit institutions	120,677	-	-	120,677
Total	472,704	277,280	-	749,984

The levels to which debt securities and other fixed-income securities were assigned at 31 December 2016 have been reclassified to be consistent with those applied in the current year following a re-assessment of valuation techniques applied.

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017	2016
	£'000	£'000
Amounts owed by intermediaries	90,545	79,515
Amounts owed by policyholders	55,982	36,535
	146,527	116,050

Included within the receivables balance are intercompany trading balances due from Swinton Group Limited, a fellow subsidiary undertaking, of £8,439,000 (2016: £9,492,000)(note 25(b)).

11. OTHER DEBTORS

	2017	2016
	£'000	£'000
Amounts owed by group companies	17,114	16,181
Corporation tax recoverable	3,793	2,671
Other receivables	4,545	3,903
	25,452	22,755

12. TANGIBLE ASSETS

	Computer equipment	Fixtures, fittings and equipment	Motor vehicles	Land & buildings	Total
Cost/valuation	£'000	£'000	£'000	£'000	£'000
At 1 January 2017	5,116	3,510	39	26,574	35,239
Additions	-	17	-	219	236
Reclassification	214	-	-	-	214
Disposals	(1,470)	(858)	(26)	(1,281)	(3,635)
At 31 December 2017	3,860	2,669	13	25,512	32,054
Depreciation					
At 1 January 2017	2,968	1,571	37	641	5,217
Reclassification	(46)	24	-	1	(21)
Charge for the year	885	470	2	707	2,064
Elimination in respect of disposals	(1,470)	(856)	(26)	(92)	(2,444)
At 31 December 2017	2,337	1,209	13	1,257	4,816
Net Book Value					
At 31 December 2017	1,523	1,460	-	24,255	27,238
At 31 December 2016	2,148	1,939	2	25,933	30,022

13. INTANGIBLE ASSETS

	Computer software	Total
Cost	**£'000**	**£'000**
At 1 January 2017	22,522	22,522
Reclassification	(214)	(214)
Disposals	(746)	(746)
At 31 December 2017	21,562	21,562
Accumulated Amortisation		
At 1 January 2017	10,398	10,398
Reclassification	21	21
Charge for the year	3,395	3,395
Elimination in respect of disposals	(746)	(746)
At 31 December 2017	13,068	13,068
Net Book Value		
At 31 December 2017	8,494	8,494
At 31 December 2016	12,124	12,124

14. CALLED UP SHARE CAPITAL

	2017	2016
	£'000	**£'000**
Authorised ordinary shares 162,561,000 (2016: 162,561,000) Ordinary shares of £1 each	162,561	162,561
Allotted, called up and fully paid 158,224,365 (2016: 158,224,365) Ordinary shares of £1 each	158,224	158,224

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

15. CLAIMS OUTSTANDING

2017	Gross	Reinsurance	Net
	£'000	£'000	£'000
Notified outstanding claims	794,310	369,210	425,100
Provisions for claims incurred but not reported	(72,605)	(61,230)	(11,375)
	721,705	307,980	413,725
Claims handling provision	7,017	-	7,017
	728,722	307,980	420,742

2016	Gross	Reinsurance	Net
	£'000	£'000	£'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 provision	7,403	-	7,403
	650,247	219,670	430,577

Included in the reinsurers' share of claims outstanding is £22,097,000 (2016: £8,823,000) due from fellow group companies.

15. CLAIMS OUTSTANDING (continued)

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.

Analysis of claims outstanding – gross of reinsurance	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	£'000	**£'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	446,658	446,658
One year later	163,438	115,953	496,030	256,670	246,697	386,630	410,895	-	410,895
Two years later	159,415	117,436	463,685	239,314	248,242	376,771	-	-	376,771
Three years later	163,082	121,097	431,150	240,162	240,240	-	-	-	240,240
Four years later	160,128	117,130	452,169	245,671	-	-	-	-	245,671
Five years later	161,446	115,919	456,317	-	-	-	-	-	456,317
Six years later	161,785	117,028	-	-	-	-	-	-	117,028
Seven years later	161,705	-	-	-	-	-	-	-	161,705
Current estimate of cumulative claims	161,705	117,028	456,317	245,671	240,240	376,771	410,895	446,658	2,465,286
Cumulative payments to date	(161,275)	(113,359)	(360,033)	(201,145)	(211,033)	(269,911)	(272,219)	(181,963)	(1,770,938)
Liability recognised in Statement of Financial Position for 2010 to 2017 accident years	430	3,869	96,284	44,526	29,207	106,860	138,676	264,695	684,347
Liability recognised in Statement of Financial Position in respect of prior accident years									37,368
Claims handling provision									7,017
Gross general insurance claims liabilities as at 31 December 2017									728,722

15. CLAIMS OUTSTANDING (continued)

Analysis of claims outstanding – net of reinsurance	2010	2011	2012	2013	2014	2015	2016	2017	Total
	£'000	£'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	324,282	324,282
One year later	150,432	111,642	335,426	220,868	227,975	323,209	371,368	-	371,368
Two years later	147,581	111,936	320,433	208,099	223,947	311,814	-	-	311,814
Three years later	150,526	112,714	304,662	204,705	223,054	-	-	-	223,054
Four years later	148,314	110,363	296,263	201,886	-	-	-	-	201,886
Five years later	148,678	109,801	297,878	-	-	-	-	-	297,878
Six years later	150,944	110,174	-	-	-	-	-	-	110,174
Seven years later	150,900	-	-	-	-	-	-	-	150,900
Current estimate of cumulative claims	150,900	110,174	297,878	201,886	223,054	311,814	371,368	324,282	1,991,356
Cumulative payments to date	(150,476)	(109,207)	(270,722)	(184,931)	(199,822)	(250,569)	(269,668)	(144,688)	(1,580,083)
Liability recognised in Statement of Financial Position for 2010 to 2017 accident years	424	967	27,156	16,955	23,232	61,245	101,700	179,594	411,273
Liability recognised in Statement of Financial Position in respect of prior accident years									2,452
Claims handling provision									7,017
Net general insurance claims liabilities as at 31 December 2017									420,742

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 2016	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	-
Movement in Provision	48,947	48,937	78,475	(9,835)	-
At 31 December 2017	367,452	366,823	728,722	420,742	-

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
2017	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Decrease in cost estimate in prior years claims, net of reinsurance	8,492	1,389	8,494	5,240	4	405	24,024

	Motor Liability	Other Motor	Fire and other damage to property	Liability	Accident and health	Miscellaneous	Total
2016	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Decrease/(increase) in cost estimate in prior years claims, net of reinsurance	16,169	5,111	(1,269)	3,401	1,078	96	24,586

17. EQUALISATION PROVISION

In response to the Solvency II Directive that removed the requirement to recognise equalisation provisions the Claims Equalisation Provision was released in 2016. This resulted in an increase in the general business technical account result and profit before taxation of £29,809,000 in 2016 as shown in the comparative information in note 16.

18. DEFERRED TAXATION

	2017 £'000		2016 £'000	
Fixed asset timing differences		665		1,590
Other short term timing differences		(649)		4,238
Provision for deferred tax		16		5,828
Deferred tax liability/(asset) at beginning of year		5,633		(195)
Fixed asset timing differences	(132)		710	
Other short term timing differences	(971)		4,978	
	(1,103)		5,688	
Prior year adjustment	1,102		1,040	
Effect of rate change	17		(900)	
Deferred taxation (Note 7)		16		5,828
Deferred tax liability at end of year		5,649		5,633

19. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2017 £'000	2016 £'000
Other taxes including insurance premium tax and social security costs	23,699	16,376
Corporation tax	-	-
Deferred tax liability (Note 18)	5,649	5,633
Due to group companies	937	449
Other creditors	5,330	3,920
	35,615	26,378

20. ACCRUALS AND DEFERRED INCOME

	2017 £'000	2016 £'000
Levies	9,015	7,100
Other accruals and deferred income	7,111	3,371
	16,126	10,471

21. PENSIONS

The Company operated a defined benefit pension scheme in the UK until the Company's immediate holding company, MMA Holdings UK plc, became the sponsoring employer on 15 December 2016. 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.

22. OPERATING LEASES

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

	Land and buildings		Vehicles	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Operating leases which expire within one year	334	340	96	64
Operating leases which expire between one and five years	159	307	110	52
	493	647	206	116

23. ULTIMATE PARENT COMPANY

(a) The Company is a member of Covea 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 Covea Cooperations, a company registered in France. Covea 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 Covea Cooperations, are registered in France and are affiliated to Covéa Sgam.

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

24. DEFERRED ACQUISITION COSTS

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

	2017	2016
	£'000	£'000
Balance as at 1 January	69,541	72,484
Movement in the year	2,832	(2,943)
Balance as at 31 December	72,373	69,541

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.

(a) Group company balances

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

	2017	2016
	£'000	£'000
Due to fellow group companies	2,362	2,925

(b) Loan to fellow subsidiary

A loan facility of £35,000,000 has been granted to a fellow subsidiary at a commercially agreed rate, repayable in June 2018. The balance of the loan as at 31 December 2017, including interest accrued, is £21,274,000 (2016: £10,151,000).

(c) Other Group company balances are reflected in notes 10, 11, 15 and 19.

There were no other material related party transactions.

26. CAPITAL COMMITMENTS

There is no capital expenditure that has been authorised and contracted but has not been provided for (2016: Nil).

27. CONTINGENT LIABILITIES

At 31 December 2017, the Company had no contingent liabilities (2016: nil).

28. POST BALANCE SHEET EVENTS

No significant events affecting the Company have occurred since 31 December 2017.

Company Information
For the Year Ended 31 December 2017

REGISTERED AND HEAD OFFICE	Norman Place Reading Berkshire RG1 8DA
WEB ADDRESS	www.coveainsurance.co.uk
BANKERS	HSBC Bank plc PO Box 125 2nd Floor 62-76 Park Street London SE1 9DZ
INDEPENDENT AUDITORS	PricewaterhouseCoopers LLP *Chartered Accountants and Statutory Auditors* 3 Forbury Place 23 Forbury Road Reading RG1 3JH
REGISTERED NUMBER	00613259