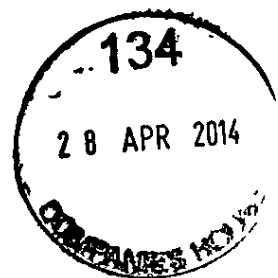


Company Registration No 02199286

PROTECTION LIFE COMPANY LIMITED
(PREVIOUSLY DIRECT LINE LIFE INSURANCE COMPANY LIMITED)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2013



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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

P W Mason
V S France
M J Evans
G L Kettleborough
D A Rimmington

SECRETARY

M W Fishwick

REGISTERED OFFICE

Chesnara plc
Harbour House
Portsway
Preston
Lancs
PR2 2PR

AUDITOR

Deloitte LLP
9 George Square
Glasgow
G2 1QQ

Registered In England and Wales

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2013

Background

Protection Life Company Limited closed to new business on 5 July 2011. Until then, the Company transacted long term insurance falling within business classes I and IV of Annex 11.1 of chapter 11 in volume 1 of the PRA Interim Prudential Sourcebook Insurers. The products provided were mortgage life cover, fixed term life cover, mortgage life cover with critical illness, fixed term life cover with critical illness and over 50's life cover. The Company continues to manage the back book of business.

Until 28 November 2013, the Company was a subsidiary of Direct Line Insurance Group plc which provided the Company with direction and access to all central resources it needed and determined policies in all key areas such as finance, risk, human resources or environment. From that date the Company became a subsidiary of Chesnara plc who at this point entered into a Transitional Services Agreement (TSA) with Direct Line Insurance Group plc to allow the Company to continue its business in the ordinary course until the business is migrated to one of Chesnara's outsource providers. The time and costs of the service provider's employees and administrative support costs are included under the TSA charge.

The Company is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

Business model

The primary focus of the Company is the efficient run-off of its existing life portfolio. This gives rise to the emergence of surplus which supports our aim of delivering ongoing dividends to our parent company, Chesnara plc. By virtue of being closed to new business the surplus arising will deplete over time as the policies mature, expire or are the subject of a claim.

The Company is managed by Chesnara Group Management which consists of a small professional corporate governance team which is responsible for both the regulatory and operational requirements of the Company. The team is intentionally small and is focused on keeping the overall expense base under close control.

Prior to the acquisition date, all operations were performed by dedicated Direct Line Group employees. From the date of acquisition and up to the point of migrating the business to one of Chesnara's outsource providers, the day to day functions have been and will be performed by the same dedicated DLG employees under a Transitional Service Agreement (TSA). Post migration, the operating model of Protection Life will mirror that of other subsidiaries within the Chesnara plc group, by outsourcing all support activities to professional specialists. This typically embraces policy administration, systems, accounting and investment management and reduces the impact of potential fixed and semi-fixed cost issues which would otherwise occur as the income streams arising from a declining in-force portfolio diminish. By securing long-term contracts to support these activities we aim to enhance the variability of the expense base with the size of the in-force policy portfolio. This also leads to the avoidance of the full weight of systems development costs, as these will, where possible, be shared with other users of the outsourcers' platforms.

Oversight of the outsourced functions is a significant part of the responsibility of the central governance team. The maintenance of service and performance standards, and thereby the core interests of shareholders and policyholders, is maintained through a strict regime of service level agreements and through continuous monitoring of performance. This is reinforced by adherence to the principles and practice of treating customers fairly.

STRATEGIC REPORT (CONTINUED)**Strategic objectives**

The management of the Company focuses on delivering to the following key strategic objectives

Maximise value from the in-force books

The Company is a "closed book" operation and as such generating surplus and cash from the in-force book is one of our core objectives. We do this by proactively managing the following factors

- The company is exposed to market falls on the investments that it holds. We seek to minimise this exposure by regular review of investment asset holdings and by adjusting investment manager guidelines where appropriate
- We operate in a manner that aims to ensure that policy attrition is as low as possible, as this is a key determinant of our future profitability and of the level and longevity of the emergence of surplus. We continue to maintain a focus on the retention of policies where it is in the interest of customers to continue with their arrangements
- We adopt a business operating model which ensures unit expenses remain appropriate for the scale of the in-force book. Following the acquisition of the Company by Chesnara the operations will become predominantly outsourced, with contract charging structures that ensure a significant element of the cost base will vary in line with the run-off of the business

Maintain a strong solvency position

Another core strategic objective of the company is to maintain a strong solvency position. Adequate solvency capital

- Protects against volatility particularly due to external economic conditions outside management control
- Ensures compliance with regulatory requirements
- Supports on going dividend paying capability to our parent Company

To deliver this strategic objective we ensure the Board is furnished with high quality information regarding its solvency position. This includes information regarding the actual solvency position together with the projection of solvency under stress scenarios. The management team tracks the performance of the key factors known to impact the solvency position. Trigger points are set and documented such that management action will be instigated should any of the key trigger points be reached. The setting and review of trigger points is an integral component of the Company's risk appetite model.

Adopt good regulatory practice at all times

Company management fully recognises the benefits to both our shareholder and policyholders of adherence to good regulatory practice. We comply not because the regulations insist but because the rules clearly reflect good, responsible business management and governance.

Delivery of this strategy is managed by maintaining a strong internal risk management culture and regime is maintained throughout the Chesnara Group and we maintain systems and controls which satisfy regulatory requirements at all levels.

The UK life assurance and pensions industry is highly regulated, in terms of the conduct of business operations and of financial reporting. We place particular emphasis on managing our regulatory compliance through a proactive and prudent approach and on maintaining a positive relationship with our principal regulators, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

Accordingly, significant effort is directed towards ensuring that the operations are effectively managed in terms of conduct of business regulations and of prudential solvency requirements and towards the significant change that is required in the business to implement Solvency II and to ensure continuing compliance with its requirements.

STRATEGIC REPORT (CONTINUED)

The Chesnara Group which manages the day to day operations of the Company has a strong Governance structure which sits at the heart of its operating model, which exists within a robust and effective Corporate Governance framework

- All Governance roles, with direct impact on regulatory compliance, are carried out by people with significant industry experience
- The level of investment in the Governance team is fully reflective of the Board's recognition and understanding of the implications and challenges of effective adherence to all regulatory best practice
- The Chesnara culture ensures other objectives do not conflict with the objective of adopting good regulatory practice at all times

A fair review of the business*Business Review*

The Directors are satisfied with the Company's performance in the year

Financial Performance

The Company's financial performance is presented in the Statement of Comprehensive Income on Page 12

For the 2013 financial year net insurance premium revenue decreased by £6,109,000 (2012 decreased by £764,000) and net insurance claims increased by £75,000 (2012 decreased by £3,585,000) Expenses decreased by £3,801,000 (2012 increased by £1,249,000) The profit before tax for the year was £6,693,000 (2012 £9,399,000), a decrease of 28.79% over 2013

Dividends of £38,000,000 were paid in the year to the previous owners. A final dividend of £7,000,000 was paid in January 2013 in relation to 2012. Two interim dividends were paid during the year £8,000,000 was paid in June 2013 and a second interim dividend of £23,000,000 was paid in November 2013 (2012 £nil)

Prior to purchase by Chesnara plc the share capital of the Company was reduced by £23.0m

At the end of the year, the balance sheet showed total assets of £161,018,000 (2012 £177,575,000). These included income-generating assets comprising investments and cash of £47,831,000 (2012 £66,353,000). Total equity was £39,507,000 (2012 £60,366,000)

Key performance indicators

Set out below are those indicators which we consider to be key in assessing the Company's performance. They are either in the nature of lead operational indicators or are measurements which reflect outcomes. We explain the significance of each indicator and also set out the way in which it has been formulated to the extent necessary to appreciate its characteristics.

1) Policy attrition rate

Generally, the longer that life policies remain in force the more profit accrues to the Business. Over time the value of the in-force policies is realised into surplus within the Company and this is, in turn, distributable to our parent Company, Chesnara plc, subject to the regulatory constraints. It is important therefore that the Company maximises policy retention through providing guidance to customers. Different policy product types will naturally be subject to lapse, claim or surrender to varying extents. The policy attrition rate for 2013 was 6.8% (2012 7.0%)

STRATEGIC REPORT (CONTINUED)**A fair review of the business (continued)***Key performance indicators (continued)*

2) Investment performance

During the year investment returns of £1,199k were achieved (2012 £1,522k)

3) Regulatory capital resources and requirements

The following summarises the capital resources and requirements of the Company for UK regulatory purposes

	31 December	
	2013	2012
	£m	£m
Available capital resources ('CR')	<u>39.2</u>	<u>53.3</u>
Long-term insurance capital requirement ('LTICR')	25.2	27.6
Resilience capital requirement ('RCR')	-	-
Total capital resources requirement ('CRR')	<u>25.2</u>	<u>27.6</u>
Excess of CR over CRR (solvency surplus)	14.0	25.7
Target capital requirement cover	<u>37.8</u>	<u>41.4</u>
Ratio of available CR to CRR	<u>156%</u>	<u>193%</u>
Excess of CR over target requirement	<u>1.4</u>	<u>1.9</u>

The Directors have not proposed the payment of a dividend subsequent to 31 December 2013 in relation to the 2013 financial year. Available capital resources as at 31 December 2012 are stated after provision for a dividend of £7.0m, which was approved subsequent to 31 December 2012.

The Company's Board, as a matter of policy, continues to target CR cover for total CRR at a minimum level of 150% of the LTICR.

Principal risks and uncertainties

The Company holds products that are subject to a number of uncertainties and risks. It is a key role of Risk to ensure these risks have been quantified and considered throughout the pricing and underwriting processes.

Principal Risks	Impact	Management and Mitigation
Strategic Risk The prevailing economic climate could put at risk our ability to meet our strategic objectives of maximising value from the inforce book.	Dividend paying capacity to our shareholder is reduced.	<ul style="list-style-type: none"> - Constant monitoring and management of agreed strategic targets - Costs closely monitored
Reserving Risk Due to the uncertain nature and timing of the risks to which we are exposed, we cannot precisely determine the amounts that we will ultimately pay to meet the liabilities covered by the insurance policies written or when those liabilities will be paid.	Incorrect reserves held resulting in a financial loss.	Technical reserves are estimated using a range of actuarial and statistical techniques, projections and assumptions across a range of variables, facts and circumstances known at a given time, estimates of trends, and inflation in claims severity.

STRATEGIC REPORT (CONTINUED)

Principal risks and uncertainties (continued)

Principal Risks	Impact	Management and Mitigation
Operational risk The risks of direct or indirect losses resulting from inadequate or failed internal processes, or from systems and people, or from external events including changes in the regulatory or legislative environments	Adverse events with potential financial, reputational, legal and/or customer impacts	<ul style="list-style-type: none"> - We maintain a robust internal control environment
Investment Risk Market risk – the risk of adverse financial impact due to changes in fair values of future cash flows of instruments held in the investment portfolio as a result of changes in interest rates, credit spread, foreign exchange rates and property prices Credit risk – the risk of a financial loss as a result of the default or failure of third parties to meet their obligations when due, or as a result of changes in fair value resulting from movements in the credit worthiness of the third party Liquidity risk – the risk of maintaining insufficient financial resources to meet business obligations as and when they fall due	Adverse movements due to asset value reduction, mis-match in assets and liabilities, and default of third parties Inability to meet cashflows under stress	Our investment portfolio is robustly managed and controlled, through <ul style="list-style-type: none"> - Investment Strategy and Guidelines set and monitored by the Investment Committee, including counterparty limits, country limits and specified rating requirements - Diverse holding of types of assets – bonds, cash, asset backed securities and property, geographies, sector and credit ratings - Utilisation of risk reduction techniques including collateral holding and hedging - Maintenance of standby facilities - Stress testing and scenario analysis
Counterparty risk We partner with many suppliers and the failure of any of these to perform their financial obligations or perform them in a timely manner could result in a financial loss. The principal area of counterparty risk is our use of reinsurance	Loss due to default of reinsurers or other third parties	<ul style="list-style-type: none"> - Requirement of minimum credit ratings for reinsurers - Other suppliers may require a credit assessment and specific credit terms
Regulatory risk Changes in regulations are not identified, understood, are inappropriately or incorrectly interpreted or adopted. Further there is a risk that current legal or regulatory requirements are not complied with	Customer impact, financial loss and/or regulatory censure Regulatory sanction, legal action or revenue loss	The Company and Chesnara Group have a constructive and open relationship with its regulators in addition to specific risk management tools and resources to minimise its exposure to Regulatory risk

STRATEGIC REPORT (CONTINUED)**Principal risks and uncertainties (continued)**

Principle Risks	Impact	Management and Mitigation
Reputational risk The Company and the Chesnara Group are dependent on the strength of its reputation with customers	Loss of reputation with customers negatively impacts our ability to retain business	A key focus for the Company and the Chesnara Group is to regularly monitor customer performance using a range of metrics, including retention and compliance The Company and the Chesnara Group seeks to offer a superior service to customers and to treat customers fairly in line with FCA principles

It is important to note that some risks are currently unknown and some risks have materiality levels that could subsequently increase. The risk framework aims to capture these effects as early as possible through the strong culture and engagement with the business.

The Company seeks to minimise its exposure to external financial risks and the principal uncertainties that arise from those risks. Further information on the uncertainties surrounding the Company's liabilities can be found in note 2 on critical accounting estimates and judgements. Further information on the policies and exposures of insurance and financial risk can be found in note 3 on risk management.

Future developments

It is intended that a Part VII transfer of business to Countrywide Assured plc will be completed by the end of 2014. The PRA have been formally notified of the start of the Part VII process and subsequently the PRA have formally approved the appointment of the Independent Expert.

Going concern

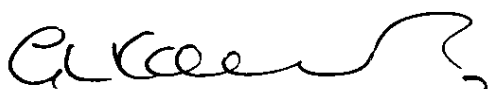
As noted above the Directors have initiated the process to transfer the business of the Company to Countrywide Assured plc, a fellowships of Chesnara plc. It is currently anticipated that this transfer will be completed before the end of 2014. As a result the Directors have determined that it would not be appropriate to prepare these financial statements on a going concern basis. These financial statements have therefore been prepared on a basis other than that of a going concern.

Other matters

The following information is required by the Companies Act to be included in the Strategic Report which the Directors do not think are necessary for an understanding of the development, performance or position of the Company's business:

- (i) Environmental matters: There are no environmental matters specific to the Company. Further information on Environmental matters affecting the Chesnara Group can be found on pages 48 to 49 of the Chesnara plc 2013 Annual Report & Accounts.
- (ii) The company's employees: The Company does not have any employees except for the Directors of the Company.
- (iii) Social, community and human rights issues including information about any policies of the Company in relation to those matters and the effectiveness of those policies: The Chesnara Group manages this on a Group basis. Further information can be found on pages 48 to 49 of the Chesnara plc 2013 Annual Report & Accounts.

The Strategic Report was approved by the board of directors on 27 March 2014 and signed on its behalf by



Graham Kettleborough
Director
27 March 2014

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2013

The Company has chosen, in accordance with section 414c(II) of the Companies Act 2006 to include certain additional matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report

On 22 January 2014 the Company changed its name from Direct Line Life Insurance Company Limited to Protection Life Company Limited

DIRECTORS AND SECRETARY

The present directors and secretary, who have served throughout the year except where noted below, are listed on page 1

From 1 January 2013 to date the following changes have taken place

Directors	Appointed	Resigned
P R Geddes		28 November 2013
S K Howard		28 November 2013
A J Reizentein		28 November 2013
T Woolgrove		28 November 2013
P W Mason	28 November 2013	
V S France	28 November 2013	
M J Evans	28 November 2013	
G L Kettleborough	28 November 2013	
D A Rimmington	28 November 2013	
Secretaries		
P A Hutchings		28 November 2013
M W Fishwick	28 November 2013	

No Director had any material interest in any significant contract in the Company

Both previous and current Directors benefitted from qualifying third party indemnity provisions in place during the year ended 31 December 2013

All of the Directors listed on page 1 are also directors of Chesnara plc, the ultimate parent company. Their interests are reported in the respective company's financial statements

RISKS

Disclosure with respect to insurance risk, reinsurance risk, financial risk, market risk, credit risk, liquidity risk, operational risk and emerging risks is included in Note 3 of the Financial Statements

DISCLOSURE OF INFORMATION TO AUDITOR

Each of the Directors at the date of approval of this report confirms that

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information

This confirmation is given and shall be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor

Approved by the Board of Directors and signed on behalf of the Board

DIRECTORS' REPORT (CONTINUED)**DIRECTORS' RESPONSIBILITIES STATEMENT**

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 elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. 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, International Accounting Standard 1, requires that directors

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions of the entity's financial position and financial performance, and
- make an assessment of the Company's ability to continue as a going concern

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 to enable them to ensure that the financial statements comply with the requirements of 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.



David Rimmington
Director
27 March 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROTECTION LIFE COMPANY LIMITED

We have audited the financial statements of Protection Life Company Limited ('the Company') for the year ended 31 December 2013 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Financial statements prepared other than on a going concern basis

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements, which explains that the financial statements have been prepared on a basis other than that of a going concern.

Opinion on other matters prescribed by the Companies Act 2006

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

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PROTECTION LIFE COMPANY LIMITED
(CONTINUED)**

Matters on which we are required to report by exception

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

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



David Claxton ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Glasgow, United Kingdom
27 March 2014

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £000	2012 £000
Insurance premium revenue	4	39,006	46,609
Reinsurance premium ceded	4	(23,233)	(24,727)
Net Insurance premium revenue		15,773	21,882
Investment income	5	1,199	1,509
Net realised gains on financial assets	6	–	13
Total income		16,972	23,404
Insurance benefits	7	(22,685)	(32,856)
Insurance benefits recoverable from reinsurers	7	20,551	30,797
Net Insurance claims		(2,134)	(2,059)
Commission expenses	8	(1,555)	(3,825)
Other operating expenses	8	(6,590)	(8,121)
Total expenses		(8,145)	(11,946)
Profit before tax		6,693	9,399
Tax charge	9	(1,652)	(2,496)
Profit for the year		5,041	6,903
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Fair value (loss) on available-for-sale investments	19	(1,368)	(98)
Tax credit on other comprehensive income	19	355	86
Other comprehensive expense after tax		(1,013)	(12)
Total comprehensive income for the year		4,028	6,891
Total comprehensive income attributable to			
Owners of the Company		4,028	6,891
Non-controlling interests		–	–
		4,028	6,891

The notes on pages 16 to 41 form part of these financial statements

BALANCE SHEET
AS AT 31 DECEMBER 2013

	Notes	2013 £000	2012 £000
ASSETS			
Financial Investments	13	24,705	31,120
Reinsurance assets	14	97,988	94,731
Deferred tax assets	15	15	19
Insurance and other receivables	16	15,184	16,472
Cash and cash equivalents	17	23,126	35,233
Total assets		161,018	177,575
EQUITY			
Share Capital	18	21,000	44,000
Other reserves	19	14,326	2,226
Retained earnings	19	4,181	14,140
Total equity		39,507	60,366
LIABILITIES			
Subordinated liabilities	20	-	3,500
Insurance liabilities	21	108,861	107,154
Trade and other payables including insurance payables	22	10,769	4,337
Other provisions	23	1,630	-
Current tax liabilities		251	2,218
Total liabilities		121,511	117,209
Total equity and liabilities		161,018	177,575

The financial statements of Protection Life Company Limited were approved by the Board of Directors on 27 March 2014 and were signed on its behalf by



Graham Kettleborough
Director

The notes on pages 16 to 41 form part of these financial statements

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Share capital £000	Other reserves £000	Retained Earnings £000	Total £000
Balance at 1 January 2012	44,000	5,738	7,237	56,975
Profit for the year	-	-	6,903	6,903
Other comprehensive income	-	(12)	-	(12)
Total comprehensive income for the year	-	(12)	6,903	6,891
Reclassification to subordinated liabilities (note 20)	-	(3,500)	-	(3,500)
Balance as at 31 December 2012	44,000	2,226	14,140	60,366
Profit for the year	-	-	5,041	5,041
Other comprehensive income	-	(1,013)	-	(1,013)
Total comprehensive income for the year	-	(1,013)	5,041	4,028
Dividends	-	-	(38,000)	(38,000)
Capital reduction	(23,000)	-	23,000	-
Capital contribution	-	13,113	-	13,113
Balance as at 31 December 2013	21,000	14,326	4,181	39,507

Total changes in equity for the year were entirely attributable to the equity shareholders of the Company

The notes on pages 16 to 41 form part of these financial statements

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £000	2012 £000
Cash generated from operating activities			
Profit for the year before tax		6,693	9,399
Adjustments for			
investment revenues		(1,199)	(1,509)
Depreciation of property, plant and equipment		–	3
Operating cash flows before movements in working capital		<u>5,494</u>	<u>7,893</u>
Movements in working capital			
Net increase in insurance liabilities		1,707	9,274
Net (increase) in reinsurance assets		(3,257)	(11,969)
Net decrease in insurance and other receivables		1,202	2,080
Net increase/(decrease) in trade and other payables including insurance payables		6,432	(30,289)
Net increase in provisions		1,630	–
Cash generated/(used by) from operations		<u>13,208</u>	<u>(23,011)</u>
Taxes paid		(3,260)	(2,572)
Interest paid		(7)	(29)
Other operating activities		2	–
Net cash flow generated/(used by) from operating activities before investment of insurance assets		<u>9,943</u>	<u>(25,612)</u>
Cash flows from investing activities			
Interest received		1,337	2,199
Proceeds on maturity of available for sale debt securities		5,000	5,000
Net decrease in balances held with credit institutions greater than ninety days		–	30,000
Sale of debt security		–	5,070
Cash generated from investment of insurance assets		<u>6,337</u>	<u>42,269</u>
Cash flows from financing activities			
Dividends paid		(38,000)	–
Repayment of borrowings		(3,500)	–
Capital injection		13,113	–
Net cash used by financing activities		<u>(28,387)</u>	<u>–</u>
Net (decrease)/increase in cash and cash equivalents		(12,107)	16,657
Cash and cash equivalents at the beginning of the year		35,233	18,576
Cash and cash equivalents at the end of the year	17	<u>23,126</u>	<u>35,233</u>

The notes on pages 16 to 41 form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****1. ACCOUNTING POLICIES****Basis of preparation**

The accounts have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations committee of the IASB as adopted by the European Union (EU) (together IFRS). As the Directors intend to complete a Part VII transfer in the next twelve months, the financial statements have been prepared on a basis other than that of a going concern. No adjustments were required as a result of this.

The Company is incorporated in the United Kingdom and registered in England and Wales.

The accounts have been prepared on the historical cost basis except that available-for-sale financial assets are stated at their fair value.

The Company accounts are prepared in accordance with the Companies Act 2006.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 and 3 and the Activity section of the Directors' Report on page 4. In addition notes 3 and 30 to the financial statements include the Company's objectives, policies and processes for managing its insurance and financial risks and capital.

Adoption of new and revised Standards

Amendments to the following IFRS's were applicable for the year ended 31 December 2013:

- IAS 1 Amendments to the presentation and classification of other comprehensive income,
- IFRS 7 Amendments to financial instruments disclosure in relation to offsetting of financial assets and liabilities,
- IFRS 13 Amendments to fair value measurement and disclosure.

Their adoption has not had any significant impact on the amounts reported in these financial statements.

1.1 Contract Classification

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

A liability for contractual benefits that are expected to be incurred in the future is recorded when the premiums are recognised. For contracts other than credit insurance business the liability is determined as the sum of the expected discounted value of future benefit payments and future administration expenses that are directly related to the insurance contract less the expected discounted value of premiums payable under the contract, based on the valuation assumptions used. For regular premium credit insurance business the liability is taken as a multiple of premium. For single premium credit insurance business the liability is taken as a proportion of the single premium, where the proportion reflects the outstanding term remaining on the contract.

The liability is based on assumptions as to mortality, morbidity, maintenance expenses and investment income. A margin for adverse deviations is included in the assumptions.

Where contracts have a single premium the excess of the premiums payable over the valuation premium is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in force.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****1. ACCOUNTING POLICIES (Continued)****1.2 Revenue recognition (Continued)*****Insurance premium revenue***

The Company's long-term assurance contracts include whole-life and term assurance contracts that are expected to remain in force for an extended period of time. These contracts insure events associated with human life (for example death or the occurrence of a critical illness). These are recognised as revenue when they become payable by the contract holder. Premiums are shown before the deduction of commission.

Investment return

Interest income on financial assets is determined using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset (or group of financial assets) and of allocating the interest income over the expected life of the asset. In the case of financial assets classified as available-for-sale, estimates are based on the straight-line method, which is a close approximation to the effective interest rate.

1.3 Insurance benefits

Benefits are recorded as an expense when the Company becomes aware of the claim. Provision is made for the full cost of settling outstanding claims at the balance sheet date. Costs for both direct and indirect claims handling costs are also included.

1.4 Reinsurance

The Company has reinsurance treaties and other reinsurance contracts that transfer significant insurance risk.

The Company cedes insurance risk by reinsurance in the normal course of business, with the arrangement and retention limits varying by book of business. Outward reinsurance premiums are generally accounted for in the same accounting period as the premiums for the related direct business being reinsured. Outward reinsurance recoveries are accounted for in the same accounting period as the direct claims to which they relate.

Reinsurance assets include balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

A reinsurance bad debt provision is assessed in respect of reinsurance debtors, to allow for the risk that the reinsurance asset may not be collected or where the reinsurer's credit rating has been downgraded significantly. This also includes an assessment in respect of the ceded part of claims reserves to reflect the credit risk exposure to long-term reinsurance assets particularly in relation to periodical payments. This is affected by the Company reducing the carrying value of the asset accordingly and the impairment loss is recognised in the statement of comprehensive income.

1.5 Financial assets

Financial assets can be classified as held-to-maturity, available-for-sale, designated as at fair value through profit or loss, or loans and receivables. The Company only has available-for-sale financial assets and loans and receivables.

Financial assets that are not classified as designated as at fair value through profit or loss, or loans and receivables, are classified as available-for-sale. Financial assets can be designated as available-for-sale on initial recognition. Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at fair value. Impairment losses and exchange differences resulting from retranslating the amortised cost of foreign currency monetary available-for-sale financial assets are recognised in profit or loss together with interest calculated using the effective interest rate method. Other changes in the fair value of available-for-sale financial assets are reported in a separate

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****1. ACCOUNTING POLICIES (Continued)****1.5 Financial assets (Continued)**

component of shareholders' equity until disposal, when the cumulative gain or loss is recognised in the statement of comprehensive income

Purchases of financial assets classified as loans and receivables are recognised on settlement date, all other purchases are recognised on trade date

A financial asset is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the transaction (e.g. a change in the risk-free interest rate following the most recent price quote for a corporate bond), the fair value reflects the change in conditions by reference to current prices or rates for similar financial instruments, as appropriate.

The valuation methodology described above uses observable market data.

If the market for a financial asset is not active, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Company uses that technique.

The fair value of investments in equity instruments that do not have a quoted market price in an active market and derivatives that are linked to and must be settled by delivery of such an unquoted equity instrument are reliably measurable if:

- (a) the variability in the range of reasonable fair value estimates is not significant for that instrument, or
- (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

Loans and receivables – Non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables, except those that are classified as available-for-sale or designated as at fair value through profit or loss. Loans and receivables are initially recognised at fair value plus directly related transaction costs and are subsequently measured at amortised cost using the effective interest rate method less any impairment losses.

Insurance receivables comprise outstanding insurance premiums where the policyholders have elected to pay in instalments or amounts due from brokers or third parties, where they have collected the money from the policyholder.

Other loans and receivables principally comprise loans to related parties and other debtors.

Impairment of financial assets

At each balance sheet date the Company assesses whether there is any objective evidence that a financial asset or group of financial assets classified as available-for-sale or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

Available-for-sale – When a decline in the fair value of a financial asset classified as available-for-sale has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****1 ACCOUNTING POLICIES (Continued)****1.5 Financial assets (Continued)**

loss is removed from equity and recognised in the income statement. The loss is measured as the difference between the amortised cost of the financial asset and its current fair value. Impairment losses on available-for-sale equity instruments are not reversed through profit or loss, but those on available-for-sale debt instruments are reversed, if there is an increase in fair value that is objectively related to a subsequent event. Subsequent increases in the fair value of available-for-sale other investment funds are all recognised in equity.

Loans and receivables – If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and receivables has been incurred, the Company measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition.

Impairment losses are assessed individually where significant or collectively for assets that are not individually significant.

Impairment losses are recognised in the income statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for the impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance.

1.6 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with banks together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Under IAS 7 the Company is producing a cash flow statement using the indirect method. This shows an explanation of the movement in cash and cash equivalents as defined above.

1.7 Financial liabilities

Amortised cost – Financial liabilities are initially recognised at fair value net of transaction costs incurred. Other than derivatives which are recognised and measured at fair value, all other financial liabilities are subsequently measured at amortised cost using the effective interest method.

1.8 Taxation

Provision is made for taxation at current enacted rates on taxable profits, arising in income or in equity, taking into account relief for overseas taxation where appropriate.

Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purposes and its carrying amount for tax purposes.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered.

1.9 Capital Instruments

The Company classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, or as equity if it evidences a residual interest in the assets of the Company after the deduction of liabilities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****1. ACCOUNTING POLICIES (Continued)****1 10 Accounting Developments**

IFRS 9 'Financial Instruments' is a new standard that is intended to replace IAS 39 'Financial Instruments Recognition and Measurement' ("IAS 39") in its entirety. The replacement project consists of three planned phases and will impact the measurement and disclosures of financial instruments.

The first phase will change the basis and treatment of the classification and measurement of financial assets and financial liabilities.

The second phase is the impairment methodology and the revised exposure draft in March 2013 has proposed a more forward-looking impairment model that reflects expected credit losses, as opposed to the incurred loss model in IAS 39.

The final phase will cover hedge accounting for both general hedge accounting and macro hedge accounting.

There is currently no mandatory effective date for IFRS 9.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The reported results of the Company are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial information. The Company's principal accounting policies are set out on pages 16 to 20. UK Company law and IFRS require the directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements.

The judgements and assumptions involved in the Company's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Company would affect its reported results.

2 1 Life Insurance Liabilities under long-term insurance contracts

Liabilities under long term insurance contracts are dependant on estimates made by the Company. Estimates are made regarding the expected number of deaths or critical illness claims for each of the years for which the Company is exposed to the risk. These estimates are based on standard industry and national mortality and morbidity tables which reflect recent historical mortality and morbidity experience. Adjustments to these tables are then made to reflect the Company's own recent experience.

The estimated number of deaths or critical illness claims determines the value of the benefit payments. The main source of uncertainty on future mortality and morbidity is the effect of epidemics and wide ranging lifestyle changes such as eating, smoking and exercise habits.

Such factors could result in future mortality being significantly worse than in the past for age groups in which the Company has significant exposure.

In determining the liabilities under long-term insurance contracts assumptions are also made regarding the level of expenses and the investment return on the assets backing the liabilities.

Liabilities under long-term insurance contracts net of reinsurance at 31 December 2013 amounted to £10,055,000 (2012: £11,790,000).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)****2.2 Fair value**

Financial assets classified as available-for-sale are recognised in the financial information at fair value. In the balance sheet, financial assets carried at fair value are included within available-for-sale debt securities and equity shares. Unrealised gains and losses on available-for-sale financial assets are recognised directly in other comprehensive income unless an impairment loss is recognised.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Fair values are determined by reference to observable market prices where available and reliable. Where representative market prices for an instrument are not available or are unreliable because of poor liquidity, the fair value is derived from prices for its components using appropriate pricing or valuation models that are based on independently sourced market parameters.

The Company closely monitors the valuation of assets in markets that have become less liquid. Determining whether a market is active requires the exercise of judgement and is determined based upon the facts and circumstances of the market for the instrument being measured. Where it is determined that there is no active market, fair value is established using a valuation technique as described in the note above. The techniques applied incorporate relevant information available and reflect appropriate adjustments for credit and liquidity risks. The relative weightings given to differing sources of information and the determination of non-observable inputs to valuation models can require the exercise of significant judgement. Where possible, the Company seeks at least external quotations for each bond and considers whether these are representative of fair value in the light of current traded levels, and in comparison to the internal group valuation models. Where this information is not available or where it is considered to be not representative of fair value, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

The fair value of certain asset backed securities has been determined by use of an internal model which predicts the future cash flows from the instruments in a number of projected economic scenarios. These economic scenarios are probability weighted based on recent economic forecasts and the resulting cash flows are discounted using risk adjusted discount rates determined by reference to currently observable market discount rates adjusted to take account of the risk characteristics of the securities being valued. There is significant subjectivity in this valuation as there is little recent market activity in these or other similar instruments.

The fair value of available-for-sale financial assets at 31 December 2013 amounted to £24,705,000 (2012 £31,120,000) and 100% were determined using observable market inputs.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****3 RISK MANAGEMENT****3.1 Risk Management Overview**

The Company is a subsidiary within Chesnara plc ("the Group"). Overlaying all the day-to-day and development activity is a focused risk management culture and regime.

We maintain processes for identifying, evaluating and managing the significant risks faced by the Company which are regularly reviewed by the Group Audit and Risk Committee. Our risk processes have regard to the significance of risks, the likelihood of their occurrence, taking account of existing controls, and the cost of mitigating them. The processes are designed to manage rather than eliminate risk and, as such, provide reasonable, but not absolute, assurance against loss.

We maintain, in accordance with the regulatory requirements of the PRA, a risk and responsibility regime. Accordingly, the identification, assessment and control of risk is firmly embedded within the organisation and the procedures for the monitoring and updating of risk are robust. As part of this there is an established Risk Committee in Protection Life, which comprises solely of Non-executive Directors. This committee receives quarterly updates of the Key Risk Register, as maintained by the executive management, for review and challenge. The Risk Committee reports directly to Protection Life's Board which also reviews reports from the compliance and internal audit functions. The Risk Committee reports are also reviewed by the Chesnara Audit & Risk Committee on a quarterly basis. The Key Risk Register has been designed to complement the production of our Individual Capital Assessment, which we are required to submit to the PRA on request and maintain on an ongoing basis. We categorise all risks against the following relevant categories – insurance, market, credit, liquidity and operational – and identify potential exposures and the necessary capital requirements accordingly.

Risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the Company of certain adverse events occurring separately or in combination. The outcome of this testing provides context against which the Company can assess whether any changes to its risk management processes are required.

In accordance with the need to comply with the requirements of Solvency II on an EU-wide basis, we are currently reviewing and upgrading our risk management processes, so that they will be enhanced in a uniform and consistent manner, embracing

- articulation of risk appetite statements, following from documented strategic objectives,
- formulation and monitoring of associated risk metrics,
- risk identification and assessment,
- calculation of risk-based capital, and
- the embedding of risk management processes so that they are at the forefront of and underpin strategic and operating decisions.

These developments will continue through 2014 and are planned to be completed during 2015.

3.2 Risk and capital management modelling

The Board has ultimate responsibility for ensuring that the Company has sufficient capital to meet its liabilities as they fall due. The Company carries out detailed capital modelling of its assets, liabilities and the key risks to which these are exposed. This modelling includes the Company's own assessment of its capital requirements for solvency purposes, in its submission of its Individual Capital Assessment (ICA) to the PRA. The ICA quantifies the insurance, market, credit, liquidity, operational and group risk that the Company undertakes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

3 RISK MANAGEMENT (continued)

3.3 Insurance risk

Insurance risk can arise from

- fluctuations in the timing, frequency and severity of insured events and their ultimate settlement, relative to the expectations of the Company at the time of underwriting, including those driven by inaccurate pricing, inappropriate underwriting guidelines and terms and conditions, and holding inadequate reserves,
- inadequate reinsurance protection, and
- concentration of business leading to unexpected claim levels (frequency and severity) from a single source

Until 6 July 2011, the Company underwrote long term insurance falling within business classes of life and annuity and permanent health. The products provided were fixed term life cover, mortgage life cover, fixed term life cover with critical illness, mortgage life cover with critical illness, over 50's life cover and the life cover associated with the creditor business underwritten by Direct Line Insurance Group plc's general insurance business. Contracts were issued typically on a long-term basis, which means that the Company's liability can extend for a period ranging from five years up to fifty-two years.

For creditor insurance, contracts are issued either on a monthly renewable basis (regular premium) and can be amended or cancelled by the customer at any point during the contract or cover period of a loan (single premium). In the former case, the Company can cancel or amend the policy following a 90 day written notice period. In the latter case, (these policies were withdrawn from sale in December 2008) the customer has the option to cancel the contract at any point but generally the Company is obligated for the full term of up to a maximum of 10 years but typically 3 to 5 years.

This risk is managed according to the following separate components
underwriting, pricing and reserving risk,

- claims management risk, and
- reinsurance risk

3.3.1 Underwriting, pricing and reserving risk

Underwriting and pricing risk is the risk that inappropriate business will be written and/or inappropriate prices charged. The classes and sectors of business written, underwriting criteria and relevant limits, define underwriting risk appetite. This was only applicable to the Company until 6 July 2011 when the Company closed to new business.

Reserving risk is the risk that the reserves have been calculated incorrectly, or the assumptions used in the calculation turn out to be inappropriate.

Long term insurance contracts

The Company manages this risk through a wide range of processes and forums, some of which include

- comprehensive internal quality review audit programmes,
- central control, within underwriting, of policy wordings and any subsequent changes,
- weekly monitoring within the business of key performance indicators by product and brand,
- formal monthly monitoring and reporting to the Executive, by product and brand
- annual budgeting and quarterly re-forecasting, signed off by the Executive, and
- reserves are calculated by an independent consulting firm of actuaries

Until 6 July 2011, the following risk management was undertaken

- underwriting guidelines existed for all business transacted restricting the types and classes of business that may be accepted,
- medical selection was included in the Company's underwriting procedures and premiums vary to reflect the lifestyle, health and family medical history of the applicant, and
- pricing policies which were set by management and implemented through pricing committees by product line and by brand

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

3 RISK MANAGEMENT (Continued)

3.3.1 Underwriting, pricing and reserving risk (Continued)

(a) Frequency and severity of specific risks - long term insurance contracts

For contracts where death or critical illness is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected

For contracts with fixed benefits and fixed future premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted

For contracts with reviewable premiums a mitigating factor is the reviewable nature of the premium. Under the terms of the policy the retail premium can be adjusted to reflect claims experience, developments in medical technology and diagnosis and other related expenses

The table below presents the concentration of insured benefits across four bands per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above

Benefits assured per life assured at the end of 2013	Total benefits insured			
	Before reinsurance		After reinsurance	
£'000	£'000	%	£'000	%
0 – 99	3,992	28.9%	645	36.7%
100 – 199	6,801	49.2%	798	45.3%
200 – 299	2,200	15.9%	232	13.2%
300 +	833	6.0%	85	4.8%
Total	13,826		1,760	

Benefits assured per life assured at the end of 2012	Total benefits insured			
	Before reinsurance		After reinsurance	
£'000	£'000	%	£'000	%
0 – 99	4,296	28.8%	703	36.8%
100 – 199	7,333	49.2%	862	45.2%
200 – 299	2,379	16.0%	252	13.2%
300 +	894	6.0%	91	4.8%
Total	14,902		1,908	

The concentration in 2013 has not substantially changed from the prior year

(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefits and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and morbidity

The Company uses appropriate base tables of standard mortality and morbidity according to the type of contract being written and the territory in which the insured person resides. An investigation into the Company's recent experience, in conjunction with a review of the continuous mortality and morbidity investigations performed by independent actuarial bodies, is carried out and a best estimate of expected mortality and morbidity for the future is derived

(c) Assumptions

The Company writes only non-profit long-term business where shareholders are entitled to 100% of the profits. The gross premium method of actuarial valuation is used. This makes explicit assumptions for interest and discount rates, mortality and morbidity, persistency and future expenses. Assumptions are reviewed annually against actual experience and industry and economic trends

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

3. RISK MANAGEMENT (Continued)

3.3.1 Underwriting, pricing and reserving risk (Continued)

(c) Assumptions (Continued)

The key assumptions used for the insurance contracts, other than credit insurance business, disclosed in this note are as follows

Mortality & morbidity

Appropriate base tables of standard mortality and morbidity are chosen depending on the type of contract. An investigation into the Company's recent experience, in conjunction with a review of the continuous mortality investigations performed by independent actuarial bodies, is carried out and an appropriate level of the base table is derived.

Investment returns

Valuation discount rate 1.6% net of tax (2012: 1.0%)

Renewal expense level and inflation

The Company's current level of expenses, together with a margin for prudence, is taken as an appropriate expense base and an expense inflation rate of 6.95% (2012: 5.5%) is applied.

For regular premium credit insurance business we hold a multiple of premium as the reserve. For single premium credit insurance business the reserve is taken as a proportion of the single premium, where the proportion reflects the outstanding term remaining on the contract.

Lapses

For critical illness policies the Company has used a lapse rate of 4.5% per annum (2012: 4.5%), when net cash flows are negative and a lapse rate is prudent. Otherwise a lapse rate of 15.5% per annum (2012: 15.5%) is used. For all other policies, excluding over 50's policies and creditor, the Company has used a lapse rate of 1.5% per annum (2012: 1.5%), when net cash flows are negative and a low lapse rate is prudent. Otherwise a lapse rate of 12.5% per annum (2012: 12.5%) is used.

(d) Change in assumptions during the year

The following estimates and assumptions used in determining assets and liabilities for insurance contracts were changed, and had the following effect on profit recognised for the year:

	Effect on Profit 2013 £000
Change in valuation basis	494
Change in reinsurance rates	368
	862

(e) Sensitivity analysis

Life insurance results are inherently uncertain, due to actual experience being different to modelled assumptions. Sensitivity analysis is provided below to illustrate the impact of changes in key assumptions.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

3. RISK MANAGEMENT (Continued)

3.3.1 Underwriting, pricing and reserving risk (Continued)

Sensitivity	Description of sensitivity analysis
Debt Securities	The method used in calculating this sensitivity is to apply a 20% change to market values to the debt securities portfolio
Interest rate and investment return	The impact of a change in market interest rates by +/- 1% (e.g. if a current interest rate is 2%, the impact of an immediate change to 1% or 3%)
Expenses	The impact of an increase in ongoing administrative expenses and the claims handling expenses provision by 10%
Assurance mortality/morbidity	The impact of an increase in mortality/morbidity rates for assurance contracts by 5%
Lapse rates	The impact of an increase in lapse rates by 0.5%

The table below demonstrates the effect of a change in a key assumption whilst other assumptions remain unaffected. In reality, such an occurrence is unlikely due to correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analyses do not take into consideration that our assets and liabilities are actively managed and may vary at the time that any actual market movement occurs.

Sensitivity at 31 December 2013	Variability	Impact on value of Investments	Impact on profit after tax	Impact on shareholders equity
		£'000	£'000	£'000
Debt securities	+20.0%	4,941	-	4,941
Debt securities	-20.0%	(4,941)	-	(4,941)
Interest rates	+1.0%	(750)	549	(27)
Interest rates	-1.0%	800	(771)	(157)
Expenses	+10.0%	-	(403)	(403)
Assurance mortality/morbidity	+5.0%	-	(741)	(741)
Increase in lapse rate	0.5%	-	188	188
Sensitivity at 31 December 2012	Variability	Impact on value of Investments	Impact on profit after tax	Impact on shareholders equity
		£'000	£'000	£'000
Debt securities	+20.0%	6,224	-	6,224
Debt securities	-20.0%	(6,224)	-	(6,224)
Interest rates	+1.0%	(1,072)	1,215	405
Interest rates	-1.0%	1,109	(1,554)	(717)
Expenses	+10.0%	-	(725)	(725)
Assurance mortality/morbidity	+5.0%	-	(742)	(742)
Increase in lapse rate	+0.5%	-	233	233

Claims management risk is the risk that claims are paid or handled inappropriately.

Claims are managed utilising a range of IT system driven controls coupled with manual processes outlined in detailed policies and procedures to ensure claims are handled in an appropriate, timely and accurate manner.

Each member of staff has a specified handling authority, with controls preventing them handling or paying claims outside of their authorities, as well as controls to mitigate the risk of paying invalid claims. In addition, there are various outsourced claims handling arrangements all of which are monitored closely by management, with similar principles applying in terms of the controls and procedures.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****3. RISK MANAGEMENT (Continued)****3.3.2 Reinsurance risk**

The Company uses reinsurance

- to protect the insurance results against unforeseen volumes of, or adverse trends in, large individual claims, in order to reduce volatility and to improve stability of earnings,
- to reduce the Company's capital requirements, and
- transfer risk that is not within the Company's current risk retention strategy

Reinsurance is essentially a swap whereby the Company will cede away insurance risk to reinsurers but in return assume back credit risk against which a reinsurance bad debt provision is assessed. The financial security of the Company's panel of reinsurers is therefore extremely important and both the quality and quantum of the assumed credit risk are subject to a credit risk approval process. The Company's leading counterparty exposures are analysed on a monthly basis where utilisation is monitored against agreed individual reinsurer limits. These limits represent the accumulated credit risk for all Company underwriting entities. The Company aims to contract with a diverse range of reinsurers on its contracts to mitigate the credit and/or non payment risks associated with its reinsurance exposures.

Reinsurance risk arises from

- a failure of reinsurance to control exposure to losses, to reduce volatility or to protect capital, and/or
- an inability to place reinsurance cost effectively or on acceptable terms, and/or
- reinsurer defaults

3.4 Financial risk

The Company is exposed to financial risk through its financial assets and financial liabilities. The Company's financial risk is concentrated within its investment portfolio and reinsurance.

The strategic asset allocation within the investment portfolio is agreed by the investment committee. The investment committee determines high level policy and controls, covering such areas as safety, liquidity and performance. They meet at least half-yearly to evaluate risk exposure, the current strategy, associated policies and investment guidelines and to consider investment recommendations submitted to it. Oversight of the implementation of decisions taken by the investment committee is via various risk fora.

The objectives set out in the investment management minimum standard are

- to maintain the safety of the portfolio's principal both in economic terms and from an accounting and reporting perspective,
- to maintain sufficient liquidity to provide cash requirements for operations, and
- to maximise the portfolio's total return within the constraints of the other objectives and the limits defined by the investment guidelines

3.4.1 Market risk

Market risk encompasses any adverse movement in the value of assets as a consequence of market movements such as interest rates, credit spreads, foreign exchange rates and equity, property and inflation valuations.

The Company is exposed to market risk in both the value of its liabilities and the value of assets held. Its market risk exposure is managed in accordance with the investment strategy approved by the Board, which considers the prudence principle of asset liability management. The Company does not hold investments for trading purposes.

Governance of market risk is managed by ensuring that market risk exposures are aligned with the risk appetite approved by the Board.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

3. RISK MANAGEMENT (Continued)

The Company assesses its market risk exposure through value at risk measures, sensitivity measures and stress testing within its business as usual. These tests are designed to consider the impact on capital arising from 'severe but plausible' scenarios.

Interest rate risk

Interest rate risk arises primarily from the Company's investment in long term debt and fixed income securities, which are exposed to fluctuations in interest rates.

A table showing the sensitivity of profits to changes in interest rates is included in note 3.3.1 on page 26.

3.4.2 Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits,
- Reinsurers' share of insurance liabilities,
- Amounts deposited with reinsurers in relation to investment contracts,
- Amounts due from reinsurers in respect of claims already paid, and
- Insurance and other receivables.

In addition there will be some exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the businesses.

The Company structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, while watch lists are maintained for exposures requiring additional review.

Although the business holds a significant proportion of its financial assets in debt securities and cash deposits the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the businesses issue, would effectively be passed on to policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

Reinsurance is used to manage insurance risk in the businesses. This does not, however, discharge the Company's liability as primary insurers. If a reinsurer fails to pay a claim for any reason, the business remains liable for the payment to the policyholder.

The creditworthiness of major reinsurers is considered on an annual basis by reviewing their financial strength.

The following table analyses the credit quality of financial and insurance assets that are neither past due nor impaired by type of asset. The table includes reinsurance exposure, after provision. Note 3.3.2 details the Company's approach to reinsurance credit risk management.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

3. RISK MANAGEMENT (Continued)

3.4.2 Credit risk (Continued)

As at 31 December 2013

	Notes	AAA £'000	AA+ £'000	AA £'000	AA- £'000	A+ £'000	A £'000	A- £'000
Debt securities	13	24,705	-	-	-	-	-	-
Insurance contracts reinsurance assets	14	-	-	-	91,185	-	6,803	-
Cash at bank and hand	17	-	-	-	-	-	8,126	-
Deposits with credit institutions	17	-	-	-	-	-	15,000	-
Reinsurance debtors included under loans and receivables	16	-	-	-	10,362	-	1,130	-
Total assets bearing credit risk		24,705	-	-	101,547	-	31,059	-

As at 31 December 2012

	Notes	AAA £'000	AA+ £'000	AA £'000	AA- £'000	A+ £'000	A £'000	A- £'000
Debt securities	13	31,120	-	-	-	-	-	-
Insurance contracts reinsurance assets	14	-	-	-	94,731	-	-	-
Cash at bank and hand	17	-	-	-	-	-	187	-
Deposits with credit institutions	17	35,046	-	-	-	-	-	-
Reinsurance debtors included under loans and receivables	16	-	-	-	10,415	-	-	-
Total assets bearing credit risk		66,166	-	-	105,146	-	187	-

3.4.3 Liquidity risk

Liquidity risk is the potential that obligations cannot be met as they fall due as a consequence of having a timing mismatch and/or an inability to raise sufficient liquid assets/cash without suffering a substantial loss on realisation.

The measurement and management of liquidity risk within the Company is undertaken within the limits and other policy parameters of the Company's liquidity risk appetite. Compliance is monitored both in respect of the internal policy and the regulatory requirements of local regulators.

The Company performs liquidity risk stress testing as part of its ICA process. These tests are designed to assess the Company's liquidity requirement in order to meet claims and other liabilities in a number of different extreme event scenarios and compare this requirement against the liquidity available from its investment portfolio and other assets. In all of the events considered the Company is comfortably able to meet its liabilities as they fall due.

In the event that one or more liquidity stresses or scenarios crystallises, or should any other event that may impact liquidity occur, the Company seeks to ensure that the event has a rapid and controlled response. In such an event, a liquidity crisis management team will be formed to assess the nature and extent of the threat and to develop an appropriate response.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

3. RISK MANAGEMENT (Continued)

3.4.3 Liquidity risk (Continued)

An independent consulting firm of actuaries analyse the term of the liabilities and determine matching assets to ensure that liquidity risk is minimised. In the investment guidelines it is recommended that the current liabilities, free assets and half the assets backing the creditor liability are invested in cash and short dated deposits.

Analysis of maturity of debt securities

For each category of insurance and financial liabilities, the following table shows the gross liability analysed by remaining duration. The total liability is split by remaining duration in proportion to the cash-flows expected to arise during that period.

At 31 December 2013

	Notes	Total	Within one year	After one but not more than three years	After three but not more than five years	After five but not more than ten years	Over ten years
		£'000	£'000	£'000	£'000	£'000	£'000
Subordinated liabilities	20	–	–	–	–	–	–
Insurance liabilities	21	108,861	6,836	4,583	13,656	65,357	18,429
Trade and other payables including insurance payables	22	10,769	10,769	–	–	–	–
Total		119,630	17,605	4,583	13,656	65,357	18,429

At 31 December 2012

	Notes	Total	Within one year	After one but not more than three years	After three but not more than five years	After five but not more than ten years	Over ten years
		£'000	£'000	£'000	£'000	£'000	£'000
Subordinated liabilities	20	3,500	3,500	–	–	–	–
Insurance liabilities	21	107,154	5,295	4,935	10,513	64,028	22,383
Trade and other payables including insurance payables	22	4,337	4,337	–	–	–	–
Total		114,991	13,132	4,935	10,513	64,028	22,383

3.5 Operational risk

Effective operational risk management requires the Company to identify, assess, manage, monitor, report and mitigate all areas of exposure. Operational risk is inherent in all of the Company's business processes, systems and products, and from external events.

There are a number of key factors that cause operational risk across the Company, such as

- the Company's operations support complex transactions and are highly dependent on the proper functioning of its IT and communication systems,
- a dependency on the use of third party information technology, software, data and service providers,

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****3 RISK MANAGEMENT (Continued)****3.5 Operational risk (Continued)**

- a need to adequately maintain and protect customer and employee information, and
- the ability of the Company to attract and retain key qualified personnel

Effective operational risk management helps the Company to achieve its objectives, including

- focus on doing things the right way, leading to fewer surprises,
- reduce operational errors and losses, leading to increased customer satisfaction and higher quality earnings,
- better informed risk-taking, which creates greater rewards,
- increased management attention on the risks and issues that really matter, and
- lower risk based capital due to lower expected losses

3.6 Emerging risks

There are a range of regulatory and legal changes which may impact the Company's reserves, pricing or financial condition in future years in relation to business already written. Through proactive and early engagement the management team raises awareness of regulatory changes, enabling them to plan for potential threats and opportunities.

3.7 Capital adequacy

The Company defines capital requirements in accordance with regulations prescribed by the PRA, other regulatory bodies and the credit rating agencies. Capital is managed by balancing the needs to be both capital efficient, yet maintaining an appropriate level of capitalisation and solvency.

Under the rules prescribed by the PRA, the Company must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance and that there is a suitable matching of assets and liabilities.

The PRA rules require the Company to maintain a surplus of admissible assets over its liabilities which is at all times at least equal to the higher of its Minimum Capital Requirement (MCR) or its Individual Capital Guidance (ICG).

The MCR is a formulaic approach, prescribed by the EU, based on business volumes and claims reserves, whereas the ICG is specified by the PRA following the submission of a risk based capital assessment (in accordance with the Individual Capital Adequacy Standards) by the Company to the Regulator.

The Company held a surplus as at 31 December 2013 of at least £14,262k (2012 £25,740k) above its MCR requirement of £25,230k (2012 £27,606k).

The Company's capital requirements and solvency position is monitored continuously.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

4 NET INSURANCE PREMIUM REVENUE

	2013	2012
	£'000	£'000
Long term insurance contracts		
- Premium income from insurance contracts issues	39,006	46,609
- Premium revenue ceded to reinsurers on insurance contracts issued	(23,233)	(24,727)
Net insurance premium revenue	15,773	21,882

5 INVESTMENT INCOME

	2013	2012
	£'000	£'000
Available for sale financial assets		
- Interest income from debt securities	1,142	1,589
Interest Income		
- From deposits with credit institutions	107	163
Net amortisation of premium on purchase of financial assets	(46)	(239)
Investment fees	(4)	(5)
Other investment income	-	1
Investment income	1,199	1,509

6 NET REALISED GAINS ON FINANCIAL ASSETS

	2013	2012
	£'000	£'000
Net realised gains on financial assets – available-for-sale		
- Debt securities	-	13
Net realised gains on financial assets	-	13

7 INSURANCE BENEFITS

At 31 December 2013		
	Gross	Reinsurance
	£'000	£'000
Long-term insurance contracts with fixed and guaranteed terms		
- Death benefits	22,171	(18,302)
- Increase in liabilities	514	(2,249)
Total cost of policyholder benefits	22,685	(20,551)

At 31 December 2012		
	Gross	Reinsurance
	£'000	£'000
Long-term insurance contracts with fixed and guaranteed terms		
- Death benefits	22,935	(18,285)
- Increase in liabilities	9,921	(12,512)
Total cost of policyholder benefits	32,856	(30,797)

8 EXPENSES

a) Commission expenses

	2013	2012
	£'000	£'000
Commission expenses	1,555	3,825
	1,555	3,825

b) Other operating expenses

	2013	2012
	£'000	£'000
Marketing and administrative expenses	3,383	1,829
Depreciation (note 12)	-	3
Expenses incurred under profit participation	3,207	6,289
Other operating expenses	6,590	8,121

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

8. EXPENSES (Continued)

Auditor's remuneration

Fees for audit and non-audit services for the year ended 31 December 2013, included within marketing and administration expenses, are borne and recharged by a related party, Chesnara Group plc

In addition, an audit was undertaken in respect of an interim valuation of the Company as at 31 August 2013 for regulatory purposes. These costs were borne by the immediate parent and ultimate holding company at that time, Direct Line Insurance Group plc. Fees paid to the auditors with respect to the interim valuation audit of the Company amounted to £67,000 (2012: £nil)

Fees paid to the auditors with respect to the statutory audit of the Company amount to £47,000 (2012: £50,000)

Fees in respect of the audit of the PRA Return amount to £57,000 (2012: £67,080) and fees for taxation compliance services amount to £8,060 (2012: £8,060)

9. TAX CHARGE

	2013 £'000	2012 £'000
Current taxation		
- Charge for the year	1,556	2,303
- Under provision in respect of prior year	92	187
	1,648	2,490
Deferred taxation (note 15)		
- Charge for the period	4	6
	4	6
Tax charge for the period	1,652	2,496

The actual tax charge differs from the expected tax charge computed by applying a hybrid rate of UK corporation tax of 23.25% (2012: 24.5%) as follows

	2013 £'000	2012 £'000
Profit before tax	6,693	9,399
Expected tax charge	1,556	2,303
Effects of		
- Under provision in respect of prior periods	92	187
- Other timing differences	4	6
Tax	1,652	2,496

10. PROFIT FOR THE YEAR

	2013 £'000	2012 £'000
Profit for the year is stated after charging		
Depreciation of property, plant and equipment (note 12)	-	3

11. DIVIDENDS

	2013 £'000	2012 £'000
Dividends paid	38,000	-
	38,000	-

A final dividend of £7,000,000 was paid in January 2013 in relation to 2012. Two interim dividends were paid during the year: £8,000,000 was paid in June 2013 and £23,000,000 was paid in November 2013.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

12 PROPERTY, PLANT AND EQUIPMENT

	Computer and other equipment £'000
Cost	
At 1 January 2012	670
Disposals	(512)
At 1 January 2013	158
Disposals	-
At 31 December 2013	158
Depreciation	
At 1 January 2012	(667)
Disposals	512
Depreciation charge for the year	(3)
At 1 January 2013	(158)
Depreciation charge for the year	-
At 31 December 2013	(158)
Net book amount	
At 31 December 2013	-
At 31 December 2012	-

13 FINANCIAL INVESTMENTS

	2013 £'000	2012 £'000
Available-for-sale financial investments		
Debt securities		
- Listed - fixed interest rate	24,705	31,120
Total	24,705	31,120

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy

As at 31 December 2013	Level 1 (note i) £'000	Level 2 (note ii) £'000	Level 3 (note iii) £'000	Total £'000
Available-for-sale financial assets				
Debt Securities	4,683	20,022	-	24,705
As at 31 December 2012				
Available-for-sale financial assets				
Debt Securities	10,316	20,804	-	31,120

Note

- (i) Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

13 FINANCIAL INVESTMENTS (Continued)

- (ii) Included in the Level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These are assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.
- (iii) The Company held no Level 3 securities at 31 December 2013 or 31 December 2012.

14 REINSURANCE ASSETS	2013 £'000	2012 £'000
Reinsurers' share of insurance liabilities	93,393	91,144
Reinsurers' share of claims outstanding	4,595	3,587
Total assets arising from reinsurance contracts	97,988	94,731

15 DEFERRED TAXATION

The following are the deferred tax assets recognised by the Company and the movements thereon during the current and prior reporting periods

	Accelerated capital allowances £'000
At 1 January 2012	25
Charge to statement of comprehensive income (note 9)	(6)
At 1 January 2013	19
Charge to statement of comprehensive income (note 9)	(4)
At 31 December 2013	15

16 INSURANCE AND OTHER RECEIVABLES	2013 £'000	2012 £'000
Receivables arising from insurance and reinsurance contracts		
- Due from policyholders	1,158	1,244
- Due from reinsurers	11,492	10,415
Other loans and receivables		
- Accrued interest and rent	552	638
- Receivables from third parties	1,978	-
- Receivables from related parties (note 27)	-	4,170
- Other debtors	4	5
Total insurance and other receivables	15,184	16,472

17 CASH AND CASH EQUIVALENTS	2013 £'000	2012 £'000
Cash at bank and in hand		
- third parties	8,126	107
Short term deposits with credit institutions		
- third parties*	15,000	35,046
- related parties (note 27)	-	80
Total cash and cash equivalents	23,126	35,233

*Included in the above are investments held by the Company in ABN Amro as at 31 December 2013 of £15,000,000 (2012 Deutsche Managed Sterling Fund £35,046,031)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

17 CASH AND CASH EQUIVALENTS (Continued)

For the purposes of the cash flow statement, cash and cash equivalents are as follows

	2013 £'000	2012 £'000
Cash and cash equivalents	<u>23,126</u>	<u>35,233</u>

18 SHARE CAPITAL

	2013 £'000	2012 £'000
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Authorised Equity shares Ordinary shares of £1 each	<u>21,000</u>	<u>44,000</u>
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Issued and fully paid Equity shares Ordinary shares of £1 each At 1 January 2013 and 31 December 2013	<u>21,000</u>	<u>44,000</u>
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As at 28 November 2013, the Directors of Direct Line Insurance Group plc authorised an interim dividend of £23,000,000 by way of a reduction in share capital of the same amount

19 OTHER RESERVES AND RETAINED EARNINGS

	2013 £'000	2012 £'000
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Capital contribution reserves	13,113	–
Reserve for revaluation of available-for-sale investments	<u>1,213</u>	<u>2,226</u>
Other reserves at 31 December 2013	<u>14,326</u>	<u>2,226</u>

Retained earnings at 31 December 2013	<u>4,181</u>	<u>14,140</u>
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As at 28 November 2013, the Directors of Chesnara Group plc injected £13,112,500 into Protection Life Company Limited to recapitalise the Company at the date of completion

Movements in the revaluation reserve for available-for-sale investments were as follows

	2013 £'000	2012 £'000
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Debt Securities		
At 1 January 2013	2,226	2,238
Revaluation during the period – gross	(1,368)	(98)
Revaluation during the period – taxation	355	86
At 31 December 2013	<u>1,213</u>	<u>2,226</u>

20 SUBORDINATED LIABILITIES

	2013 £'000	2012 £'000
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Tesco Personal Finance undated subordinated debt	<u>–</u>	<u>3,500</u>
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

21 INSURANCE CONTRACTS AND REINSURANCE ASSETS

	2013 £'000	2012 £'000
Gross		
Long term insurance contracts		
- with fixed and guaranteed terms	103,448	102,934
- benefits outstanding	5,413	4,220
	<u>108,861</u>	<u>107,154</u>
Recoverable from reinsurers		
Long term insurance contracts		
- with fixed and guaranteed terms	(93,393)	(91,144)
- benefits outstanding	(4,595)	(3,587)
	<u>(97,988)</u>	<u>(94,731)</u>
Net		
Long term insurance contracts		
- with fixed and guaranteed terms	10,055	11,790
- benefits outstanding	818	633
	<u>10,873</u>	<u>12,423</u>
	2013 £'000	2012 £'000
Current	4,137	4,446
Non-current	6,736	7,977
	<u>10,873</u>	<u>12,423</u>

21.1 Movements in insurance liabilities and reinsurance assets

	At 31 December 2013		
	Gross £'000	Reinsurance £'000	Net £'000
At 1 January 2013	102,934	(91,144)	11,790
Provisions in respect of existing business	37,451	(23,233)	14,218
Expected change in existing business provisions	(20,437)	18,302	(2,135)
Variance between actual and expected experience	(10,312)	2,682	(7,630)
Other movements	(6,188)	-	(6,188)
At 31 December 2013	103,448	(93,393)	10,055
	At 31 December 2012		
	Gross £'000	Reinsurance £'000	Net £'000
At 1 January 2012	93,013	(78,632)	14,381
Provisions in respect of existing business	42,784	(24,727)	18,057
Expected change in existing business provisions	(20,344)	18,285	(2,059)
Variance between actual and expected experience	(4,739)	(6,070)	(10,809)
Other movements	(7,780)	-	(7,780)
At 31 December 2012	102,934	(91,144)	11,790

22 TRADE AND OTHER PAYABLES INCLUDING INSURANCE PAYABLES

	2013 £'000	2012 £'000
Due to policyholders	1,043	1,048
Due to reinsurers	28	30
Due to related parties (note 27)	370	3,006
Due to third parties	8,679	-
Trade creditors and accruals	643	249
Other creditors	6	4
	<u>10,769</u>	<u>4,337</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

23 OTHER PROVISIONS

	2013 £'000	2012 £'000
Restructuring provision	1,630	-
	1,630	-

During the year a £2,000,000 provision was established in respect of restructuring and migration activities which commenced following the Company's acquisition by Chesnara plc. Of this amount, £370,000 was utilised before 31 December 2013.

24 CONTINGENT LIABILITIES

There are no contingent liabilities that require disclosure in these financial statements.

25 COMMITMENTS

There was no capital expenditure contracted for at the balance sheet date.

26 CLASSIFICATION OF FINANCIAL STATEMENTS

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies in note 1 describes how the classes of financial instruments are measured and how income and expenses of the financial assets and liabilities by category are defined in IAS39 and by the balance sheet heading.

At 31 December 2013

	Available for sale £'000	Loans and receivables £'000	Other (amortised costs) £'000	Non- financial assets / liabilities £'000	Total £'000
Financial investments	24,705	-	-	-	24,705
Reinsurance assets	-	-	-	97,988	97,988
Deferred tax asset	-	-	-	15	15
Insurance and other receivables	-	15,184	-	-	15,184
Cash and cash equivalents	-	23,126	-	-	23,126
	24,705	38,310	-	98,003	161,018
Subordinated liabilities	-	-	-	-	-
Insurance contracts	-	-	-	108,861	108,861
Trade and other payables including insurance payables	-	-	10,769	-	10,769
Current tax liabilities	-	-	-	251	251
	-	-	10,769	109,112	119,881
Equity					39,507
					159,388

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

26 CLASSIFICATION OF FINANCIAL STATEMENTS (Continued)

At 31 December 2012

	Available for sale £'000	Loans and receivables £'000	Other (amortised costs) £'000	Non- financial assets / liabilities £'000	Total £'000
Financial investments	31,120	-	-	-	31,120
Reinsurance assets	-	-	-	94,731	94,731
Deferred tax asset	-	-	-	19	19
Insurance and other receivables	-	16,472	-	-	16,472
Cash and cash equivalents	-	35,233	-	-	35,233
	<u>31,120</u>	<u>51,705</u>	<u>-</u>	<u>94,750</u>	<u>177,575</u>
Subordinated liabilities	-	-	3,500	-	3,500
Insurance contracts	-	-	-	107,154	107,154
Trade and other payables including insurance payables	-	-	4,337	-	4,337
Current tax liabilities	-	-	-	2,218	2,218
	<u>-</u>	<u>-</u>	<u>7,837</u>	<u>109,372</u>	<u>117,209</u>
Equity					60,366
					<u>177,575</u>

27 RELATED PARTIES

On 28 November 2013, the ultimate holding, who was also the immediate parent ceased to be Direct Line Insurance Group plc. From that date the Company's ultimate holding and immediate parent company became Chesnara plc which is incorporated in United Kingdom and registered in England and Wales.

Chesnara plc heads the smallest group in which the Company is consolidated. Copies of the consolidated accounts of Chesnara plc may be obtained from The Secretary, Harbour House, Portway, Preston, Lancs, PR2 2PR.

The following transactions were carried out with related parties:

I Sales of insurance contracts and other services

	2013 £'000	2012 £'000
Sales of services		
- UK Insurance Limited	2,017	4,701
	<u>2,017</u>	<u>4,701</u>

Sales of services are provided between related parties on an arm's length basis.

II Purchases of products and services

	2013 £'000	2012 £'000
Purchases of services		
- DL Insurance Services Limited	641	1,254
- UK Insurance Limited	2,955	5,739
	<u>3,596</u>	<u>6,993</u>

Purchases of services also include payments made between companies determined by the levels of business generated and as agreed between the parties, on an arm's length basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**

27 RELATED PARTIES (Continued)

iii Year-end balances arising from sales and purchases of products / services

	2013 £'000	2012 £'000
Short term deposits held with related parties (note 17)		
- The Royal Bank of Scotland plc	-	80
	-	80
	2013 £'000	2012 £'000
Receivables from related parties (note 16)		
- DL Insurance Services Limited	-	222
- UK Insurance Limited	-	3,948
	-	4,170
	2013 £'000	2012 £'000
Payables to related parties (note 22)		
- Chesnara plc	370	-
- DL Insurance Services Limited	-	2,642
- UK Insurance Limited	-	356
- The One Account Limited	-	8
	370	3,006

28 POST BALANCE SHEET EVENTS

Other than the developments in respect of the proposed transfer of business to Countrywide Assured plc disclosed in the Strategic Report, there are no further post balance sheet events

29 CAPITAL RESOURCES

Under FRS27 the Company is required to produce a capital position statement, reconciling the capital resources of the life insurance business if the Company to the capital resources available on a regulatory basis. All business of the Company is life insurance business.

	2013 £'000	2012 £'000
Total shareholders' funds as at 31 December 2013	39,507	60,366
Adjustments to regulatory basis	(15)	(7,020)
Total available capital resources as at 31 December 2013	39,492	53,346
	2013 £'000	2012 £'000
Shareholders' funds held in long term business fund	13,309	33,793
Shareholders' funds outside long term business fund	26,183	19,553
	39,492	53,346
	2013 £'000	2012 £'000
Movements in the capital resources were as follows		
Capital resources at 1 January 2013	53,346	56,950
Changes in assumptions	862	(269)
Existing business and other factors	(14,716)	(3,335)
Capital resources at 31 December 2013	39,492	53,346

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013****30 CAPITAL MANAGEMENT POLICY**

The Company is required to meet minimum capital requirements at all times under the Prudential Regulation Authority's Handbook and Rulebook. The capital resources covering the regulatory requirement are not transferable to other areas of the Group. To ensure that the capital requirement is satisfied at all times, the Company holds an additional voluntary buffer above the absolute minimum. Sufficient capital resources are held to ensure that the capital requirements are covered over a specified projection period. Life insurance results are inherently uncertain, due to actual experience being different to modelled assumptions. Such differences affect regulatory capital resources, as do varying levels of new business. Therefore, projections are formally reviewed at least once per year. Where there is a shortfall of capital projected, various options are available to provide new capital.