B&CE Insurance Limited

Annual report and financial statements

for the year ended 31 March 2018

Company number: 03093365

Contents

Company information

Directors	Non-Executive Independent Chairman: C Ramamurthy	
	Non-Executive Directors:	
	J Allott	
	P Billingham	(appointed 20 July 2018)
	J Cullen	
	J Hough	
	J McKinnon	(appointed 1 August 2018)
	B Rye	(resigned 31 May 2018)
	M Small	(resigned 22 February 2018)
	J Southworth	
	S Terrell	
	Executive Directors:	
	J Fiveash	(resigned 1 September 2017)
	P Heath-Lay	
Company secretary	L Harratt	
Registered office	Manor Royal Crawley West Sussex RH10 9QP	
Company number	03093365 (England and Wales)	
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT	
Chief actuary	R Armitage Deloitte LLP Stonecutter Court 1 Stonecutter Street London EC4A 4TR	
Bankers	HSBC Bank plc 60 Queen Victoria Street London EC4N 4TR	
Solicitors	CMS Cameron McKenna Nabarro Olswang LLP Cannon Place 78 Cannon Street London EC4N 6AF	

Strategic report

The Directors present their Strategic report of B&CE Insurance Limited for the year ended 31 March 2018.

Company structure

B&CE Insurance Limited (the Company) is a wholly owned direct subsidiary of People's Financial Services Limited (the Parent Company). On 1 April 2017, under an intra-group corporate restructure, the shares of the Company were transferred from B&CE Holdings Limited (the Ultimate Parent Company) to the Parent Company. Collectively B&CE Holdings Limited and all its subsidiaries are known as 'B&CE' or the 'Group'.

The Company offers insurance-based products to all those who work in the construction industry. It is a composite insurer, writing both life and non-life business.

Principal activities

The principal activity of the Company is to operate insurance products for employees in the construction industry. The Company operates the following products:

- EasyBuild – a stakeholder pension scheme which has approximately 2,000 members (see below).
- Employee Accident Cover from B&CE (EAC) – group accident scheme launched in October 2010, covering more than 130,000 construction employees.
- RapidCash – personal injury cover which has approximately 1,700 policyholders. It's closed to new members, but claims are still received from existing policyholders.
- B&CE Term Life assurance and B&CE Personal Accident Insurance – these products are no longer sold by the Company and are in run off with only a small number of policyholders remaining.

Key developments

The main development was the planned transfer in February 2018 of 460,514 members and £1bn of assets from EasyBuild into The People's Pension, a multi-employer occupational pension scheme, for no consideration. This has left 2,027 members and £7m of assets remaining in EasyBuild.

EasyBuild had been seeing declining membership because it is unable to accept automatically enrolled employees. Employers were instead, choosing schemes like The People's Pension - which is specifically designed to help companies meet their automatic enrolment requirements.

This significant event followed careful consideration by B&CE's Boards in consultation with independent advisers and EasyBuild's Independent Governance Committee. It was designed to bring as many people as possible into a modern, flexible pension scheme with lower charges.

The Group Annual report and financial statements includes a detailed business review for the Group.

Key performance indicators

Key performance indicators are set and monitored at Group level and are given in the Group Annual report and financial statements.

Strategic report (continued)

Results

The Statements of comprehensive income for the year are set out on pages 13 to 15.

The total profit during the year was £1.7m (2017: £5.5m). Some of the significant variances compared to last year include the following:

- The balance on the long-term business technical account, before tax, was £1.8m profit (2017: £6.0m) with the key variances as follows:

(i) Other technical income, representing the EasyBuild annual management charge, decreased by £0.7m to £7.3m (2017: £8.0m) due to the significant transfer out to The People's Pension towards the end of the year.

(ii) Investment income has fallen to £1.3m (2017: £3.1m) due to a decrease in total investments and the transition in 2016 from bonds and gilts to mixed investment funds.

(iii) There were unrealised losses on investments of £0.5m compared to unrealised gains on investments of £0.8m in 2017.

(iv) Net operating expenses have increased to £6.3m (2017: £5.8m) following £0.4m of non-recurring expenses.

- There were unrealised losses on the non-technical account investment assets totalling £0.2m (2017: unrealised gains £0.2m)

- The tax charge for the year was £0.4m (2017: £1.4m) which decreased due to a decrease in taxable profits.

Further detail about performance during the year can be found in the Group Annual report and financial statements.

Future developments

The EasyBuild pension scheme has not closed, and it still has 2,027 members. Some of these members chose not to transfer, often because they were about to retire, and this number also includes deceased members. Where a member is deceased we are actively searching for a beneficiary who could claim on their behalf.

The Group Annual report and financial statements contains a more detailed explanation of the Group's planned future activities.

The Company has recently approved a capital reduction of £20m that has been actioned during 2018/19. This follows the bulk transfer of EasyBuild members to The People's Pension which has reduced the capital requirements of the Company.

Principal risks and uncertainties

Risk and control framework

The Company's success is dependent on the proper identification, assessment and ongoing management of risk. Risks are managed at the Group level and B&CE has established a framework of policies, procedures and internal controls over the process of risk identification and risk management. All policies are subject to the Board of Directors' approval and ongoing review by management and the internal audit and risk management team.

The Group Annual report and financial statements contains a more detailed statement of B&CE's risk management framework and its assessment of specific risks.

Strategic report (continued)

Principal risks and uncertainties (continued)

Insurance and financial risk management

The principal risks from the general insurance business arise from:

- inaccurate pricing
- fluctuations in the timing, frequency and severity of claims compared to our expectations
- inadequate reinsurance protection
- inadequate reserving.

Each of these risks is actively managed and mitigating actions are in place for each to bring the risks down to an acceptable level. The Group Annual report and financial statements contains more information about these risks and the B&CE's risk management framework.

The Company is exposed to financial risks arising from the investments that it holds. These risks are discussed in note 22 of the Notes to the financial statements.

Statement of internal control

The Ultimate Parent Company Board has overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. The Ultimate Parent Company Board has delegated to management responsibility for establishing systems of internal controls appropriate to the business environment in which the Group operates. Further details of internal controls can be found in the Group Annual report and financial statements.

On behalf of the Board

J M Cullen

Director

20 August 2018

John Macaulay Cullen.

Directors' report

The Directors present their report and the audited financial statements for the Company for the year ended 31 March 2018.

Directors

The Directors who were in office during the year and up to the date of signing the financial statements are listed on page 1.

Directors' liability insurance

The Directors have the benefit of an indemnity. This is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force during the year and at the date of approval of the financial statements.

Future developments

An indication of likely developments is given in the Strategic report.

Financial risk management

Financial risk management is discussed in the Strategic report and in note 22 of the Notes to the financial statements.

Dividends and transfers to reserves

The Directors do not recommend the payment of a final dividend (2017: nil). Total dividends paid and payable for the year amount to £11m (2017: nil). The profit for the year of £2.0m (2017: £5.5m) has been taken to reserves.

Regulators

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

Corporate governance

Corporate governance is of great importance to B&CE which aims to satisfy the principles of 'good governance' and comply with the requirements of the Companies Act and the UK Corporate Governance Code, by ensuring that it has a transparent and effective decision-making process in place. Further details can be found in the Group Annual report and financial statements.

In March 2015, the Company established an Independent Governance Committee (IGC) for the EasyBuild pension scheme to represent the interests of scheme members in a defined contribution pension arrangement. The IGC met on four occasions during the year and can raise any concerns to the Board and, ultimately, can escalate any concerns to the FCA. The IGC published its third annual report in April 2018, which concluded that the transfer of EasyBuild membership to The People's Pension represented a good outcome for members due to the lower annual management charges that they will now be paying.

Events after the reporting period

Details of adjusting and non-adjusting events affecting the Company after the reporting period can be found in the Strategic Report and note 23 to the financial statements.

Directors' report (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (including the requirements of Financial Reporting Standard 103 Insurance Contracts (FRS 103)).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 and FRS 103, have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors 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.

In the case of each Director in office at the date the Directors' Report is approved:

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

On behalf of the Board:

J M Cullen

Director
20 August 2018
John Macaulay Cullen
Company number: 03093365

Independent auditors' report to the members of B&CE Insurance Limited

Report on the audit of the financial statements

Opinion

In our opinion, B&CE Insurance Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements, which comprise: the statement of financial position as at 31 March 2018; statement of comprehensive income and the statement of changes in equity for the year ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

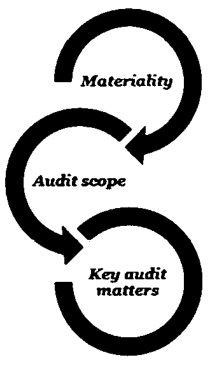
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

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

We have provided no non-audit services to the company in the period from 1 April 2017 to 31 March 2018.

Our audit approach

Overview



- Overall materiality: £164,000 (2017: £437,000), based on the average of 5% of profit before tax for the past three years.

- The company is a wholly owned subsidiary operating from one location and has no subsidiaries, associates or other such undertakings.
- The audit was scoped on a risk assessment basis, focusing on the risks that have a material impact on the financial statements.

- Risk of fraud in revenue recognition.
- Transfer of EasyBuild contributions to The People's Pension.

Independent auditors' report to the members of B&CE Insurance Limited (continued)

Our audit approach (continued)

The scope of our audit

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

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

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

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Risk of fraud in revenue recognition The recognition of revenue from investment management fees and premiums from insurance contracts is not determined to be complex, however there is a presumption that management has the opportunity to manipulate revenue through manual journals.	We have performed the following with regards to the risk of fraud in revenue recognition. We: Tested a sample of journals focussed on revenue recognition. Considered the accounting treatment and accounting policies for revenue recognition. Recalculated annual investment management fees in line with the percentages in the management fee agreements for the year. Performed testing to verify a sample of gross written premium transactions to supporting documentation ensuring the amounts recognised are accurate and relate to the correct accounting period. From the evidence obtained, we did not note instances of fraud in the revenue recognition.

Independent auditors' report to the members of B&CE Insurance Limited (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Transfer of EasyBuild policies to The People's Pension As at 31 March 2017, B&CE Insurance Limited held approximately £1bn of unit linked assets and liabilities in respect of EasyBuild. Effective 1 September 2017, management closed EasyBuild to further contributions and transferred the majority of contributions held in the company to The People's Pension in February 2018. Subsequent to the above transfer, unit linked assets amounting to £7m remain, representing pension policies for those policyholders who opted-out of the transfer. Given the magnitude of the transaction and reduction in balance sheet assets and liabilities, we consider this to be a significant risk.	We understood and evaluated the appropriateness of the accounting treatment adopted by management for the transfer. We tested the completeness and accuracy of the values and units transferred to The People's Pension by validating management's reconciliation of total units and values transferred out of Easybuild to The People's Pension. We performed testing at the investment fund level and sample testing at the policyholder level, validating the value of funds and units had been transferred across appropriately in the underlying accounting system. For a sample of policyholders, we validated that the transfer from EasyBuild to The People's Pension was in accordance with policyholder communications. We agreed the value of assets transferred out of EasyBuild to The People's Pension to the trade summary statement obtained independently from the investment manager, and reviewed relevant controls for the pricing of investments. From the evidence we obtained, we concluded that the transfer has been accounted for appropriately.

How we tailored the audit scope

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

B&CE Insurance Limited is wholly owned by People's Financial Services Limited. B&CE Insurance Limited operates from a single location has no other subsidiaries, associates or other such undertakings. Therefore there are no group scoping considerations.

Materiality

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

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

Overall materiality	£164,000 (2017: £437,000).
How we determined it	Average of 5% of profit before tax for the past three years.
Rationale for benchmark applied	A key focus of the users of the financial statements in assessing the performance of the company is profitability, and therefore we consider profit before tax to be an appropriate benchmark. In 2017, we adopted a separate materiality benchmark for unit-linked balances of 1% of unit-linked assets. As at 31 March 2018, the balance sheet unit-linked assets and liabilities are sufficiently reduced compared to 2017, and therefore we do not consider it necessary to apply a separate benchmark.

Independent auditors' report to the members of B&CE Insurance Limited (continued)

Our audit approach (continued)

Materiality (continued)

We agreed with the Group Audit and Risk Committee that we would report to them misstatements identified during our audit above £8,183 (2017: £21,850) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Independent auditors' report to the members of B&CE Insurance Limited (continued)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of B&CE Insurance Limited (continued)

Other required reporting (continued)

Appointment

Following the recommendation of the Board of Directors, we were appointed by the directors in 1995 to audit the financial statements for the year ended 31 March 1996 and subsequent financial periods. The period of total uninterrupted engagement is 23 years, covering the years ended 31 March 1996 to 31 March 2018.

Deepti Vohra (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 August 2018

Statement of comprehensive income: technical account - general business for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Earned premiums, net of reinsurance			
Premiums written - gross and net amount		**1,103**	1,193
Claims incurred, net of reinsurance			
Claims paid - gross and net amount		**(275)**	(358)
Change in the provision for claims - gross and net amount		**84**	(122)
		(191)	(480)
Net operating expenses	4	**(644)**	(398)
Balance on the general business technical account		**268**	315

All the above amounts derive from continuing activities.

Statement of comprehensive income: technical account - long-term business for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Earned premiums, net of reinsurance			
Gross premiums written		**2**	3
Outward reinsurance premiums		**(2)**	(3)
		-	-
Investment income	6	**1,337**	3,069
Unrealised gains on investments	6	**-**	782
Other technical income, net of reinsurance	7	**7,306**	8,006
		8,643	11,857
Claims incurred, net of reinsurance			
Claims paid - gross and net amount		**(3)**	-
Change in other technical provisions, net of reinsurance			
Long-term business provision - gross and net amount		**50**	10
Other technical provisions, net of reinsurance			
Technical provisions for linked liabilities - gross amount		**(10,680)**	(177,397)
Technical provisions for linked liabilities - reinsurers' share		**10,680**	177,397
		-	-
		50	10
Net operating expenses	4	**(6,291)**	(5,776)
Investment expenses and charges	6	**(3)**	(52)
Unrealised losses on investments	6	**(575)**	-
Tax attributable to the long-term business	8	**(340)**	(1,207)
Balance on the long-term business technical account		**1,481**	4,832

Statement of comprehensive income: non-technical account for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Balance on the technical accounts			
General business		**268**	315
Long-term business		**1,481**	4,832
Tax credit attributable to balance on the long-term business technical account	8	**347**	1,208
Shareholders' pre-tax profit from long-term business		**1,828**	6,040
Shareholders' pre-tax profit on the technical accounts		**2,096**	6,355
Investment income	6	**359**	418
Unrealised gains on investments	6	**-**	162
		2,455	6,935
Investment expenses and charges			
Investment management (expenses) / income	9	**(11)**	2
Unrealised losses on investments	6	**(182)**	-
Other charges, including value adjustments		**(129)**	(93)
		(322)	(91)
Profit before tax		**2,133**	6,844
Tax on profit	8	**(397)**	(1,361)
Profit for the financial year		**1,736**	5,483
Other comprehensive income:			
Other comprehensive income for the year, net of tax		**-**	–
Total comprehensive income for the year		**1,736**	5,483

All income and expenditure relates to continuing operations.

Statement of financial position as at 31 March 2018

	Note	2018 £000	2017 £000
Assets			
Financial investments	12	**52,817**	64,362
Assets held to cover linked liabilities	12	**68**	547
Reinsurers' share of technical provisions			
Long-term business provision	14	**15**	15
Technical provision for unit-linked liabilities	12	**7,044**	1,048,948
		7,059	1,048,963
Receivables			
Other receivables		**1,131**	907
Other assets			
Property, plant and equipment	15	**-**	-
Cash and cash equivalents		**11,609**	9,717
		11,609	9,717
Prepayments and accrued income			
Other prepayments and accrued income		**7**	33
Total assets		**72,691**	1,124,529

Statement of financial position as at 31 March 2018 (continued)

	Note	2018 £000	2017 £000
Liabilities			
Equity			
Ordinary shares	13	**60,000**	60,000
Retained earnings		**1,773**	11,037
Total shareholders' funds		**61,773**	71,037
Technical provisions			
Provision for unearned premiums		**1**	2
Long-term business provision	14	**67**	117
Claims outstanding - general business		**306**	390
		374	509
Technical provision for linked liabilities	16	**7,112**	1,049,495
Provisions for other risks	17	**99**	128
Other payables including taxation and social security		**3,149**	3,224
Accruals and deferred income		**184**	136
Total liabilities		**72,691**	1,124,529

The financial statements on pages 13 to 37 were approved by the Board of Directors on 20 August 2018 and were signed on its behalf by:

Director John Macaulay Collen.

Director Patricia Marosia Billingham

Statement of changes in equity for the year ended 31 March 2018

	Ordinary shares £000	Retained earnings £000	Total equity £000
Balance as at 1 April 2016	60,000	5,554	65,554
Profit for the year	-	5,483	5,483
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	5,483	5,483
Total transactions with owners, recognised directly in equity	-	-	-
Balance as at 31 March 2017	**60,000**	**11,037**	**71,037**
Profit for the year	-	**1,736**	**1,736**
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	**1,736**	**1,736**
Dividends	-	**(11,000)**	**(11,000)**
Total transactions with owners, recognised directly in equity	-	**(11,000)**	**(11,000)**
Balance as at 31 March 2018	**60,000**	**1,773**	**61,773**

Notes to the financial statements

1. General information

B&CE Insurance Limited (the Company) is a private company limited by shares and is incorporated in England. The address of its registered office is Manor Royal, Crawley, West Sussex, RH10 9QP. The Company was a wholly owned direct subsidiary of People's Financial Services Limited (the Parent Company) during the year. On 1 April 2017, under an intra-group corporate restructure, the shares of the Company were transferred from B&CE Holdings Limited (the Ultimate Parent Company) to the Parent Company. Collectively B&CE Holdings Limited and all its subsidiaries are known as 'B&CE' or the 'Group'.

2. Statement of compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Financial Reporting Standard 103, "Insurance contracts" (FRS 103) and the Companies Act 2006, under the provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

3. Summary of significant accounting policies

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

a) Basis of presentation

These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in "Critical judgements and estimates in applying the accounting policies" on page 23.

General business (accident insurance) is accounted for on an annual basis.

b) Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the review of the business which forms part of the Strategic report. The Strategic report also describes the financial performance of the Company and references: its objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposure to credit risk, liquidity risk and market risk. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

c) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, if certain conditions have been complied with. A qualifying entity is defined as a member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. The Company is a qualifying entity as its results are consolidated into the financial statements of B&CE Holdings Limited which are publicly available.

As a qualifying entity, the Company has taken advantage of the following exemptions in its individual financial statements:

(i) from the requirement to prepare a statement of cash flows as required by paragraph 3.17(d) of FRS 102;
(ii) from the requirement to present a reconciliation of the number of shares outstanding at the beginning and end of the period as required by paragraph 4.12(a)(iv) of FRS 102; and
(iii) from the requirement to disclose the key management personnel compensation in total as required by paragraph 33.7 of FRS 102.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

d) Classification of insurance and investment contracts

The Company issues contracts that transfer insurance risk or financial risk or both.

i) Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk.

ii) Unit linked investment contracts

Amounts received in respect of unit-linked investment contracts, which principally involve the transfer of financial risk, are accounted for using deposit accounting, under which amounts collected are credited directly to the statement of financial position, as an adjustment to the liability to the policyholder. Financial liabilities in respect of unit-linked investment contracts are measured at fair value through profit and loss and are presented in the statement of financial position as 'Technical provisions for linked liabilities'.

Fees receivable from unit-linked investment contracts (included in 'Other technical income') are recognised in the statement of comprehensive income in the year they are assessed.

e) Acquisition costs

All acquisition costs are charged to the statement of comprehensive income when incurred.

In respect of general insurance, in the opinion of the Directors, deferment of acquisition costs would not have a material impact on the result of the period or the financial position of the Company.

In respect of long-term insurance, linked business acquisition costs have not been deferred due to the uncertainties over the achievement of future margins arising from future potential discontinuances of the stakeholder policies.

f) Investment income

Investment income is accounted for on an accruals basis. Separate general and long-term investments are held with income, realised and unrealised gains/losses being allocated as follows:

- on long-term business investments to the technical account - long-term business
- on general business investments to the non-technical account.

g) Premiums

General business premiums written relate to business incepted during the year. All general business written is United Kingdom accident insurance.

h) Unearned premium provision - general business

The unearned premium provision represents premiums written relating to unexpired future periods.

i) Net operating expenses

The majority of the overhead costs in relation to the Company, including recharges from the Ultimate Parent Company, and any material or non-recurring overhead expenses are reported under operating expenses. This is considered to be the most appropriate allocation for disclosure purposes and understanding of the financial results.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

j) Long-term business reinsurance contracts

Long-term business is ceded to reinsurers under contracts to transfer all of the risk (see note 5).

k) Tax

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

Current or deferred tax assets and liabilities are not discounted.

(i) Current tax

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

(ii) Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the reporting date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the reporting date.

A net deferred tax asset is recognised as recoverable and therefore recognised only when, based on all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the reporting date.

l) Claims outstanding

A provision is made for claims outstanding at the period end as follows:

General business - amounts are provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the end of the accounting period, including claims incurred but not reported and claims handling expenses, less amounts already paid in respect of those claims. Under the terms of the policies, all potential claims must be notified to the Company within twelve months of the insured event occurring.

Long-term business - amounts are provided to cover the estimated ultimate costs of settling claims arising out of events which have been notified by the end of the accounting period, less amounts already paid in respect of those claims.

All provisions are gross of any reinsurance recoveries.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

m) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation because of past events. It is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

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

(i) Technical provisions for linked liabilities

Liabilities under unit-linked contracts are recognised as and when the units are created and are dependent on the value of the underlying financial assets, derivatives and/or investment property.

The technical provision for linked liabilities also includes amounts in respect of unit-linked contracts which principally involve the transfer of financial risk (see 'Unit-linked investment contracts').

(ii) Long-term business provision

The long-term business provision is computed based on recognised actuarial methods with due regard to the actuarial principles set out in Council Directive 2002/83/EC. The valuation basis adopted reflects the value of related assets and the yield derived there from, together with a prudent assessment of future rates of return on new monies receivable as income from existing business (premiums and investment income). The principal assumptions underlying the calculation of the long-term business provision are set out in note 14.

n) Cash and cash equivalents

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

o) Financial instruments

The Company has chosen to adopt the recognition and measurement provisions of IAS 39 and disclosure requirements of sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Classification

The Company classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss; and
- Loans and receivables

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

The Company classifies its financial liabilities at fair value through profit or loss (FVTPL).

(ii) Recognition and de-recognition

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

o) Financial instruments (continued)

(iii) Measurement

At initial recognition, the Company measures a financial asset and liability at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

Gains or losses arising from changes in the fair value are recognised in profit or loss within other income or other expenses.

Dividends and interest income on financial assets at fair value through profit or loss are recognised in profit or loss as part of revenue from continuing operations when the Company's right to receive payments is established.

Details on how the fair value of financial instruments is determined are disclosed in note 22.

Financial liabilities designated as fair value through profit or loss on initial recognition are subsequently measured at fair value with all gains and losses being recognised in the statement of comprehensive income.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iv) Impairment

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the receivable's credit rating), the reversal of the previously recognised impairment loss is recognised in Other comprehensive income.

(v) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

p) Critical judgements and estimates in applying the accounting policies

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, revenue and expenses. The Company has made no significant estimates as at the year end.

q) Exceptional items

Exceptional items are disclosed in the Notes to the financial statements to provide further understanding of the financial performance of the Company. Items are considered as exceptional either because of their size, their nature or are non-recurring and are presented within the line items to which they best relate.

Notes to the financial statements (continued)

4. Net operating expenses

i) Net operating expenses:

	Technical account General business		Technical account Long-term business	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Acquisition costs	**204**	152	**947**	400
Administrative expenses	**440**	246	**5,344**	5,376
	644	398	**6,291**	5,776

Included above are a number of non-recurring expenses, incurred either directly or recharged from the Ultimate Parent Company, totalling £0.9m (2017: £0.1m). Some non-recurring expenses relate to projects such as the bulk transfer of EasyBuild members to The People's Pension which affect both accounting periods.

ii) Auditors' remuneration:

During the year the Company obtained the following services from the Company's auditors and its associates at costs as detailed below:

	2018	2017
	£000	£000
Fees payable to the Company's auditors for:		
• the audit of the Company's financial statements	**62**	37
• audit related assurance services. *	**76**	49

* Audit related assurance services include the returns to the PRA and the Stakeholder Declaration.

On 18 January 2018, the Group Audit and Risk Committee agreed to limit the liability of the external auditor, in relation to regulatory reporting services only, to £1m for the Group.

5. Reinsurance arrangements

Reinsurance arrangements are in force as follows:

Term assurance	– 90% quota share with an 11.4% overriding commission receivable.
Linked business	– 100% reinsurance of unit liabilities.

Notes to the financial statements (continued)

6. Investment return

	Technical account Long-term business		Non-technical account	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Investment income				
Income from financial assets at fair value through profit or loss	**1,337**	527	**315**	156
Net gains on the realisation of investments	**-**	2,542	**44**	262
	1,337	3,069	**359**	418
Investment expenses and charges				
Net fee rebates / (Other investment management charges)	**65**	(52)	**(11)**	2
Net losses on the realisation of investments	**(68)**	-	**-**	-
	(3)	(52)	**(11)**	2
Net unrealised (losses) / gains on investments	**(575)**	782	**(182)**	162
Total investment return	**759**	3,799	**166**	582

7. Long-term fund other technical income

	2018	2017
	£000	£000
Linked liability administration fees	**7,306**	8,006

8. Tax

(i) Tax on profit

The tax expense for certain long-term business operations is attributable to shareholders and policyholders. The shareholders' portion of tax is determined using the long-term effective tax rate of the underlying business applied to the profits transferred to the non-technical account. A summary of the tax expense attributable to the long-term business technical account and shareholders' profits in the non-technical account is shown below:

	Long-term business technical account (attributable to long-term funds)		Non-technical account (attributable to shareholder profits)	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
(a) Analysis of tax charge in the year:				
UK corporation tax charge on profit for the year	**369**	1,231	**50**	153
Tax charge attributable to balance on the Long-term business technical account	**-**	-	**347**	1,208
	369	1,231	**397**	1,361
Deferred tax credit	**(29)**	(24)	**-**	-
Total tax charge	**340**	1,207	**397**	1,361

Notes to the financial statements (continued)

8. Tax (continued)

(b) Factors affecting tax charge for the year:

The tax assessed in the year is lower (2017: lower) than the standard rate of corporation tax in the UK and the differences are explained below. The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the year for which the profits will be taxed.

	2018	2017
	£000	£000
Profit before tax	**2,133**	6,844
Profit multiplied by standard rate of corporation tax in the UK of 19% (2017: 20%)	**405**	1,369
Permanent differences	**(8)**	(8)
Total tax charge for the year	**397**	1,361

(ii) Deferred tax	**2018**	2017
	£000	£000
Deferred tax liabilities:		
Other timing differences	**(99)**	(128)
Net deferred tax liability	**(99)**	(128)

(iii) Factors affecting future tax charges

Changes to the UK corporation tax rates were enacted as part of the Finance Bill 2015 and the Finance Bill 2016. These include reductions to reduce the main rate to 19% from 1 April 2017 and to 17% from 1 April 2020. These rates have been applied to all deferred tax balances.

9. Investment management fees

The non-linked investment in collective investment schemes has an impact on investment managers' fees. The investment management fees are collected within the unit price and not included below. Agreements negotiated by the Directors ensure that, where appropriate, charges are recovered by the Company.

The analysis of such fees paid and recovered is as follows:

	2018	2017
	£000	£000
Fees charged by investment managers	**20**	15
Fees recovered from collective investment schemes	**(9)**	(17)
	11	(2)

Notes to the financial statements (continued)

10. Directors' remuneration

	2018	2017
	£000	£000
Aggregate remuneration	173	120

The figures above comprise Non-Executive Directors' remuneration and an apportionment of Executive Directors' remuneration in respect of their services to the Company during the year. One Executive Director (2017: two) is accruing retirement benefits under the Group's defined benefit pension scheme and one of the Executive Directors (2017: one) was also accruing benefits under the Group's defined contribution pension scheme.

11. Employee information

The Company had no employees during the year (2017: nil). A proportion of the Ultimate Parent Company's employee costs in relation to the Company's activities is recharged to the Company.

12. Financial investments

	General		Long-term		Total	
	2018	2017	**2018**	2017	**2018**	2017
	£000	£000	**£000**	£000	**£000**	£000
Shares and other variable yield securities and units in unit trusts						
Purchase price	**16,249**	16,229	**36,382**	47,190	**52,631**	63,419
Carrying value	**16,229**	16,390	**36,588**	47,972	**52,817**	64,362

All investments are listed.

There is no difference between the cost and carrying value of assets held to cover linked liabilities of £68k (2017: £547k) which are entirely cash and cash equivalent balances.

The carrying value and cost of the reinsurers' share of the technical provisions for unit linked liabilities are:

	Carrying value		Cost	
	2018	2017	**2018**	2017
	£000	£000	**£000**	£000
Reinsurers' share of technical provisions for unit linked liabilities	**7,044**	1,048,948	**3,682**	555,921

The significant decrease was driven by the bulk transfer of most EasyBuild members to The People's Pension in February 2018.

13. Ordinary shares

	2018	2017
	£000	£000
Authorised 100,000,000 (2017: 100,000,000) Ordinary shares of £1 each	**100,000**	100,000
Allotted and fully paid 60,000,000 (2017: 60,000,000) Ordinary shares of £1 each	**60,000**	60,000

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

Notes to the financial statements (continued)

14. Long-term business provision

The long-term business provision only applies to term assurance policies.

	2018	2017
	£000	£000
Term assurance: gross provisions	**67**	117
Term assurance: reinsurer's share	**(15)**	(15)
	52	102

This is shown in the statement of financial position as:

	2018	2017
	£000	£000
Long-term business provision	**67**	117
Reinsurers' share of provision	**(15)**	(15)
	52	102

The reserve for the term assurance business is made up of a net (of reinsurance) benefit reserve of £2k and an expense reserve of £50k as at 31 March 2018.

The term assurance business is closed to new business and there are now very few in-force policies remaining which is reflected by the small benefit reserve. An additional expense reserve is held to cover the cost of expected future administration expenses for this business and includes a margin for prudence.

Notes to the financial statements (continued)

15. Property, plant and equipment

Computer equipment - cost	**2018 £000**	2017 £000
1 April	**34**	34
Additions	**-**	-
Disposals	**-**	-
31 March	**34**	34
Computer equipment - accumulated depreciation		
1 April	**34**	34
Charge for year	**-**	-
Disposals	**-**	-
31 March	**34**	34
Net book value at 31 March	**-**	-

16. Technical provision for linked liabilities

Unit linked investment contracts	**2018 £000**	2017 £000
At 1 April	**1,049,495**	904,011
Premiums received	**7,400**	25,094
Payments made to policyholders	**(53,550)**	(57,007)
Bulk transfer to The People's Pension	**(1,006,913)**	-
Attributable investment return	**10,680**	177,397
At 31 March	**7,112**	1,049,495

Financial liabilities in respect of unit-linked investment contracts are carried in the statement of financial position at fair value through profit or loss. The related fair value of these financial liabilities is £7.1m (2017: £1,049.5m), which is equivalent to the amount payable under the contract, based on the current fund value together with an allowance for any excess of future expenses over charges where appropriate. The return on the underlying assets is recorded as interest expense within note 6.

All movements in unit-linked insurance contracts, other than acquisitions and disposals, including premium receipts and claims payments, are recorded in the technical account – long-term business under the heading 'Change in other technical provisions, net of reinsurance'.

As amounts under unit-linked contracts are repayable on demand the fair value is equivalent to the amount payable under the contract. As such, all movements in fair value relate to changes in market conditions. No movements in fair value relate to changes in the credit risk of the instrument.

Notes to the financial statements (continued)

17. Provisions for other risks

	2018	2017
	£000	£000
Deferred tax provision		
1 April	**128**	152
Credited to statement of comprehensive income	**(29)**	(24)
31 March	**99**	128

18. Ultimate Parent Company

The ultimate parent and the controlling party during the year was B&CE Holdings Limited, a company limited by guarantee and registered in England. The immediate parent company is People's Financial Services Limited.

B&CE Holdings Limited is the parent of both the largest and smallest group of undertakings to consolidate these financial statements as at 31 March 2018. The consolidated financial statements of B&CE Holdings Limited are available from the Group Company Secretary at the registered office shown on page 1.

19. Related party transactions

In accordance with paragraph 33.1A of FRS 102, the Company is exempt, as a wholly owned subsidiary, from the requirement to disclose transactions with entities that are part of the Group or investees of the Group qualifying as related parties.

20. Assets attributable to long-term business

The assets of the Company which are attributable to the long-term business amounted to £43.9m (2017: £55.6m).

21. Financial instruments

The carrying values of the Company's financial instruments are summarised below:

	2018	2017
	£000	£000
Financial instruments		
Measured at fair value through profit and loss		
- Shares and other variable yield securities and units in unit trusts	**52,817**	64,362
	52,817	64,362

Notes to the financial statements (continued)

22. Financial risk management

The Company issues contracts that transfer insurance or financial risk or both. The Company is also exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts), reinsurance assets and policyholder liabilities. This section summarises these risks and the way the Company manages them.

a) *Insurance risk*

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(i) Frequency and severity of claims

The accident liability contracts frequency and severity of claims can be affected by several factors. The most significant is the increasing level of awards for the damage suffered because of exposure to construction hazards. The Company manages these risks through its underwriting strategy and proactive claims handling.

The concentration of accident insurance risk accepted is wholly within the United Kingdom. The carrying amount of outstanding claims arising from the accident insurance contracts is £306k (2017: £390k).

Notes to the financial statements (continued)

22. Financial risk management (continued)

a) Insurance risk (continued)

(ii) Sources of uncertainty in the estimation of future claims payments

The sources of estimation uncertainty in establishing the ultimate liability arising from claims made under insurance contracts are discussed in Note 3p.

Claims on insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. Claim events covered by insurance contracts are required to be notified to the Company within a year of the event occurring and a larger element of the claims provision relates to incurred but not reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability covers). Such awards are pre-determined lump-sum payments in accordance with the policy conditions.

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting year.

In calculating the estimated cost of unpaid claims (both reported and not), the Company estimation techniques are an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where information about the claim event is available.

In estimating the liability for the cost of reported claims not yet paid, the Company considers information on the cost of settling claims based on previous claims experience.

(iii) Sensitivity analysis

The sensitivity analysis on the general business is immaterial and has therefore not been presented.

(iv) Claim development tables

Claim development tables have not been presented on the general business due to the immateriality of the level of claims nor on the life business as the uncertainty about the amount and timing of the claims payments is typically resolved within one year.

(v) Unit-linked contracts

For unit-linked contracts the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. There is therefore no interest, price, currency or credit risk for the Company on these contracts. Amounts under unit-linked contracts are repayable on demand.

Notes to the financial statements (continued)

22. Financial risk management (continued)

b) Financial risk

The Company is exposed to a range of financial risks, in particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies and investment contracts as they fall due. The most important components of this financial risk are market risk (including interest rate risk, equity price risk and currency risk), credit risk and liquidity risk.

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Company faces due to the nature of its investment and liabilities are interest rate risk and equity price risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. It manages these positions within an asset liability management (ALM) framework that has been developed to achieve investment returns in excess of obligations under insurance contracts.

(i) Market risk

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The Company only holds units in a mixed investment fund, corporate bond fund and cash trust.

A sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. Due to the nature of the Company's investments, a sensitivity analysis on interest rate risk is immaterial and has therefore not been presented for the current or previous year. The sensitivity analysis would not include the impact on the unit-linked funds as they are all 100% re-insured and the only impact on the profit or loss for the year would be on the administration fee, but as this is charged on the average over a period it is not as exposed as the directly held financial instruments were.

Equity price risk

The Company is exposed to equity securities price risk because of its holdings in a mixed investment fund, classified as financial assets at fair value through profit or loss. Exposure to equity shares in aggregate is monitored to ensure compliance with the relevant regulatory limits for solvency purposes.

The Company has a defined investment policy which sets limits on the Company's exposure to equities. This policy is used to manage the Company's price risk arising from its investments in equity securities.

A sensitivity analysis on equity price risk would be immaterial and has therefore not been presented for the current or previous year. The sensitivity analysis would not include the impact on the unit-linked funds as they are all 100% re-insured and the only impact on the profit or loss for the year would be on the administration fee but as this is charged on the average over a period it is not as exposed as the directly held financial instruments were.

Notes to the financial statements (continued)

22. Financial risk management (continued)

b) Financial risk (continued)

(ii) Credit risk

Credit risk 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:

- reinsurers' share of insurance liabilities
- amounts due from corporate bond issuers

Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as the primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract, and on a regular basis thereafter. In addition, management assesses the creditworthiness of all significant counterparties by reviewing credit grades provided by rating agencies and other publicly available financial information.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	2018 **£000**	2017 £000
Cash and cash equivalents	**11,609**	9,717
Total assets bearing credit risk	**11,609**	9,717
A-1	**260**	926
AAA	**11,340**	8,690
Below BBB or not rated	**9**	101
Total assets bearing credit risk	**11,609**	9,717

No credit limits were exceeded during the year. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

The Company's largest counterparty is Managed Pension Funds Limited (MPF) which a subsidiary of State Street Corporation and is the reinsurer of the unit-linked liabilities. MPF does not have a credit rating. Under Solvency II, the Company is required to hold capital in relation to the risk of MPF defaulting. MPF's solvency ratio is 233% and as such is deemed equivalent to an AA rating. A floating charge is also in place which means that the Company would rank ahead of other reinsurance clients in the event of insolvency.

Notes to the financial statements (continued)

22. Financial risk management (continued)

(b) Financial risk (continued)

(iii) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The primary liquidity risk of the Company is the obligation to pay claims to policyholders as they fall due. The Company holds sufficient liquid assets to meet any general business claims that may arise and claims under long-term unit-linked business are available on demand from the reinsurer. The table below analyses the maturity of the Company's financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows.

The amounts disclosed in the table represent undiscounted cash flows.

	No contractual maturity date	**< 6 months or on demand**	**Between 6 months and 1 year**	**Between 1 year and 2 years**	**Between 2 years and 5 years**	**> 5 years**	**Total and carrying value**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Financial and insurance liabilities							
At 31 March 2018							
Unearned premiums	-	1	1	-	-	-	2
Payables	-	3,149	-	-	-	-	3,149
Financial liabilities	**-**	**3,150**	**1**	**-**	**-**	**-**	**3,151**
Liabilities under unit – linked insurance contracts	-	2,139	291	385	1,208	3,089	7,112
Term assurance provision	67	-	-	-	-	-	67
Claims outstanding	306	-	-	-	-	-	306
Financial and insurance liabilities	**373**	**5,289**	**292**	**385**	**1,208**	**3,089**	**10,636**

	No contractual maturity date	< 6 months or on demand	Between 6 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	> 5 years	Total and carrying value
	£000	£000	£000	£000	£000	£000	£000
Financial and insurance liabilities							
At 31 March 2017							
Unearned premiums	-	1	1	-	-	-	2
Payables	-	3,222	-	-	-	-	3,222
Financial liabilities	**-**	**3,223**	**1**	**-**	**-**	**-**	**3,224**
Liabilities under unit – linked insurance contracts	-	36,933	10,216	20,872	80,821	900,653	1,049,495
Term assurance provision	117	-	-	-	-	-	117
Claims outstanding	390	-	-	-	-	-	390
Financial and insurance liabilities	**507**	**40,156**	**10,217**	**20,872**	**80,821**	**900,653**	**1,053,226**

Notes to the financial statements (continued)

22. Financial risk management (continued)

(b) Financial risk (continued)

(iv) Capital management

The Company maintains an efficient capital structure of equity shareholder funds, consistent with the Group's risk profile and the regulatory and market requirements of its business. The Group and the regulated entities within it are subject to several regulatory capital tests and employ a number of realistic tests to allocate capital and manage risk. The Group and the regulated entities within it have met all these requirements throughout the financial year.

In reporting our financial strength, capital and solvency is measured using the regulations prescribed by the PRA. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the Company.

The Group's objectives in managing its capital are to:

- match the profile of its assets and liabilities, taking account of the risks inherent in the business
- maintain financial strength to support new business growth
- satisfy the requirements of its policyholders, regulators and rating agencies
- retain financial flexibility by maintaining strong liquidity and access to a range of capital markets
- allocate capital efficiently to support growth.

The available capital is subject to certain restrictions as to its availability to meet capital requirements. No transfer from the long-term fund can take place without an up to date actuarial valuation.

The majority of the surplus can be distributed to the shareholder subject to meeting the requirements of the business.

The capital held within the shareholder funds is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the Group's regulatory requirements.

The Company's available capital resources are £61.8m (2017: £71.0m). The capital held by the insurance business is constrained by regulatory requirements. This means it may not be possible for the capital to be used to provide funding for other businesses.

The Solvency II regime established a set of EU-wide capital requirements, risk management and disclosure standards with which the Company must comply. The Company is required to meet a Solvency Capital Requirement (SCR) which is calibrated to seek to ensure a 99.5% confidence in the ability to meet obligations over a 12-month time horizon. The Company calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Company's risk profile. The Company has maintained its capital in excess of the SCR at all times during the year.

(v) Fair value estimation

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an 'arm's length' transaction. Fair values are determined at prices quoted in active markets. The assets held under reinsurance contracts are fair valued by the reinsurer.

To provide an indication of the reliability of the inputs used in determining fair value, the Company has classified its financial instruments into three levels.

Notes to the financial statements (continued)

22. Financial risk management (continued)

(b) Financial risk (continued)

(v) Fair value estimation (continued)

Level 1 – Quoted price for an identical asset in an active market
Inputs to level 1 fair value are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an on-going basis.

Level 2 – Price of a recent transaction for an identical asset
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 – Valuation technique i.e. internal models with significant unobservable market parameters
Inputs to level 3 fair value are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an instrument are observable then the instrument is included in level 2, if not it is included in level 3. The Company did not have any such instruments.

The following table presents the Company's assets measured at fair value at 31 March 2018 and at 31 March 2017. No liabilities were measured at fair value at 31 March 2018 or 31 March 2017.

		2018		
As at 31 March	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial assets at fair value through profit or loss:				
- Shares and other variable yield securities and units in unit trusts	**-**	**52,817**	**-**	**52,817**
Reinsurers' share of technical provisions	**-**	**7,044**	**-**	**7,044**
	-	**59,861**	**-**	**59,861**

		2017		
As at 31 March	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit or loss:				
- Shares and other variable yield securities and units in unit trusts	-	64,362	-	64,362
Reinsurers' share of technical provisions	-	1,048,948	-	1,048,948
	-	1,113,310	-	1,113,310

23. Events after the reporting period

In July 2018 the Board approved a capital reduction of £20m that was actioned during 2018/19. The financial statements have been adjusted to include £0.4m of material, non-recurring expense that crystallised in July 2018 relating to conditions existing before 31 March 2018.