

Solvency and Financial Condition Report

Ecclesiastical
Insurance Group plc

For the year ended 31 December 2016



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Executive Summary

Introduction

This Solvency and Financial Condition Report (SFCR) has been prepared in line with the requirements of the Solvency II (SII) Regulations, to assist the customers, business partners and shareholders of Ecclesiastical Insurance Group plc (the Group) and other stakeholders in understanding the nature of the business, how it is managed and its solvency position.

Our business

The Group is an independent, specialist financial services group and is a commercial business with a charitable owner and purpose. This sets us apart from others in our sector. Our purpose is to deliver growing financial returns to our shareholder and owner, which are then distributed to charitable causes and communities, contributing to society's greater good. We do this by using our distinctive proposition to create competitive advantage.

Our charitable purpose drives our strategic goal of being the most trusted and ethical business in our chosen markets. It also shapes the way we do business, particularly our focus on doing the right thing for our customers and business partners.

We can do this because we manage a global portfolio of successful businesses. Worldwide, we insure over £275bn of property and in the UK we're the leading insurer of Grade I listed buildings, insure more than 40,000 charities, 22,000 churches and over 40% of independent schools. We also provide specialist investment management, risk management, broking and advisory services.

More information about the Group structure and the business we write can be found in section A below.

Business performance

2016 has been an outstanding year for the Group where it delivered increased pre-tax profit and underwriting results for the third year running. These profits saw the Group's capital position remain strong on all measures.

These results were delivered against an uncertain external environment. Both the UK vote to leave the European Union (EU) and the outcome of the US presidential election were unexpected by many, increasing political uncertainty and potentially increasing other types of risks, for example investment market and currency instability.

The volatility experienced during 2016 did have an impact on the Group's results and capital position, but hasn't fundamentally changed its risk profile. The Group took the opportunity to put currency hedging in place towards the end of the year which has reduced its exposure to currency risk over the year.

The governance of the business was also stable, and apart from the impact of the change in solvency regulation at the start of the year, the solvency position and overall capital strength of the business remained consistent.

Solvency and financial condition

On 1 January 2016, the Group transitioned into the SII regime following many years of preparatory work to be ready for the significant level of change in measuring and monitoring capital requirements for insurance groups.

The Group currently uses the standard formula to calculate its solvency capital requirement (SCR); however, it intends to replace this with an internal model once approval is received from the Prudential Regulation Authority (PRA).

As noted above, the environment continued to be challenging during 2016. Low interest rates, volatile investment markets, the weakening of sterling and on-going political uncertainty all had an impact on the current and potential future capital position of the Group.

A summary of the Group's solvency position at the end of 2016 and the change over the year is shown below:

Summary Solvency position	2016	2015	Change
	£'000	(unaudited) £'000	(unaudited) £'000
Available Own Funds	448,418	458,355	(9,937)
Standard Formula SCR			
Market risk	191,319	214,024	(22,705)
Counterparty default risk	31,608	24,875	6,733
Non-life underwriting risk	171,739	168,051	3,688
Life underwriting risk	3,483	2,166	1,317
Diversification	(94,213)	(93,275)	(938)
Operational risk	15,696	15,757	(61)
Loss absorbing capacity of deferred tax	(32,020)	(40,275)	8,255
	287,612	291,323	(3,711)
Coverage ratio	156%	157%	(1%)

The Group's regulatory solvency position has remained very strong. Own funds decreased by £9.9m in the year mainly due to an increase in the value of technical provisions driven by lower discount rates. This is explained in more detail in section E.1.

The Group's SCR also decreased in the year by £3.7m due mainly to reductions in market risk following the introduction of currency hedging as explained in section C.2. More detail on the changes in SCR during the year is given in section E.2.

Outlook for 2017

Global insurance markets continue to be competitive and price focused. The economic environment is characterised by positive as well as negative factors. Fundamental macro-economic data is solid with mostly positive data being reported in all major regions. However, uncertainty prevails as a result of political events, in particular the UK's Brexit negotiations and the outcome of elections in the UK, US and Europe.

The Group anticipates continued investment market volatility and a continuing low interest rate environment. As described in section C.2, the Group is exposed to market risk, particularly interest rate, spread and equity risk, and this could lead to capital volatility in the future. However, the Group's capital position is very strong and it is well placed to weather continuing market volatility and currency instability, supported by its unique ownership which allows it to take a long-term view and ride out periods of market turbulence.

Statement of Directors' responsibilities

Ecclesiastical Insurance Group Plc

Financial year ended 31 December 2016

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority rules and Solvency II Regulations.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Group's Annual Report & Accounts, confirm that, to the best of their knowledge:

- a. throughout the financial year in question, the Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable to the insurer; and
- b. it is reasonable to believe that, at the date of the publication of the SFCR, the Group continues so to comply, and will continue so to comply in future.

By Order of the Board



Mark Hews

Director and Chief Executive Officer

Date: 28 June 2017

Audit report

Report of the external independent auditor to the Directors of Ecclesiastical Insurance Group plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report ('SFCR')

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR of the Company as at 31 December 2016, ('the Narrative Disclosures subject to audit'); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22, S.25.01.22 and S32.01.22 ('the Group Templates subject to audit').

The Narrative Disclosures subject to audit and the Group Templates subject to audit are collectively referred to as the 'relevant elements of the Group SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:

- the 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group SFCR;
- Group templates S05.01.02 and S05.02.01;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Group SFCR ('the Responsibility Statement');
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations ('the sectoral information').

To the extent the information subject to audit in the relevant elements of the Group SFCR includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group SFCR of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)) and ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report* section of our report. We are independent of the Company in

accordance with the ethical requirements that are relevant to our audit of the Group SFCR in the UK, including the APB's ethical standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the Group SFCR is not appropriate; or
- the Directors have not disclosed in the Group SFCR 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 Group SFCR is authorised for issue.

We have nothing to report in relation to these matters

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' and other relevant disclosures sections of the Group SFCR, which describe the basis of accounting. The Group SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Group SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the Group SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Group SFCR does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group SFCR, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Group SFCR 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 in this regard.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK and Ireland) 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 decision making or the judgement of the users taken on the basis of the Group SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. The same responsibilities apply to the audit of the Group SFCR.

This report is made solely to the Directors of Ecclesiastical Insurance Group plc in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the Group SFCR 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 PRA, for our audit work, for this report or for the opinions we have formed.

Report on Other Legal and Regulatory Requirements

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Ecclesiastical Insurance Group plc's statutory financial statements. 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 in this regard.



Paul Stephenson BA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

28 June 2017

Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit

Group standard formula

The relevant elements of the Group SFCR that are not subject to audit comprise:

- *The following elements of template S.22.01.22*
 - *Column C0030 – Impact of transitional measure on technical provisions*
- *Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.*

A. Business and performance

A.1 Business details and group structure

Name and legal form of the company

Ecclesiastical Insurance Group plc (EIG) is a public limited company incorporated and domiciled in England.

The address of the registered office is:

Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

EIG is an insurance holding company and wholly-owned subsidiary of Allchurches Trust Limited (ATL), which is a mixed activity insurance holding company, incorporated and operating in the United Kingdom.

EIG, together with its direct and indirect subsidiaries (collectively, the Group) operates principally as a provider of general insurance and in addition offers a range of financial services, with offices in the UK & Ireland, Australia and Canada.

Supervisory authority

The supervisory authority for the Company and Group is:

Prudential Regulation Authority
Bank of England
20 Moorgate
London
EC2R 6DA

External auditor

Deloitte LLP
Hill House
1 Little New St
London
EC4A 3TR

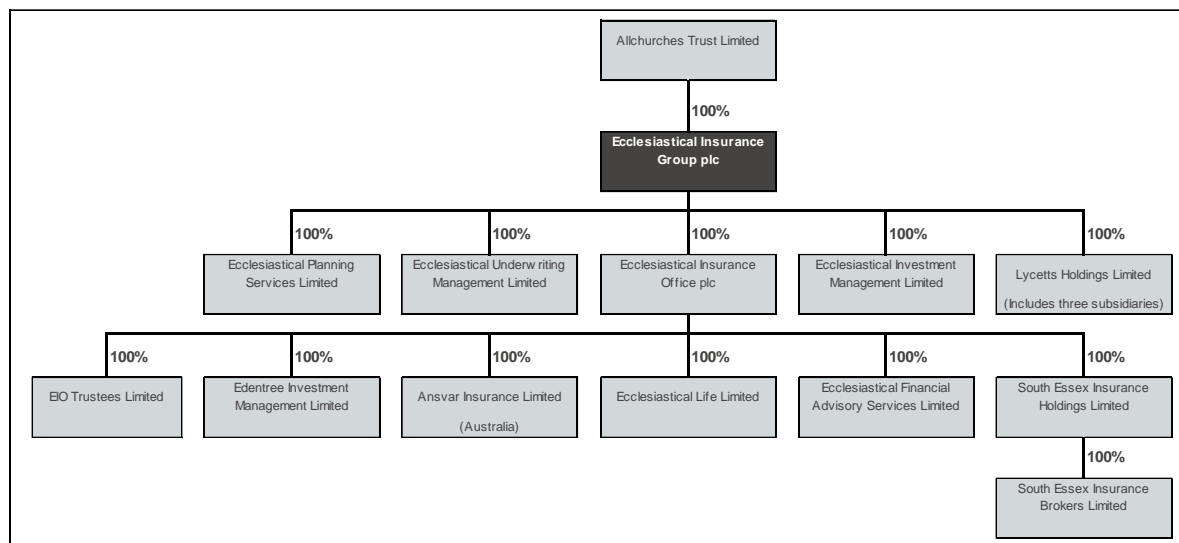
Qualifying holdings

Qualifying holdings are a direct or indirect holding in EIG which represents 10% or more of the capital or of the voting rights of EIG, or a holding that makes it possible to exercise a significant influence over the company.

ATL owns 19,999,999 ordinary £1 shares and the Chairman of EIG owns, in a non-beneficial capacity, 1 ordinary £1 share.

Group structure

Below is a simplified representation of the Ecclesiastical Group:



A diagram illustrating the governance and organisational structure of the group is included in section B.1.

Subsidiaries and related undertakings

The following is a list of material subsidiaries, all of which are 100% owned either directly or indirectly by EIG:

Incorporated in the United Kingdom:

- **Ecclesiastical Insurance Office plc (EIO)** is a non-life insurance undertaking. The majority of business is written in the UK, but also has branches in Ireland and Canada. In addition, EIO has a portfolio of investments and has 100% holdings in the following material subsidiaries:
 - **Ecclesiastical Life Limited (ELL)** is an insurance undertaking whose only material line of business is life insurance contracts and has not underwritten any new business since April 2013. ELL also has a portfolio of investments.
 - **EdenTree Investment Management Limited** is an investment firm that manages the investments of the group as well as managing the assets of third parties.
 - **South Essex Insurance Holdings Limited** is a holding company whose sole asset is a 100% holding in **South Essex Insurance Brokers Limited**, which operates as an insurance broker.
 - **Ecclesiastical Financial Advisory Services Limited** provides financial advice to individuals, principally within the Church of England client base.
 - **Ansvr Insurance Limited (Ansvr Australia)** is a third country non-life insurance undertaking incorporated and domiciled in Australia. Ansvr Australia also has a portfolio of investments.
- **Lycetts Holdings Limited** and its subsidiaries are an insurance broking and independent financial advisor group operating through branches in the UK.

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- **Ecclesiastical Planning Services Limited** receives a fee for the distribution and administration of prepaid funeral plans.
- **Ecclesiastical Underwriting Management Limited** is an ancillary services undertaking providing underwriting management and ancillary services to EIO.

EIO also has branches in the Republic of Ireland and Canada. Within the meaning of Article 354(1) of Solvency II Delegated Regulation (EU) 2015/35 (the Delegated Act), Canada is a material branch as its premium written represents more than 5% of the Group's total gross written premium.

Lines of business

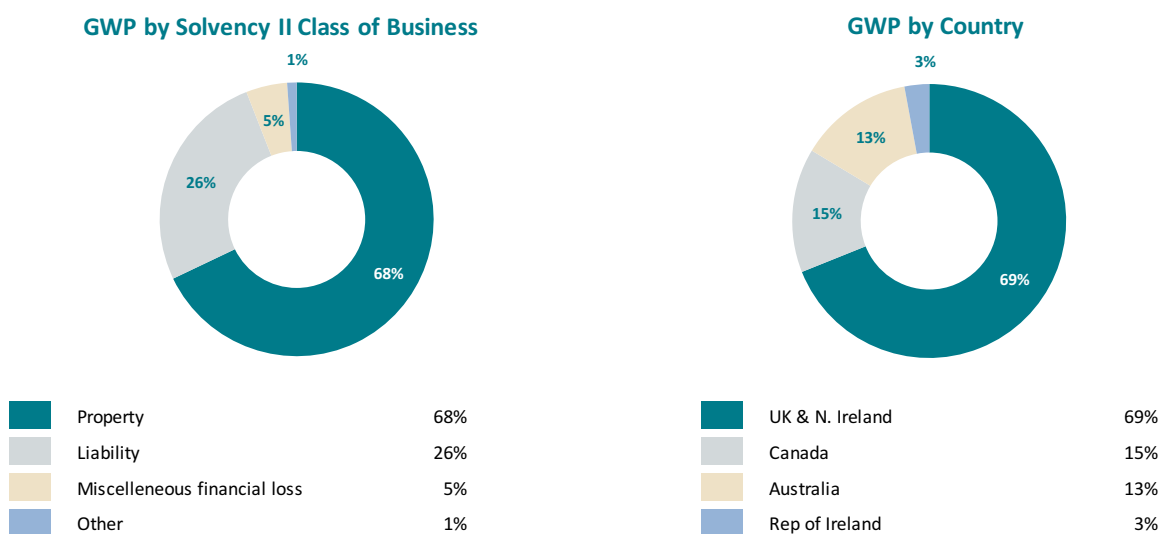
General Insurance business

The Group currently operates in the United Kingdom, Republic of Ireland, Canada and Australia.

The material lines of business are:

- Fire and other damage to property
- General liability
- Miscellaneous financial loss

The proportion of each type of business written, and total GWP by country are shown in the charts below:



Life insurance business

The Group only has one material line of life insurance business and has not underwritten any new business since April 2013.

Significant events

On 23 June 2016, the United Kingdom voted to leave the EU (the Brexit vote). The weakening of sterling and reduction in gilt yields following the Brexit vote had both positive and negative impacts on the Group's

solvency position and the Group's regulatory capital position has remained very strong throughout the year. The reasons for movements in own funds and SCR are explained in more detail in section E.

Following the weakening in sterling, the Group chose to put currency hedging in place which reduces its exposure to currency risk in the future.

The Group expects the ongoing political uncertainty to increase the risk of continuing investment market volatility and currency instability. The significant risks to which the Group is exposed and how it manages them are discussed in more detail in section C.

A.2 Performance from underwriting activities

Overall underwriting performance

The Group's general insurance underwriting performance for the year was a profit of £17.1m (2015: £10.3m). The relatively benign weather in the UK and Ireland and favourable development of prior year claims on the Group's liability business has meant that, despite some significant catastrophe events in Canada, the Group delivered a third consecutive year of improvement in underwriting performance. The Group's Life business, which is currently closed to new business made an underwriting loss of £0.7m (2015: £0.9m profit).

Performance by material class of business and by geographical region

A summary of underwriting performance by material line of business during the current and prior year is shown below:

Underwriting performance by Solvency II line of business	General Liability		Fire and Other Damage to Property		Life Business	
	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Net Earned Premium	75,666	70,550	110,345	113,432	77	113
Net Claims Incurred	(23,919)	(25,479)	(48,464)	(62,069)	(12,648)	2,000
Operating Expenses	(36,171)	(31,321)	(59,862)	(53,751)	(302)	(253)
Investment Expenses	(2,266)	(2,375)	(372)	(434)	(152)	(152)
Underwriting Performance	13,310	11,375	1,647	(2,822)	(13,025)	1,708
Investment return of assets backing liabilities					12,317	(759)
Net Underwriting result					(708)	949

General Liability

The liability account maintained its strong performance following actions taken to restore the account to profitability. Current year claims performance was better than expected, and results also benefited from reserve releases as historical claims have been settled at amounts that were less than anticipated.

In February 2017, the Lord Chancellor and Secretary of State for Justice made an announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75%. This change in discount rate had a minimal impact on the 2016 results as the Group's liability portfolio is less sensitive to the level of the rate due to low frequency of catastrophic injury cases, and the Group's discontinued UK Motor business is at an advanced stage of run-off.

Fire and other damage to property

Relatively benign weather was experienced across most of the year in the UK & Ireland, with December also being drier and warmer than the long-term average. The flash floods in June, although unexpected, were significantly less costly than the weather events at the end of 2015. The number of fire-related losses also returned to more normal levels in 2016 which contributed to the increase in profits.

Canada was affected by large property losses from the Fort McMurray wildfire in Alberta and two severe weather catastrophe events during the year. Canada also experienced higher than normal large loss experience in 2016 in addition to a deep freeze in February which led to an overall underwriting loss in the prior year.

Australia reported modest underwriting losses in both years as the reinsurance arrangements in place reduced the impact of higher than average catastrophe claims at the net level.

Performance by geographical region

A summary of general insurance underwriting performance by material geographical region during the current and prior year is shown below. The Life underwriting result, which is entirely UK business, is not included in the table:

Underwriting performance by Geographical Region	UK & Ireland		Canada		Australia	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Net Earned Premium	142,640	150,768	33,564	29,376	17,879	15,931
Net Claims Incurred	(43,996)	(69,621)	(19,038)	(12,979)	(7,348)	(6,408)
Operating Expenses	(72,261)	(69,092)	(17,973)	(15,330)	(11,734)	(9,419)
Investment Expenses	(2,620)	(2,892)	(23)	(21)	(117)	(41)
Underwriting Performance	23,763	9,164	(3,470)	1,045	(1,319)	62

UK & Ireland

The benign weather and favourable liability performance described above contributed to the positive underwriting performance. The change on the Ogden discount rate had a minimal impact on the 2016 result.

Canada

Canada was affected by large property losses from the Fort McMurray wildfire in Alberta and two severe weather catastrophe events during 2016.

Australia

Australia was affected, for a second consecutive year, by a higher than average number of catastrophe events which was an issue for the whole Australian market. However, the reinsurance arrangements in place reduced the impact of these at the net level.

A.3 Performance from investment activities

Investment performance by asset class

	Investment income			Fair value gains/(losses)			Total return		
	2016	2015	Change	2016	2015	Change	2016	2015	Change
	£'000	£'000	%	£'000	£'000	%	£'000	£'000	%
Debt	17,681	20,510	(14%)	8,225	(13,852)	(159%)	25,906	6,658	289%
Equities	10,091	9,106	11%	28,494	15,455	84%	38,585	24,561	57%
Property	6,387	4,992	28%	(1,116)	4,935	(123%)	5,271	9,927	(47%)
Cash	687	1,056	(35%)	-	-	-	687	1,056	(35%)
Derivatives	-	-	-	(681)	2,270	(130%)	(681)	2,270	(130%)
Exchange	2,995	(1,430)	(309%)	-	-	-	2,995	(1,430)	(309%)
Discount rate	-	-	-	(18,612)	4,242	(539%)	(18,612)	4,242	(539%)
Other	597	1,412	(58%)	-	-	-	597	1,412	(58%)
Total investments	38,438	35,646	8%	16,310	13,050	25%	54,748	48,696	12%

Investment returns, which fell sharply after the EU referendum result, rebounded strongly in the second half of 2016.

This investment performance reflects the rise in UK stock markets, in December, to an historic high and the positive effect of the low pound on the value of our overseas investments held both directly and indirectly through collective investment schemes.

The small and mid-cap bias in the equity portfolio dampened returns in 2016. The weakness of the pound following the Brexit vote provided a favourable tailwind for the larger-cap international dollar-earners of the FTSE 100 where total returns of 19% were achieved. By contrast, the more UK domestically focused FTSE 250 only achieved 6%.

Falling bond yields in 2016 had a positive effect on the values of longer dated bonds. Of the total return on debt instruments, £12.3m related to index linked gilts and bonds backing Life business liabilities, as shown in the underwriting performance table in section A.2 above. The overall investment return from these assets was broadly equal and opposite to the movement in Life business claims reserves after allowing for claims payments, due to the close matching position.

The Group's direct property investments outperformed the broader Investment Property Databank (IPD) All Properties Index over the year. This was, in part, due to its greater exposure to the industrial property segment which outperformed the office and retail segments. The portfolio's limited exposure to the weak Central London property market was also beneficial. The level of investment income generated in the year rose in line with the size of the Group's holding in this class of assets.

The downward movement in yields also reduced the discount rate applied in calculating the present value of certain long-tail general business insurance liabilities and life business liabilities (shown in the table above as discount rate).

Gains and losses recognised directly in equity

During the year the Group designated certain derivatives as a hedge of its net investments in foreign subsidiaries and branches. These generated a gain of £0.1m in the current year (2015: £nil) which was recognised directly in equity.

Investments in securitisation

The Group has no material holdings in securitisations.

A.4 Performance from other activities

Other material income and expenses are shown below:

Other activities	2016	2015	Change
	£'000	£'000	%
Return from non-insurance operations	1,308	4,723	(72%)
Corporate costs	(10,134)	(7,341)	38%
Actuarial losses on retirement plans	(29,152)	(4,007)	628%
Gains/(losses) on currency translation differences	15,327	(6,461)	(337%)

The return from non-insurance operations, which includes profits from insurance broking and investment management businesses, reduced in 2016 due to an impairment of goodwill in the year.

Corporate costs are costs incurred in managing the Group and its subsidiaries and certain Group-wide strategic investments. They increased in the year due to additional strategic investment in the business.

Actuarial losses on retirement plans relates to the impact of changes in financial assumptions used in the International Accounting Standard (IAS) 19 valuation. The higher losses reported in 2016 were mainly due to the fall in discount rate which followed the Brexit vote.

The weakened pound following the Brexit vote resulted in gains in the value of the Group's investments in its Canadian and Australian businesses, in comparison to a fall in the prior year where the pound strengthened in relation to the Canadian and Australian dollars.

A.5 Any other information

There is no other material information to disclose regarding the Group and its performance during the reporting period.

B. System of governance

B.1 General information on the system of governance

Governing Body – Roles and segregation of responsibilities

The Governing Body of the Company is the Board of Directors (the Board). The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enables the risk which the Group faces to be assessed and managed.

The Board is responsible for: culture and values, strategy and direction, leadership and organisation, governance, risk management and controls, financial expectations and performance and communication.

A formal schedule of matters reserved for the Board's decision is in place and includes strategy and management, structure and capital, financial reporting and controls, internal controls, contracts, communication, board membership and other appointments, remuneration, corporate governance and policies.

Chairman

The Chairman's responsibilities include the active leadership of the Board, ensuring its effectiveness in all aspects of its role, maintaining an appropriate balance on the Board as regards the numbers of Executive and Non-Executive Directors (NEDs) and their skills, knowledge, experience and diversity.

Group Chief Executive Officer (CEO)

The Group CEO is responsible for ensuring delivery of the strategy determined by the Board. The Group CEO may delegate any of the limits or authorities, but not responsibility, to any other executive director, function holder or Committee.

Non-Executive Directors

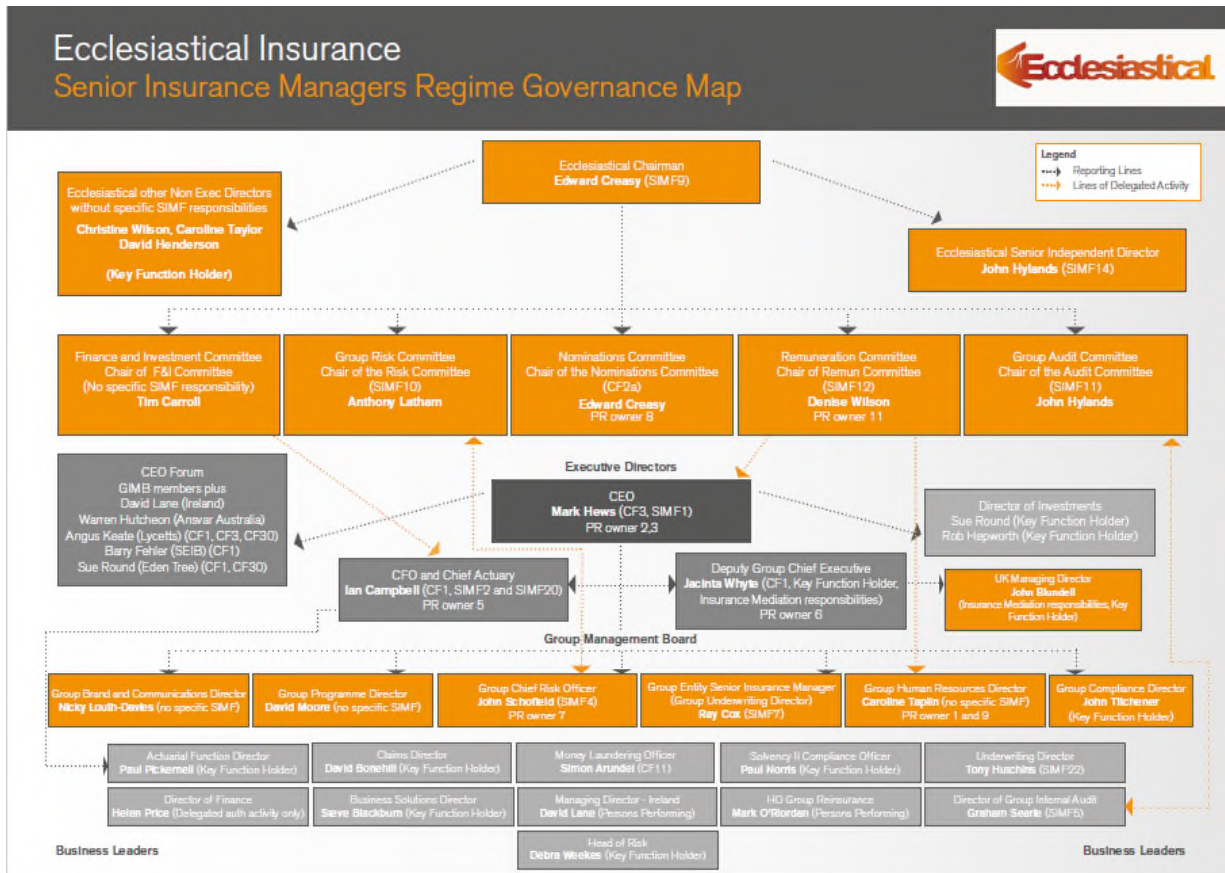
The NEDs have a responsibility to uphold high standards of integrity and probity, including acting as both internal and external ambassadors of the Company. As part of their role, the NEDs should constructively challenge and help develop proposals on strategy.

Senior Independent Director (SID)

In addition to their other duties as a Non-Executive Director, the SID is responsible for leading the evaluation of the Chairman, meeting with the non-executives at least once a year without the Chairman present and being available to shareholders if they have concerns about the running of the Group which have not been resolved.

Delegation to committees

The Group’s Governance map sets out the Group’s delegation of responsibilities and reporting lines as at 31 December 2016:



In March 2017, the Group’s Chairman, Edward Creasy, resigned from the Board and John Hylands, the Group’s Deputy Chairman, was appointed as Chairman and is no longer the SID. In addition, the members of some of the committees changed as outlined below.

Delegation to committees

The Board has established five committees which support the discharge of its duties. Each Committee has agreed Terms of Reference which sets out requirements for membership, meeting administration, Committee responsibilities and reporting. A high-level overview of each Committee’s delegated responsibilities is summarised below:

Group Audit Committee (GAC)

Comprising four independent NEDs, its responsibilities include:

- overseeing of the Group’s financial reporting processes;
- overseeing the Group’s risk management systems and internal controls;
- reviewing the Group’s whistleblowing arrangements;

- overseeing the internal audit function;
- managing the relationship with the external auditor, including in relation to the auditor's appointment, reappointment and resignation, terms and remuneration, independence and expertise, non-audit services and the audit cycle; and
- reporting to the Board on how it has discharged its responsibilities.

Group Finance and Investment Committee

Comprising three independent NEDs and an Executive Director, its main purpose is to ensure that the management of the Group's financial assets, including its investment portfolio, is properly governed, controlled and performing as expected. The Committee reviews and advises on any major financial decisions on behalf of the Board and reports to the Board on how it has discharged its responsibilities.

Group Risk Committee (GRC)

Comprising three independent NEDs and an Executive Director (as at 31 December 2016) and the Chairman, two independent NEDs and an Executive Director (as at the date of the report), its responsibilities include:

- overseeing the Group's Risk Management Framework including risk appetite and tolerance;
- overseeing the Group's risk and compliance functions;
- reviewing prudential risk (including overseeing the capital model) and conduct risk; and
- reporting to the Board on how it has discharged its responsibilities.

Group Remuneration Committee

Comprising three independent NEDs, the Committee is responsible for recommending to the Board the Remuneration Policy for executive directors and for setting the remuneration packages for each executive director, members of the Group Management Board, Remuneration Code staff and heads of strategic business units. The Committee also has overarching responsibility for the Group-wide Remuneration Policy.

Group Nomination Committee

Comprising the Chairman and three independent NEDs (as at 31 December 2016). Its role is to ensure that there is an appropriate balance of skills, knowledge and experience on the Board, its committees and within the Group's subsidiary companies. Following the resignation of Edward Creasy as Chairman and a recent Board Evaluation, further changes will be made to this Committee during 2017 to enable the Board to focus on succession planning and, in particular, the recruitment of a new Chairman and a Senior Independent Director.

Roles and responsibilities of key functions

The Governance Framework documents the main roles and responsibilities of key functions as set out below:

Group Compliance

Group Compliance provides assurance to the Board that the Group and its subsidiaries remain compliant with its obligations under the regulatory system and for countering the risk that the Group might be used to further financial crime. It ensures that appropriate mechanisms exist to identify, assess and act upon new and emerging regulatory obligations and compliance risks that may impact on the Group.

Group Internal Audit (GIA)

GIA derives its authority from the GAC and provides objective assurance to the Board that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Group. The Director of Group Internal Audit is accountable to the Chairman of the GAC.

Group Risk

Group Risk derives its authority from the CEO and provides Group level oversight of the prudent management of risk including but not limited to conduct risk, in relation to each entity within the Group and, on an aggregated basis, of risk across the Group. The Group Chief Risk Officer (CRO) is accountable to the CEO.

Actuarial

Actuarial is accountable for all aspects of capital modelling, pricing and reserving across the Group and the independent Actuarial Function is responsible for providing opinions on the effectiveness of technical provision calculations, underwriting and pricing, and reinsurance purchase. Actuarial reports to the Group Chief Financial Officer (CFO) who is accountable to the CEO.

Material changes in the system of governance

There were no material changes to the system of governance during the year. As noted earlier in this section, in March 2017 the Group's Chairman, Edward Creasy, resigned from the Board and John Hylands, the Group's Deputy Chairman, was appointed as Chairman. In April 2017, Andrew McIntyre was appointed as a NED of the Group and Chair of the GAC (a role previously held by Mr Hylands).

Assessment of the adequacy of the system of governance

The Board, through the GRC, annually reviews the adequacy of the system of governance on a holistic basis and has concluded that it is appropriate and effective based on the nature, scale and complexity of the risks inherent in the business.

In reviewing the effectiveness, the following was considered:

- outcomes from the Control Risk and Self-Assessment process (CRSA);
- outcomes from the Own Risk and Solvency Assessment (ORSA) process;

- findings from relevant internal audits;
- reports from management;
- attestations from Strategic Business Units (SBUs) that they are materially compliant with the Governance Framework; and
- changes in regulation and legislation.

The Governance Framework is formally reviewed and approved by the Board through the GRC every two years, and was last approved in August 2016.

In addition, the performance of the Board and its Committee is regularly reviewed and it is the Board's policy for its evaluations to be externally facilitated every two years. At the end of 2016, the Group Nominations Committee led an external evaluation of the Board and Committees, assisted by the Company Secretariat. An external board evaluation provider conducted this evaluation and all Board and Committee members were required to complete a bespoke assessment. The outcome of the evaluation was considered by the Board in Q2 2017.

The Group believes the size and composition of the Board gives it sufficient independence, balance and wider experience to consider the issues of strategy, performance, resources and standards of conduct. The strong representation of NEDs on the Board demonstrates its independence.

Remuneration policy

The remuneration policy has been set and managed at a Group level. The policy is aligned to delivery of the Group's strategic objectives and establishes a set of principles which underpin the Group's reward structures for all Group employees as follows:

- Reward structures will promote the delivery of long-term sustainable returns and support the Group's underlying strategic goals and risk appetite and may comprise both financial and non-financial targets.
- Reward will be performance-related, reflecting individual and business performance, including both what is delivered and the way in which results are achieved. However, the Group will adopt a prudent and considered approach when determining what portion of an employee's package should be performance-linked or variable.
- Remuneration packages will be set by reference to levels for comparable roles in comparable organisations. However, benchmark data will be only one of a number of factors that will determine remuneration packages.
- Reward structures will deliver an appropriate balance of fixed to variable pay in order to foster a performance culture, with the proportion of 'at risk' pay typically increasing with seniority. However, high levels of leverage are not appropriate for the Group.
- Reward structures will achieve a balance between short and long-term incentives, supporting the overall aim of the Group's Remuneration Policy of promoting the long-term success of the Group. The balance between short and long-term incentive pay is largely driven by role and seniority, with generally a greater role played by long-term incentives for more senior employees.
- The Group is committed to ensuring all employees, both men and women, have a fair and equal pay opportunity.

The Group will strive to adhere to the highest standards of remuneration-related regulatory compliance and best practice guidelines, while ensuring that the Group's remuneration policies are appropriately tailored to its circumstances, challenges and strategic goals.

NEDs' fees, including the Committee Chairman's fees, are approved by the Board. NEDs take no part in the discussion relating to their fees. The Chairman's fees are considered and approved by the Board in the absence of the Chairman.

Entitlement to share options, shares or variable components of remuneration

The elements of variable remuneration are delivered in the following ways:

Cash Annual Bonus

A proportion of variable remuneration is delivered in the form of a cash annual bonus which is paid to participants following the end of the financial year. Annual bonuses are subject to a range of challenging financial and non-financial performance conditions linked to key strategic priorities. Awards for senior management roles and employees within the investment management function are subject to deferral, providing alignment with shareholder interests and promoting retention.

Cash Long Term Incentive Plans (LTIP)

For some senior management roles a proportion of variable remuneration is delivered in the form of an LTIP. LTIPs are designed to incentivise the achievement of the Group's long-term objectives. Cash awards under the relevant LTIP vest dependent on the GRC's assessment of performance against the scheme's performance conditions over the relevant three-year performance period.

Supplementary pension or early retirement schemes for the members of the board and other key function holders

UK-based executive directors and key function holders employed in the UK after April 2006 are eligible to participate in the Group Personal Pension (GPP) plan. Contributions are made by the employee and employer. Any contributions to the UK Defined Contribution Scheme that are above the annual or lifetime earnings limit are paid in cash, net of National Insurance contributions charge.

Where an employee is eligible to retire early, the pension entitlement will be calculated subject to the scheme rules and no enhanced early retirement terms other than those applicable in general under the scheme rules will apply. Early retirement is permitted within the scheme but the fund available to the member would be reduced in the case of early retirement.

Canada-based executive directors are eligible to participate in the Canadian EIO plc Defined Contribution Pension plan applicable to Ecclesiastical's Canadian staff. Where an employee is eligible to retire early, the pension entitlement will be calculated subject to the scheme rules and no enhanced early retirement terms other than those applicable in general under the scheme rules will apply.

Key function holders employed in the UK before April 2006 are eligible to participate in the defined benefit Staff Retirement Benefit Fund. Contributions are made by the employee and employer. Where an employee is eligible to retire early, the pension entitlement will be calculated subject to the scheme rules and no

enhanced early retirement terms other than those applicable in general under the scheme rules will apply. Early retirement is permitted within the scheme and is subject to early retirement factors, which result in an actuarial reduction in the member's benefits.

Non-Executive Directors are not eligible to participate in pension plans.

Material transactions during the reporting period with shareholders, persons who exercise a significant influence, and with members of the board

No contract of significance existed during or at the end of the financial year in which a director was or is materially interested.

B.2 Fit and proper requirements

Skills, knowledge and expertise requirements

In order to determine fitness and propriety of all senior roles including key function holders within the Group, persons are subject to a competency-based interview following an analysis of their CV.

The competency-based interview is intended to explore the candidates' experience and qualifications and for a key function holder would as appropriate explore:

- market knowledge;
- business strategy;
- financial analysis;
- governance;
- oversight and controls; and
- regulatory framework.

Criminal record checks (DBS) and sanctions checks are carried out for each person in quantifying honesty, integrity and reputation along with a credit check to assist in verifying financial soundness. The Group will also check the Financial Conduct Authority (FCA) register where persons have previously been a key function holder to check that no disciplinary actions have occurred against them. References are also taken from previous employers. For very senior positions, two further interviews may be conducted, one through our HR department and another by a subject matter expert.

The fitness and propriety process for assessing key function holders (KFH's) mirrors the above approach to Senior Insurance Managers Regime (SIMR) and Control Function (CF) Functions. The one exception to the process for KFH's is that regulatory pre-approval is not required, so once the process is complete a notification is forwarded to the regulator for review. Although pre-approval is not required, the regulator may query any points of clarification.

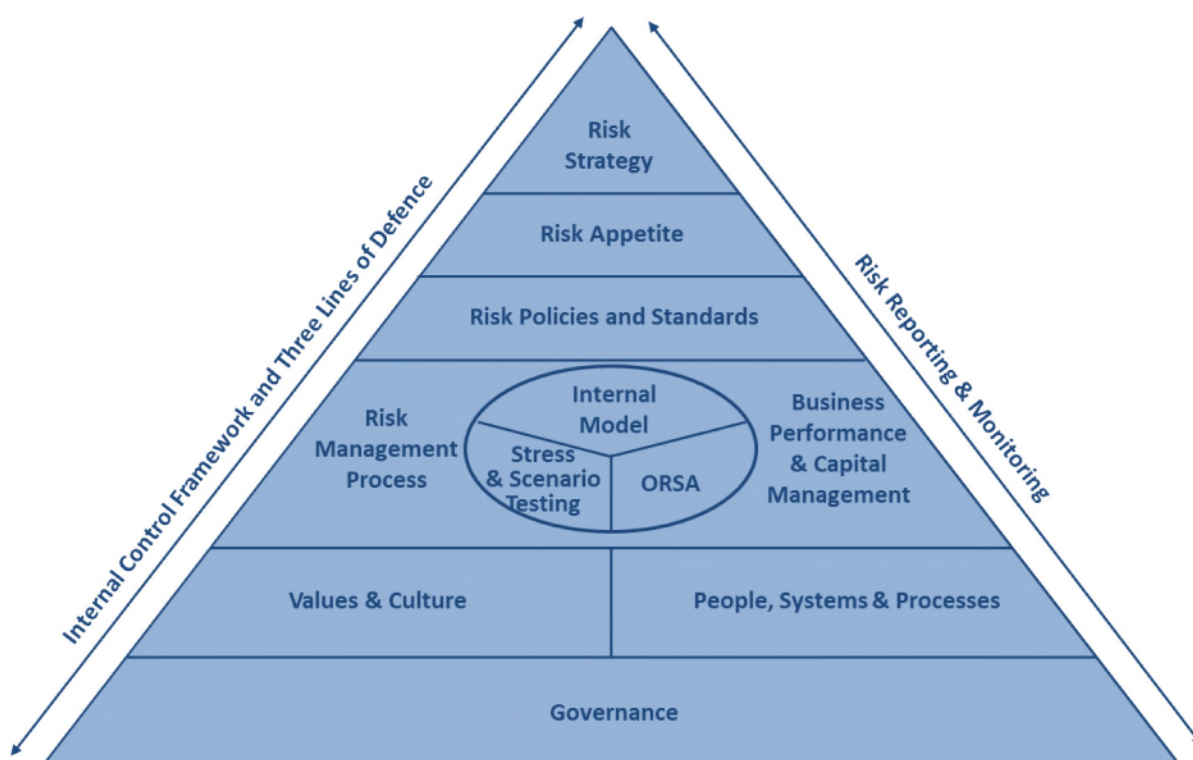
Post-appointment, persons are required to commit to a personal development plan to ensure ongoing competence and are also subject to the Group's performance management system. Fit and proper persons are subject to an ongoing fit and proper test every one to three years dependent on role.

B.3 Risk management system including the ORSA

Overview of the risk management system

An enterprise-wide Risk Management Framework is embedded across the Group with the purpose of providing the tools, guidance, policies, standards and defining responsibilities to enable the Group to achieve its strategy and objectives.

The Risk Management Framework is owned by the Board with day-to-day responsibility for its implementation and oversight delegated to the Group Risk Function, led by the CRO. Pictorially, the risk framework is presented as follows:



Regulatory requirements for risk management are complied with at all times and are regarded as the minimum standards for the Group’s Enterprise Risk Management system. The Group recognises that there are a number of risks that it faces which could impact the achievement of its strategy and is therefore committed to the effective identification, assessment and, where appropriate, mitigation of those risks.

A key component of the governance of the Group is a formalised policy framework covering all important elements of managing its business. This contains a set of overarching policies, each with a number of more detailed policies below. This policy framework provides the cornerstone for embedding strong risk management principles and a risk culture across all aspects of the Group’s operations and businesses.

As part of the policy framework, specific risk policies provide high-level instructions around the Group’s risk-taking expectations with regard to insurance risk, financial risk and operational risk. Risk policies are reviewed annually by the relevant Risk Committee and aligned with the process which sets the Group’s risk appetite.

The risk management process is integrated into the culture of the Group and is led by the Group Management Board (GMB), which is supported by three executive committees:

- The Insurance Risk Committee - which includes oversight of reinsurance counterparty risk;
- The Market and Investment Risk Committee; and
- The Group Operational, Regulatory and Conduct Risk Committee - which supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

On an annual basis the GRC carries out a formal review of the key strategic risks with input from the GMB and SBUs and allocates executive responsibility for each one to an individual member of the executive management.

Monitoring of the key strategic risks is undertaken quarterly including progress of risk management actions and any gaps in risk mitigants are challenged. This quarterly review includes consideration of emerging risks. There is a continuous and evolving approach to enterprise risk management and emerging experience is used to refine this.

Effectiveness of identifying and managing risks

The Group's Risk Management Framework is designed to help ensure that the significant risk exposures of all business units, individually and in aggregate, can be effectively identified, measured, monitored, managed and reported upon. The primary tools and processes for achieving this are outlined below:

Group Risk Appetite

The Group monitors the degree to which it is operating in line with the Board's mandate for risk taking via its risk appetite framework. This sets limits, by risk category, across all significant areas of risk faced by the Group in relation to achieving its business objectives. SBU's maintain their own risk appetite limits, which are aligned to the overall risk appetite. This helps to ensure that individual entity risk taking is aligned with Group expectations with respect to the level of risk individual business units should be taking as well as in aggregate across the Group. Quarterly monitoring of compliance with the Group Risk Appetite is prepared by Group Risk and the outputs reported to the GRC.

Structured Business Risk Reviews

The management of each business unit, including each major business area within the UKGI business, carries out a regular business risk review. They use Group defined risk management processes to formally identify, assess and record the most significant risks to their objectives. Management will employ the tool used to record details of these risks – the risk profile – to also note the mitigations or other responses agreed to appropriately manage these exposures and report to appropriate stakeholders across the organisation. The risk profile is a living document which is continually updated to reflect changes. The Group Risk Function facilitates this process and provides the methodology and tools used.

Loss and Near Miss Process

An operational risk loss and near-miss process is in place across the business areas to facilitate the identification, recording and analysis of instances where actual costs (both financial and non-financial) have

been incurred, or could have been incurred or reputational damage suffered, due to the realisation of an operational loss event or process or control failure. Recorded data relating to these is regularly reviewed by the local business units who will work to ensure that any required internal control remediation is made. Group Risk also review the data recorded and ensure appropriate reporting to the Group Operational, Regulatory and Conduct Risk Committee.

Risk Reporting to Group Executive Risk Committees and Board Risk Committees

A business unit risk Committee will report to the appropriate Group executive risk Committee where a current risk exposure has the potential to impact its ability to achieve its objectives. The Group executive risk Committee will report to the GRC where they believe that a current risk exposure has the potential to impact the Group's ability to achieve its objectives. The Group Risk team assess the similar risks across a number of business units and report to the GRC any of those risks which, in aggregate, could adversely impact the Group's ability to achieve its objectives.

Emerging Risk Process

Emerging risk identification is undertaken at all levels of the organisation. This is considered as part of all business unit risk reviews and is also a standing agenda item for all risk oversight committees. The assessment made at that risk review meeting will help determine the nature of any actions resulting, which may include continued monitoring, a deep dive analysis of the risk, or stress and scenario testing of the risk to better understand the range of potential impacts. The GMB also review new and emerging risks on a quarterly basis. Those emerging risks with the potential to impact the Group are highlighted to the GRC as part of the regular reports.

The adequacy of the Risk Management Framework is reviewed on an annual basis at a Group level. The main vehicle for this is the CRSA process, supported by the Group internal audit function's risk-based audit programme.

The Board also uses the ORSA process as a tool to assess how effective the system of governance and risk management is, and whether revisions are required to cover any changes to the undertaking's current and future business strategy and operations.

Implementation of the risk management function

The key to the success of the risk management process is the deployment of a strong Three Lines of Defence Model whereby:

- **1st Line - Business Management** - is responsible for strategy execution, performance identification and management of risks and the application of appropriate controls;
- **2nd Line - Reporting, Oversight and Guidance** - is responsible for assisting the CRO and Board to formulate risk appetite, establish minimum standards, appropriate reporting, oversight and challenge of risk profiles and risk management activities within each of the business units. This includes executive risk management committees and is subject to oversight and challenge by the GRC; and the

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- **3rd Line - Assurance** - provides independent and objective assurance of the effectiveness of the Company's systems of internal control. This activity principally comprises the internal audit function which is subject to oversight and challenge by the GAC, but also extends to external audit.

An embedded risk management process that is integrated as part of the day-to-day activities across all areas of the business ensures that risk management is a central consideration in the decision-making process. All business areas across the Group maintain risk profiles that contain up to date information about the key risks associated with that area's ability to achieve its objectives.

These include information around:

- The significance of the risk, as assessed by the business area both before the operation of the existing controls and with the current controls in place;
- The effectiveness of current controls and measures in place to respond to each risk; and
- Any actions that are needed to ensure each risk is being managed in a way that aligns with the Group's appetite and does not threaten achievement of its objectives.

This process is owned by each business area with Group Risk providing a second line challenge and assurance role.

The risk management process is an ongoing process with formal regular assessments of the various risk profiles. As risks are identified in the context of business objectives; actions arising directly impact and influence regular business decision making. There are a number of key roles and responsibilities with regards to the effective operation and integration of the Group Risk Management Framework:

Role	Responsibilities
The Board	Own the Risk Management Framework and are responsible for its implementation, ensuring that they are aware of the Group's risk profile, it's most significant risks and that the most appropriate actions are in place in response to them.
Group Risk Committee	Responsible for making recommendations to the Board on risk management strategy, risk appetite and other key risk management elements. They review the effectiveness of the Group's Risk Management Framework on behalf of the Board.
Executive Risk Committees (Second Line of Defence)	Responsible for the oversight of the most significant risks relating to the appropriate risk types for which they have responsibility, including overseeing cross SBU risks and ensuring that coordinated organisation-wide responses are in place to respond to such risks.
SBU Management and Risk committees (First Line of Defence)	Local SBU Management and risk committees have responsibility for ensuring that they are aware of the key risks relating to that SBU and are satisfied with the way in which they are being managed. They are responsible for ensuring that appropriate actions are in place and risks with an organisation-level impact are escalated to the appropriate executive risk committees.

Role	Responsibilities
Business Units and Functions (First Line of Defence)	Responsible for maintaining their own local risk profiles, which detail the most significant risks faced by the business unit or function. This is part of the process whereby management ensure that there is an ongoing process for the identification, assessment, management and reporting of the risks identified to their business objectives.
Group Risk Function (Second Line of Defence)	Provide oversight, expert advice and propose standards and guidance ensuring a consistent and robust approach to risk management across the organisation. Facilitates the management and ongoing effectiveness of the Risk Management Framework by providing the tools, training and support to all levels of the business so stakeholders can effectively discharge their responsibilities.
Internal Audit (3rd Line of Defence)	Provide independent assurance over the design and operational effectiveness of the Risk Management Framework.

Consistency of implementation across the Group

As described above the risk management framework has been embedded across the wider Group and the Group Risk function work with all SBUs to ensure that the framework is embedded consistently.

SBUs are responsible for the day to day management of their businesses but the Group has set out the expectations of its subsidiaries and SBUs to ensure that an appropriate level of shareholder control and scrutiny is maintained throughout the Group. The Expectations of SBUs is formally documented and all SBUs must comply with these expectations.

An SBU must update Group Risk and Assurance functions immediately, pro-actively and openly on:

- any significant regulatory or legislative developments, and related implementation plans;
- any internal or external fraud, suspected fraud or financial crime;
- any breaches of risk appetite or matters giving rise to reputational risk;
- any unplanned regulatory interventions, sanctions, breaches or failure to meet local regulatory requirements; and
- any planned regulatory visits or any significant or material correspondence from any regulator.

Election to undertake a single Group ORSA report

The ORSA process is carried out at the level of the Group, as permitted by Article 246(4) of Solvency II Directive 2009/138/EC (the Directive).

Own risk and solvency assessment process

The objective of the ORSA is to demonstrate that a firm or group has, or can access, the resources to carry out a business plan in the context of risk policy, risk appetite, a forward looking assessment of risks, the potential for stress and the quality of its risk management environment.

As part of the SII Regulations, the Group is required to have an ORSA policy framework to regulate and manage the ORSA process. This process operates alongside the annual business planning and investment strategy processes. Preparation of the ORSA report occurs at least annually and is timed to follow annual financial reporting.

The ORSA report covers the solvency position at the reference date of the end of each calendar year, but looks forward over the period of the business plan. In doing so it considers all changes in the business and risk profile during the year and is calibrated to the business plan approved by the Board each year. An ORSA report is required no less than annually to demonstrate this objective through:

- assessing the liquidity, funding, capital and other critical resources required to execute the business plan;
- assessing the adequacy of the risk management environment to support the business plan in the context of a forward-looking assessment of risks, the potential for stress and risk management policy; and
- demonstrating that the firm has, or the extent to which it is likely to have access to the financial, capital and other critical resources required to deliver the business plan.

Roles and Responsibilities

In accordance with Article 45 of the Directive, the Board takes an active role in the ORSA, particularly the forward-looking assessment of risk. The Board executes its ORSA responsibilities primarily through the actions of the GRC, which is responsible for:

- approving the ORSA policy, standards and guidance no less than annually;
- taking an active part in assessment of the forward looking risks faced by the Group;
- engaging with the Group Risk team to determine the stress tests and scenario analysis to be carried out;
- review, challenge and, when appropriate, approve the ORSA proposed to it by the Group CEO and CRO. The GRC will then recommend approval of the ORSA report when it is presented to the Board; and
- advising the Board, as appropriate, on matters arising with the ORSA when the Board considers the business plan for approval and subsequently for performance.

The Group CEO is accountable for implementation of this policy, including requesting the CRO to execute the ORSA process and prepare an ORSA report for consideration by the Group CEO, the GMB and, subsequently, the GRC and the Board on at least an annual basis.

The Group CEO is responsible for requesting the ORSA process be executed annually, or upon the occurrence of any trigger events outlined below in the section 'Frequency of review'. The CRO will lead a process to, no less than annually:

- establish and maintain risk policy and risk appetite;
- carry out stress-testing and scenario analysis, including reverse stress tests;
- review forward-looking risks and their implications for business strategy with the executive and GRC;
- assess the adequacy of the risk management environment to support the business plan;
- carry out the ORSA process and prepare an ORSA report for the Group CEO and the GRC and Board; and
- give the Group CEO and the GRC confidence in the quality of all internal models used to compute and forecast requirements, particularly those for regulatory and economic capital requirements, funding and liquidity, through a process of independent validation.

Group Management Board

The GMB will review the ORSA report prior to submission to the GRC and review and challenge the risk assessments of the SBUs on an ongoing basis. The GMB has specific responsibility for agreeing the capital requirements and ensuring that the ORSA is considered when making any strategic decisions.

Group Capital Team

The Group Capital Team is responsible for the development and ongoing maintenance of the internal model that is used in the quantification of the material risks. The internal model is used to calculate the internal capital requirements for the business planning period.

Internal Model Governance Group (IMGG)

The GMB has authorised an IMGG who provide oversight, challenge and approval of all elements of the internal model. The Group is chaired by the Group CFO and comprises members of Group Risk, Group Capital and the Actuarial Function.

Their responsibilities include providing support, challenge and a level of authorisation for model development, use, change, validation and data.

Business Unit Leaders

The heads of each SBU are responsible for the local management of risks which is evidenced by the maintenance of their risk profiles. This is part of the process whereby management ensure that there is an ongoing process for the identification, assessment, management and reporting of the risks posed to their business objectives.

They have responsibility for ensuring that they are aware of the key risks relating to their SBU and to the Group and that they are being appropriately managed – with risks having an organisation-level impact being appropriately escalated to the relevant risk committees.

Group Internal Audit

GIA will include the ORSA process and report within the Group risk universe and audit the process at a frequency appropriate to the risks offered.

External Review

External bodies will be requested to carry out a review of the ORSA process in its entirety or the individual contributing processes, and report as required by the Board.

Frequency of review

The ORSA process will be carried out at least annually. The ORSA will also be re-run, either in full or partially, upon the occurrence of any of the following events:

- major changes to the Group's internal model or business plan;
- material changes to the Group's risk profile;
- material changes to the business strategy and business model;
- external events that have a material impact on the Group's ability to deliver its business plans;
- a material change in the liability portfolio of the Group;
- a reduction in solvency ratios or a reduction of solvency levels below the early-warning levels set out in the risk appetite;
- any other event deemed applicable by the Group CEO, CRO, GMB or the GRC; and
- implementation of a major change to the internal model.

Material is defined as something which could have a significant impact on our business decision making and should be interpreted consistently with the Materiality Policy. This is both for one factor in isolation and when aggregated. The business and Group Risk will assess materiality and implement a mechanism for identifying when breaches occur.

The ORSA will be updated quarterly on an approximate basis and an update provided to the Board within the CRO Report. An annual frequency is deemed sufficient for carrying out a full ORSA due to the stable nature of the business model, maturity of the risk framework and surplus capital held.

Each ORSA report is reviewed and approved by the GMB and GRC, who make a recommendation for final approval by the Board.

Determination of own solvency needs

The ORSA process integrates the Group's risk management, business planning and capital management activities. Key steps in the process are:

- establishing and maintaining the operation of the Group's Risk Management Framework, including policies and the risk appetite;
- assessment of the current risk profile of the business and monitoring of tolerances and limits to ensure adherence to the risk appetite. This provides a context for business planning;
- a forward-looking risk assessment, including identification of emerging risks;
- a business plan for the chosen time horizon that has been derived with reference to the risk appetite, the risk profile of the business and optimal use of capital;

- identification of the impact of the proposed business plan on the risk profile of the business over the plan horizon. This should cover all risks in the business, both short-term and long-term, and include any risks not covered in the capital models;
- a stress-testing and scenario analysis framework, including reverse stress testing, with assessment in context of the proposed business plan;
- assessment of the capital required to carry out the business plan, particularly the own funds necessary to ensure that the Group will continue to meet regulatory and internally assessed capital requirements at all times over the plan period;
- assessment of the risk profile in comparison to the assumptions underlying the calculation of the regulatory capital requirements;
- consideration of how any shortfall in capital might be addressed and the likelihood of success; and
- assessment of the adequacy and quality of the risk management environment.

B.4 Internal control system

Internal control system

Internal control is defined as the system, implemented by the Board and GMB, which ensures that the Group is managed efficiently and effectively, with appropriate policies and business processes designed and implemented to help ensure that the business objectives are achieved, and that risks are managed in line with the Risk Appetite and Risk Framework.

The Control Framework, which sits within the overarching Risk Framework, requires the establishment of controls to meet the following key objectives:

- delivery of business strategy and objectives: supporting the effectiveness and efficiency of operations and core processes;
- reliability of financial reporting: to ensure the reliability, accuracy and quality of financial information, and to mitigate the risk that inaccurate management information is used to make business decisions or is reported externally;
- internal Model: to ensure the quality of model outputs used for decision-making;
- compliance with applicable laws and regulations: to ensure that there is compliance with all relevant Regulatory and legal requirements, and to external standards which the Group complies with; and
- reputation: to ensure that the whole system of control is designed in such a way as to ensure the Group operates to the ethical standards established by the Board, thereby protecting the Group's reputation with customers, regulators, investors and other external parties.

The Control Framework comprises the following elements:

- **Control Environment:** a business culture that recognises the importance of systems of control whereby senior management establish the operational environment to maintain effective controls, ensuring there are adequate resources to operate the control framework to required standards;

- **Control Standards:** a policy framework that establishes the Board and GMB's minimum standards for the mitigation of risk within the stated Appetite;
- **Control Activities:** business processes that include control activities designed to mitigate risks to the level required to meet the control objectives;
- **Monitoring Activities:** establish and maintain periodic and regular monitoring of controls aligned to their materiality, to ensure that they are fit for purpose both in design and operation. This includes monitoring of individual controls by business owners and oversight and assurance activities undertaken by second and third line functions (Risk, Compliance and Internal Audit);
- **Training and Communication:** effective communication of required control standards and adequate training to ensure those operating or monitoring controls can do so effectively;
- **Recording:** certain controls are documented to ensure the process could be replicated if required, and a person undertaking monitoring or oversight could understand the design and intended operation of the control. Documentation could take the form of a specific control or process document, or might be included in the risk register; and
- **Reporting:** open and complete reporting of material control effectiveness to allow appropriate decision-makers to understand whether control objectives are being met and whether actions need to be taken to strengthen the control environment, which could include removing ineffective or inefficient controls as well as adding new ones.

Compliance function

Ecclesiastical Insurance Group operates a Group Compliance Function that has oversight of all companies, subsidiaries and branches. This function sits in the second line of the Group's three lines of defence governance system and is responsible for:

- identifying, assessing, monitoring and reporting on Ecclesiastical Insurance Groups compliance risk exposures;
- assessing possible impact of legal and regulatory change and monitoring the appropriateness of compliance procedures; and
- assisting, supporting and advising Ecclesiastical Insurance Group in fulfilling its responsibilities to manage compliance risks.

The activities and responsibilities undertaken and by Group Compliance are set out in the Group Compliance Charter and those policies where it has delegated responsibilities. These set out how the roles and responsibilities interact with the operational and support functions of the Group as well as with the GMB and GRC. The Charter applies to all Group subsidiaries, branches and external service providers.

The objectives of the Group Compliance team are specified within the Charter, including:

- regulatory compliance;
- risk assessment;
- control framework;
- monitoring;

- training, advice and support;
- policies;
- event reporting and Investigation;
- board reporting;
- regulator and market engagement;
- financial crime and data protection;
- sanctions; and
- security and data governance.

The Charter also sets out key performance measures to assess the effectiveness of Group Compliance. These include but are not limited to:

- production and performance of an annual Compliance Monitoring Plan;
- production and review of compliance related policies and standards;
- delivery of compliance induction training, completion of annual compliance themed e-learning modules, and thematic training for all levels of staff including the Board;
- identifying emerging legal and regulatory obligations and keeping up to date the Legal & Regulatory Library;
- production and performance of thematic reviews and compliance benchmarking;
- delivery of periodic reporting and MI to Board including an annual Money Laundering Reporting Officer (MLRO) report; and
- Performance of regular Sanctions screening and reporting of sanctions breaches and suspicious transactions;

The Group Compliance function gains its authority from the GRC which is a committee of the Board and the Group Compliance Director is accountable to the Chairman of that Committee.

B.5 Internal audit function

Implementation of the internal audit function

GIA receives its authority from the GAC, which is a committee established to review the work of the internal audit functions of the Group and to evaluate the adequacy and effectiveness of all controls operating in the Group, including financial, operating, compliance, and risk management controls.

Adequate and effective risk management, internal control, and governance processes reduce but cannot eliminate the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented or overridden and the occurrence of unforeseeable circumstances. Adequate and effective risk management, internal control, and governance processes therefore provide reasonable, but not absolute, assurance that the Group will not be hindered in achieving its business objectives, or in the orderly and legitimate conduct of its business.

GIA maintains a professional audit team with sufficient knowledge, skills, experience and professional qualifications. Where specialist, technical support is necessary to supplement GIA resource, this is available through a co-sourcing contract with an external professional services company, ensuring that GIA has immediate access to specialist skills where required. GIA confirms to the GAC that the International Standards for the Professional Practice of Internal Auditing of the Chartered Institute of Internal Auditors are complied with.

GIA operates within the Group's three lines of defence model. In order to operate an effective framework GIA maintains regular and ongoing dialogue with the first and second line functions to maintain a current and timely perspective of business direction and issues.

Demarcation between the third line of defence and the first two lines must be preserved to enable GIA to provide an independent overview to GAC and the Board on the effectiveness of all risk management and assurance processes within the Group. Should any blurring of the roles of the three lines of defence take place it should be exceptional and approved by the GAC.

The GIA methodology provides a series of different assurance responses to a variety of scenarios to give the stakeholders the best assurance as follows:

- Risk-based internal audits - GIA's standard audit response, this methodology will also be used to respond to most management requests for assurance and focuses on assessing the adequacy and effectiveness of Key Controls mitigating High and Very High risks.
- Programme & Project Assurance - A series of risk-based assurance responses to programmes & projects. This differs from standard risk-based audits in that it focuses on key controls as well as the commercial aspects of the programme, such as benefits realisation.
- Consultancy - Completing a piece of ad-hoc work for management, usually around the development of controls in a specialised area. Such work may be characterised by the need to formally contract with the business to assist in control development. GIA will rarely perform these pieces of work as it could potentially compromise the independence of the GIA function.

These are communicated through the following methods:

- Reporting to the GAC, including thematic reporting. Quarterly reporting is provided to the GAC, where the Director of GIA attends GAC meetings to summarise the output within the reporting period and provide an opinion on a number of key risk themes.
- Internal Audit reports. In addition to the audit client, internal audit reports are issued to all executive management and members of the GMB and the external auditor. Reporting of issues focuses on describing the control breakdown or failure, who was responsible and the risk that has materialised or could potentially materialise.

In response to the issues raised by GIA, management are required to document the steps they are taking to address the issue, provide a realistic timescale and, importantly, ensure that the action is assigned a single owner to enhance accountability.

Independence of the internal audit function

To provide for the independence of GIA, the Director of GIA is accountable to the GAC Chairman, reports administratively to the Group CEO and has access to the Chairman.

Financial independence, essential to the effectiveness of internal auditing, is provided by the GAC approving a budget to allow GIA to meet the requirements stated above.

GIA is functionally independent from the activities audited and the day-to-day internal control processes of the Group and is therefore able to conduct assignments on its own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function, including the activities of branches, subsidiaries and outsourced activities.

The Director of GIA and staff of GIA are not authorised to perform any operational duties for the Group or direct the activities of any employee not employed by GIA.

Persons transferred to or temporarily engaged by GIA are not assigned to audit those activities they previously performed until at least one year has elapsed. Furthermore, the demarcation between the third line of defence and the first two lines must be preserved to enable GIA to provide an independent overview to GAC and the Board on the effectiveness of all risk management and assurance processes in the Group. Should any blurring of the roles of the three lines of defence take place, it should be exceptional, and approved by the GAC.

B.6 Actuarial function

Implementation of actuarial function

General Business

The Actuarial Function is headed by the Actuarial Function Director, who is an experienced qualified actuary, holding an Institute of Actuaries Chief Actuary certificate, accountable for the delivery of the Actuarial Function's objectives. The Actuarial Function resides within the Group Finance area of the Group, and as such reports to the CFO.

The Actuarial Function Director uses other actuarial and appropriately experienced resources to discharge his responsibilities, ensuring an appropriate level of independence between those carrying out activities and those reviewing work.

The Actuarial Function's key areas of responsibility are:

- to provide oversight and co-ordinate the calculation of the technical provisions, ensuring appropriateness of data, assumptions, methodologies and underlying models used;
- to give an opinion on the technical provisions to the Board, including assessing the sufficiency and quality of the data used, Informing the Board of the reliability and adequacy of the calculation and comparing best estimates to experience;
- to give an opinion on the adequacy of pricing and underwriting to the Board;
- to give an opinion on the adequacy of reinsurance arrangements to the Board as an efficient means to manage risk;

- to contribute to the technical framework, governance and use of the internal capital model; and
- to contribute to the effective implementation of the risk management system.

Life Business

The actuarial function is headed by the Chief Actuary, who holds a Life Chief Actuary Practising Certificate issued by the Institute and Faculty of Actuaries.

Resource for carrying out actuarial work is obtained both internally and from an external actuarial consultancy. Peer review is undertaken by an external actuarial consultancy.

The primary responsibility of the actuarial function is the co-ordination of the calculation of the technical provisions and value of insurance liabilities for the purposes of both the Group's accounts and in meeting the regulatory requirements under SII. It recommends bases for calculations which, when approved by the Board, are used to derive the results. To support this activity the actuarial function carries out investigations of experience, most notably for mortality, and compares outcomes to assumptions used in calculations of technical provisions.

The actuarial function is responsible for assisting the risk management function in assessment of risk and ensuring that the Board is provided with sufficient information to understand and oversee the management of material risks exposures. In particular, the actuarial function will assess the asset and liability matching position of ELL and recommend any changes necessary to remain within risk appetite.

B.7 Outsourcing

Outsourcing policy

The Group's policy is to only outsource services on an exceptional basis. Outsourcing is considered when reviewing the operational effectiveness and business requirements of meeting the needs of customers and whether these can be better delivered from outside the organisation by specialist providers, subject to maintaining the integrity of the Group's compliance with financial and other regulation.

The Group remains responsible and accountable for any activities it has outsourced and a defined framework and detailed processes and controls are in place for the appointment and management of contracting parties.

A detailed specification and risk assessment is carried out before inviting tenders, critical assessment of the capacity and ability of shortlisted suppliers takes place and their business continuity and information security practices are assessed against the Group's risk appetite.

Comprehensive written contracts are entered into with accountability for managing the delivery against the contract being clearly assigned to an individual manager within the Group along with a Senior Executive as ultimate owner. Exit and contingency plans are documented as part of the selection and appointment process.

Outsourcing of critical or important functions or activities

The Group has outsourced services in respect of the provision of legal expense and motor claims handling, medical and travel insurance services and equipment breakdown cover. All outsourced providers operate from within the United Kingdom.

Intra-group outsourcing

The Group's investment management activity is outsourced to a subsidiary company, EdenTree, with a detailed investment management agreement in place. The Group and EdenTree outsource Trustee services and Custodian and Dealing services.

The majority of staff and supporting services are provided by EIO, and allocated around the Group as appropriate.

B.8 Any other information

There is no other material information to report regarding the system of governance of the Group.

C. Risk profile

C.1 Insurance risk (underwriting risk)

Insurance risk exposure

General Business

The most material elements of the Group's insurance risk are:

- Reserving Risk – the risk that claims payments exceed the amounts held in claims reserves; this is currently the most significant insurance risk for the Group.
- Underwriting Risk – the risk of claims and expenses exceeding premium income for exposure during the next accident year.

Reserving risk

Reserving risk is the risk of actual claims payments exceeding the amounts held in claims reserves and may emerge at any time until final claim settlement, so can be long-term in nature, particularly for liability business. The Group's risk assessment and measurement is carried out on an ultimate basis, including allowance for all future deterioration.

Latent reserving risk, such as Physical and sexual abuse (PSA) and asbestosis claims, has a high level of uncertainty, particularly relating to volumes of future claims arising from historic periods of exposure, giving potential to affect the future profits and capital position, though conversely it might give releases to enhance profits.

Non-latent reserves represent a relatively lower risk due to the nature of the claims, but also the mix of business, which helps diversify the risk of deterioration in its run-off. Liability covers present a higher reserving risk than shorter-tail property classes.

There have been no material changes to reserving risk during the year.

Underwriting risk

The underwriting risk for the Group is most heavily influenced by property exposure, including catastrophe risk. Despite catastrophe risk being mitigated by a robust and effective reinsurance programme, the Group remains exposed to significant residual risk due to the potential risk of aggregation (a number of small events), spanning several perils or territories, and the potential costs of reinstating cover.

The most material non-catastrophe underwriting risk is driven by an aggregation of liability losses where reinsurance cover is in place only for the very largest of claims. Other key risks include poor premium rates, poor weather experience and the occurrence of several large property losses.

There have been no significant changes to the risk exposures over the reporting period.

The Insurance Risk Committee, chaired by the Group Underwriting Director, is responsible for the oversight of the non-life insurance risks of the Group.

The Committee reports to the GRC and provides challenge on the management of their insurance risks and monitors overall risk exposure. There are also Centres of Excellence which aim to disseminate best practice and ensure a consistency of approach where appropriate.

Life Business

The Group is exposed to only a limited level of life business insurance risk. Nearly all of the policies pay a benefit on death of the life assured to provide payment for a funeral. In the current interest rate environment the reserve held for each policy is in excess of the current benefit levels. As benefit amounts increase with inflation there is a risk that the population of lives assured survive longer than assumed in the reserving calculations and that an inflation-linked return cannot be achieved on the assets backing the reserves held.

With the Group no longer underwriting new life insurance policies the nature of life business insurance risk that it is exposed to does not change over time. The risk exposure is measured as part of the ongoing process of valuation of the Group's liabilities and the mortality experience of the portfolio is investigated annually.

Over the year there has been no significant change in the risk exposure.

Insurance risk concentration

General Business

The Group's business model gives rise to a number of risk concentrations. As a specialist niche insurer the Group writes predominantly property and casualty business concentrated in a small number of clearly defined niches. The focus on certain niches, specifically faith and education, does give rise to a concentration in respect of PSA risks.

Geographical concentrations arise through operations focused in the territories in which insurance operations are based.

Concentrations arising in high-risk natural hazard zones can arise overseas although these are carefully monitored. For example, specific attention is given to exposure in British Columbia and Quebec West/Eastern Ontario in view of the earthquake risk associated with these locations.

Life business

All policies have been underwritten in the United Kingdom on lives of older UK residents, but there is no identified further concentration of risk.

Underwriting risk mitigation

General business

Reinsurance is a key tool for the Group in mitigating general business insurance risk. Reinsurance programmes are arranged at both local and Group levels.

Accumulation of property insurance risk in a single area is tracked using mapping software supplied by our reinsurance brokers. Referral to senior management is necessary to increase exposure in defined areas where the largest concentrations of risk have been identified.

Life business

This risk has overlaps with market risk as it relates to reinvestment risk in the event of increased longevity. The primary technique for mitigating this risk is to match assets to expected duration of payment. This position is monitored at least annually by the Actuarial Function who will also monitor the Group's and the wider population's experience to ensure that reserving assumptions remain appropriate.

Insurance risk sensitivity

General business

Stress tests have been carried out to assess the impact of the following:

- Claims Deterioration - Several large property claims plus an unexpected increase in attritional liability claims causes deterioration to both current year experience and prior year reserves
- PSA Claims - claims volumes deteriorate
- Reinsurance Rates – A global catastrophe (or other reason) causes a significant reduction in capacity increasing reinsurance costs across the board
- Catastrophe – A large December windstorm followed by several smaller ones disproportionately affecting the Group.

Each of the scenarios were run at the level of the group and stressed the base position of the 2015 year-end balance sheet and the 2015-16 plan outcomes and looked at the stressed position at the end of 2016 and 2017. The stresses were calibrated to a level believed to represent approximately a 1-in-20 likelihood.

These scenarios have a generally modest impact with increasing reinsurance rates having the least impact on short to medium term solvency. The conclusion is that the Group's solvency coverage is resilient to these adverse scenarios.

Life business

Sensitivity analysis is carried out to identify the immediate impact on technical provisions in the event of a reassessment of longevity rates, an increase in unit per policy expenses and higher than expected expense inflation.

These concluded that the both ELL and the Group is able to remain comfortably solvent in the event of such stresses.

C.2 Market risk

Market risk exposure

Market risk is the risk that the Group is adversely affected by movements in the value of its financial assets arising from a change in interest rates, equity and property prices, credit spreads or foreign exchange rates. The most material market risks that the Group is exposed to are:

- *equity risk* - with a significant proportion of funds being invested in such stocks;
- *currency risk* - arising from investment in overseas equities in order to provide diversification and gain from opportunities in different economies and from the value of surplus assets held in overseas operations;
- *spread risk* - arising from the possibility of changes in market spreads of corporate bond yields over risk-free rates and also default risks for such stocks;
- *interest rate risk* – while liabilities are generally well matched by duration with fixed-interest stocks, there is a risk of falls in value of stocks held in surplus funds in the event of rises in interest rates; and
- *property risk* - arising primarily from direct investment in a portfolio of commercial property in the United Kingdom, the risks are a fall in market value of the property and voids in rental income.

In addition to exposure to market risks from its own assets, the Group is also exposed to market risk in a defined benefit pension scheme. The main risk exposures arising in the pension scheme are equity risk, currency risk, interest rate risk, spread risk, property risk and inflation risk.

Although the impact of the 'Brexit' decision caused a fluctuation in investment fair values and currency exposure, the net impact on the Group's solvency cover was not material. Throughout the year, there has been no material change in the Group's gross exposure to market risk.

Compliance with prudent person principle

The Group sets out mandates to its investment managers specifying the types of assets that it wishes to invest in. This only permits acquiring assets where the risks are well-understood and does not allow complex asset structures. Regular investment risk reports are provided from the asset managers that enable the Group to fully understand the risks in the assets.

Limits are placed on the proportions of assets that can be invested in the various asset classes, countries and industry sectors, exposure to single counterparties and quality of issuers. These limits are tracked regularly. No investments in non-standard assets are permitted without approval by the Finance & Investment Committee of the Board. The level of such investments is currently less than 4% of overall assets.

Assets to cover all liabilities and any local capital requirements are held in the relevant matching currencies and held in those countries. The assets are managed so that a notional portfolio backing technical provisions is held which has appropriate levels of liquidity and durations appropriate to match those of the liabilities.

Derivatives held over the reporting period have been used only for the purpose of management of risk exposures for both equity risk and currency risk.

All investment risk exposures are monitored regularly, overseen by the Group Market and Investment Risk Committee and reported to the GRC of the Board as appropriate.

Market risk concentration

The majority of the Group's market risk exposure is located in the UK. The largest exposure is to the UK government, with 11% of total investments being in UK gilts. There are no other material concentrations of market risk as the portfolio is well diversified.

Market risk mitigation

The Group has used derivatives to mitigate equity risk by reducing the effective exposure to equity markets when the assessment of market conditions has resulted in a temporarily reduced appetite for bearing this risk. At the end of 2016, the Group held short positions on futures, linked to both the FTSE 100 and FTSE 250, to protect against falls in those indices. The regular investment performance and risk reports provide information that allows assessment of the effectiveness of these holdings.

Interest rate risk is partially mitigated by holding assets of appropriate duration to back some of the technical provisions so that in the event of changes in market yields, resultant movements in liability discount rates will ensure that relevant asset values and liability values move in the same direction, so mitigating the net overall impact. The matching cashflow position in the General Business Funds is monitored as part of the investment strategy review each year and adjusted as determined to be appropriate. In ELL the matching of cash-flows of assets and liabilities is monitored regularly and the assets held changed as necessary to maintain sufficiently close matching.

All liabilities are matched with assets in the same currency, so mitigating currency risk. During the year, currency futures were purchased to further mitigate the risk exposures to foreign currency arising from investments in overseas equities and the value of surplus assets held in overseas operations. These derivatives were held at the year-end and it is intended that such risk mitigation will continue going forward.

Market risk sensitivity

Stress-tests have been carried out to assess the effect of adverse changes in market conditions on the profits and solvency position of the Group. This includes falls in equity markets, changes in interest rates, widening of spreads on corporate bonds and defaults of the largest counterparty.

In addition a scenario has been investigated that considers the impact of an economic downturn which includes adverse impacts on all asset classes and consequent effects on the Group's business. This concluded that while the Group is able to remain comfortably solvent in the event of such stress, actions would need to be taken to protect the Group's business model.

C.3 Credit risk

Credit risk exposure

The most material credit risk that the Group is exposed to is reinsurer default risk arising from default of one or more reinsurance counterparties.

The assessment of this risk is measured using the Group's internal model that applies assumed default risk parameters based on exposure to individual reinsurers, credit ratings of those reinsurers and assumed default rates and subsequent recoveries calibrated using historic data.

The Group is also exposed to premium debtor default risk and cash at bank default risk, and although these risks are not considered material they are also quantified within the Group's internal model.

There have been no material changes to the exposures over the reporting period.

Credit risk concentration

The largest individual reinsurance balance owed at 31 December 2016 in respect of reinsurers' share of claims outstanding was less than £13m. The Group's largest exposure to a single reinsurer group in the event of a 1 in 200 catastrophe event is estimated to be 11% of total expected reinsurance recoveries.

Credit risk mitigation

The Group has a wide, well-diversified panel of reinsurers, so diversifying the risk exposure. The Group only uses reinsurers with strong credit ratings and all those participating are approved and monitored regularly by the Group's Reinsurance Security Committee.

The Group carries out due diligence assessments for brokers that have credit facilities, with ongoing monitoring of the credit status and experience of making timely payments.

The Group's risk appetite sets limits for the exposure to individual counterparties for cash deposits. These depend on the credit ratings of the counterparties and exposures are monitored daily.

Credit risk sensitivity

A stress-test has been carried out to identify the impact of the default of a major reinsurer resulting in the Group being unable to recover 10% of reinsurance claims during a year. While this would harm underwriting profit for a year and cause a small reduction in solvency cover it would not cause severe or sustained damage to the Group.

C.4 Liquidity risk

Liquidity risk exposure

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

Assessment of this risk is primarily carried out by scenario analysis considering cash-flows that would emerge in stressed circumstances. The scenario that is most likely to cause such issues would be a need to make substantial claims payments after an extreme catastrophe event, though this is mitigated by agreements for reinsurers to pay their recoveries prior to the Group paying claimants. The risk is further mitigated by holding most assets in highly liquid investments.

Liquidity risk concentration

The Group holds a wide range of liquid investments, the largest counterparty being the UK Government. The overall assessment is that no liquidity risk concentrations are considered to be material.

Liquidity risk mitigation

The Group carries out regular forecasts of future expected cash-flow requirements and maintains cash balances that are sufficient to cover these for several months in normal conditions in local currencies for all territories in which it has material business operations. Over 85% of the Group's investments are held in highly liquid assets so should be readily accessible in stressed circumstances.

In the event of a catastrophe event resulting in a large number of claims, which is the most likely situation causing higher than normal liquidity needs, the Group's arrangements with reinsurers are made on the understanding that they will make payment of their proportion of the claim in advance of or simultaneously with payment to policyholders.

Liquidity risk sensitivity

The nature of the Group's liquidity risk means that it will not be a concern in any other than the most severe circumstances. A scenario analysis has been carried out that demonstrates that in an extreme event of two large catastrophe events occurring within a short period, with delays in recovering payments from reinsurers, the Group's liquidity position remains robust.

Expected profit in future premiums

General business

Expected profits in future premium are calculated using the expected combined operating measure derived from realistic business plans and applied to the future bound premium, including current premium debtors. The result is apportioned to line of business using the profile of premium written.

The total amount of the expected profit included in non-life future premiums as calculated in accordance with Article 260(2) of the Delegated Act is £3,938k

Life business

The total amount of expected profit included in future life premiums is £10k.

C.5 Operational risk

Operational risk exposure

The Group defines operational risk as "the risk of loss arising from inadequate or failed internal, processes, people and systems, or from external events". The definition includes conduct of business, other aspects of compliance and legal risk but excludes strategic and reputational risks which are considered separately. Legal risk includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements.

Given the nature of the Group's business it is exposed to a number of different types of operational risk which at a high level can be categorised as:

- people risk;
- systems risk;
- process risk;
- regulatory risk;
- legal risk; and
- external environmental factors.

The key operational risks identified include people, systems, regulatory, legal, financial crime, cyber and conduct of business. These risks have not changed significantly during the year although the level of external threat from cyber continues to evolve across the industry.

Operational risk concentration

With respect to operational risk concentration, there are a number of key systems that support business operations, specifically including underwriting and claims management. This naturally creates an operational risk concentration. Given the efficiencies to be gained from shared systems, this concentration will remain over the short to medium term and has been accepted, although is being regularly monitored.

Operational risk mitigation

The Group accepts operational risk as a natural consequence of doing business. Mitigation techniques with respect to operational risk centre on the use of preventative and detective controls. Preventative controls are sought to either avoid a particular risk materialising or lessening its impact if it does. Detective controls also provide value in helping to flag that a risk exposure is changing or is impacting business activities in a particular way. This allows corrective actions to be taken or planned to ensure that the risk exposure will not threaten the achievement of the strategic objectives of the Group.

A Group Operational, Regulatory and Conduct Risk Committee has been established to provide oversight of the relevant risks across the Group.

In respect of regulatory and legal risk, this is managed by maintaining a strong ethical culture, an effective governance infrastructure and a proactive compliance function.

Conduct risk has long been considered an important risk, and part of the wider regulatory and legal risk universe. Customer promises have been developed and a robust proposition review process ensures that the customer is at the heart of all activities and that products and services are developed, distributed and maintained ethically, transparently and offering value for money.

Information security risk and specifically cyber risk are also key operational risks for the Group. Cyber risk is a critical risk due to the ever changing types and increased levels of malicious attack seen in all industries. This risk is managed by a wide-ranging set of preventative and detective controls which are under constant review and the Group has a dedicated 2nd line Cyber Security Officer.

Operational risk sensitivity

Stress-testing and scenario analysis is used to identify the qualitative and quantitative impact of various operational risks crystallising that could have an adverse impact on the achievement of divisional or corporate objectives.

Each scenario is designed to be as realistic as possible and may examine individual or multiple stresses occurring simultaneously. Each scenario examined is extreme but also reasonably foreseeable as part of future developments, e.g. within the 1 in 200-year range of probability as consistent with calibration of insurance companies' regulatory capital requirements.

These scenarios have a generally modest impact on short to medium term solvency. The conclusion is that solvency coverage is resilient to quite extreme adverse operational risk scenarios.

C.6 Other material risks

Other material risk exposure

The other material risks that the Group is exposed to are strategic, group and reputational risk.

Strategic risk relates to risks associated with the effective development and ongoing implementation of the strategy. It also covers wider risks relating to the competitive and macro environment. These risks are not explicitly covered in the capital requirements which are all based on more extreme, lower likelihood, higher impact events. The Group is naturally exposed to the risk of failing to develop or implement an appropriate strategy for the business. This could arise from a failure to adequately identify or assess the threat presented by competitors, failure to fully understand our markets or setting a strategy without due regard to the capability within the Group.

Group risk relates to exposures resulting from operating as a Group. One particular risk that applies due to being a group is contagion risk, the impact of an event in one part of the Group may impact other companies within the Group.

Reputational risk relates to exposures that would result in negative reputational impacts upon the Group were they to occur. Reputational risks are often attached with other risk types. For example, a regulatory breach (operational risk) will have reputational risks associated with it.

The Group's system of governance covered in section B helps to mitigate these risks.

There are no material risk concentrations and these risks have remained largely unchanged over the reporting period.

C.7 Any other information

There is no further material information regarding the risk profile of the Group.

D. Valuation for solvency purposes

All material asset and liability classes other than technical provisions have been valued in accordance with Article 75 of the Directive and Articles 7 to 16 of the Delegated Act, taking into account the following European Insurance and Occupational Pensions Authority ('EIOPA') publications:

- EIOPA-BoS-14/170 – Guidelines on treatment of related undertakings, including participations
- EIOPA-BoS-15/113 – Guidelines on recognition and valuation of assets and liabilities other than technical provisions

Technical provisions have been valued in accordance with Articles 76 to 86 of the Directive.

Material assets and Liabilities are defined as assets and liabilities that are valued in excess of £5.4m (Equivalent to 1% of International Financial Reporting Standards (IFRS) net assets).

As permitted by Article 9 of the Delegated Act, the valuation of assets and liabilities are based, where appropriate, on the valuation method used in the preparation of the annual financial statements. The financial statements have been prepared in accordance with IFRS and audited by external auditors.

International Accounting Standard (IAS) 39, Financial Instruments: Measurement and Recognition, requires the classification of certain financial assets and liabilities into separate categories for which the accounting requirement is different.

The classification depends on the nature and purpose of the financial assets and liabilities, and is determined at the time of initial recognition. Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification.

Financial instruments designated as at fair value through profit or loss and hedge accounted derivatives under International Financial Reporting Interpretations Committee (IFRIC) 16 are subsequently carried at fair value.

All other financial assets and liabilities are held at amortised cost using the effective interest method, except for short-term receivables and payables where the recognition of interest would be immaterial.

The Directors consider that the carrying value of those financial assets and liabilities not carried at fair value approximates to their fair value.

D.1 Assets

Solvency II valuation of assets

A copy of the quantitative reporting template (QRT) 'S.02.01.02 – Balance sheet' is included in Appendix 1 and shows a list of assets by class as reported in the annual QRT of the Group.

The table below shows a summary of assets held:

SII valuation of assets	2016
	£'000
Reinsurance recoverables	112,207
Deferred tax assets	1,329
Pension benefit surplus	144
Property, plant & equipment held for own use	8,330
Investments: Property (other than for own use)	125,284
Participations	22,631
Equities, Bonds, investment funds & other	861,066
Derivatives	5,216
Deposits other than cash equivalents	19,031
Loans & mortgages	2
Insurance & intermediaries receivables	3,092
Reinsurance receivables	108
Receivables (trade, not insurance)	6,346
Cash and cash equivalents	70,017
Any other assets, not elsewhere shown	70
Total assets	1,234,873

Deferred tax assets

The calculation of deferred tax is based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is measured using tax rates expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled based on tax rates and laws which have been enacted or substantively enacted at the year-end date.

For SII, deferred tax has been recalculated to take into account the valuation differences between the financial statements and the SII valuation of assets and liabilities. As this timing difference is not expected to reverse in the foreseeable future, the tax rate used is the same as that used in the financial statements.

Reinsurance recoverables

The valuation of reinsurers' share of technical provisions is covered in section D.2.

Pension benefit surplus

EIO is entitled to a share of the residual balance of a pension fund. This balance is in the form of a cash deposit with a bank, and as cash balances are not subject to a significant risk of change in value, is considered to be held at fair value.

Property plant and equipment held for own use

This category can be further analysed into the following classifications:

Analysis of property, plant & equipment held for own use	2016
	£'000
Property improvements, fixtures and fittings & computer equipment	4,342
Owner occupied property	2,565
Motor vehicles	1,423
	8,330

Property improvements, fixtures and fittings and computer equipment are valued in the annual financial statements on an amortised cost basis. As these assets pass impairment reviews and continue to deliver an economic benefit to the Group, which is reflected in their IFRS carrying value, this is assumed to be an acceptable approximation of fair value. A proportional approach has been taken as any discrepancy between their SII economic value and their IFRS value would not be material.

A valuation of owner-occupied property is undertaken by an external valuer every three years for the annual financial statements. As any change in value through using a more frequent annual valuation would not be material, no adjustment to this value is made for the SII valuation.

Motor vehicles are valued on an amortised cost basis in the annual financial statements. There are currently approximately 100 vehicles and it would be onerous to have every vehicle independently revalued annually. To establish if there is a material variance between economic value and amortised cost, a sample of 20 cars of varying age and type has been valued using an independent on-line valuation service.

Although the size of difference between the two valuation bases varied from vehicle to vehicle, in total the sample valuation was within 5% of the amortised cost. Considering proportionality, it was felt that the discrepancy arising from using amortised cost rather than fair value for motor vehicles was immaterial, and therefore it was acceptable to conclude that amortised cost was an acceptable approximation of fair value, and include motor vehicles in the SII balance sheet on that basis.

Investments - overview

The fair value measurement basis used to value investments held at fair value is categorised into a fair value hierarchy as follows:

Level 1: fair values measured using quoted bid prices in active markets for identical assets. This category includes listed equities in active markets, listed debt securities in active markets and exchange-traded derivatives.

Level 2: fair values measured using inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes listed debt or equity securities in a market that is not active and derivatives that are not exchange-traded.

These financial assets are valued using third-party pricing information that is regularly reviewed and internally calibrated based on management's knowledge of the markets. Where material, these valuations are reviewed by the GAC.

Level 3: fair values measured using inputs for the asset that are not based on observable market data (unobservable inputs). This category includes unlisted debt and equities, including investments in venture capital, and suspended securities. Where a look-through valuation approach is applied, underlying net asset values are sourced from the investee, translated into the Group's functional currency and adjusted to reflect illiquidity where appropriate, with the fair values disclosed being directly sensitive to this input.

Investments - property

Investment property comprises land and buildings which are held for long-term rental yields and is carried at fair value. Investment property is valued annually by external qualified surveyors at open market value.

Investments – participations (subsidiary undertakings)

As all the subsidiary undertakings that are not fully consolidated are unlisted companies, the preferred SII valuation method of using quoted market prices as required by Article 13(1)(a) of the Delegated Act is not possible.

The alternative method has therefore been adopted whereby each subsidiary undertaking's assets and liabilities are valued on a SII basis and the resulting value recognised using the adjusted equity method in accordance with Article 13(1)(b).

Investments – derivatives

All derivatives are initially recognised at their fair value, which usually represents their cost, including any premium paid. They are subsequently re-measured at their fair value, with the method for recognising changes in the fair value depending on whether they are designated as hedges of net investments in foreign operations. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

The Group's derivative contracts are not traded in active markets. Foreign currency forward contracts are valued using observable forward exchange rates corresponding to the maturity of the contract and the contract forward rate. Over-the-counter equity or index options and futures are valued by reference to observable index prices.

Investments – deposits other than cash equivalents

This comprises highly liquid investments with original maturities of more than three months. These balances are typically deposit balances with banks. As cash balances are not subject to a significant risk of change in value, they are considered to be held at fair value.

Loans and mortgages

Loans are carried at amortised cost using the effective interest method, which is assumed to approximate to fair value. Loans are recognised when cash is advanced to borrowers. To the extent that a loan or receivable is uncollectable, it is written off as impaired.

Insurance & intermediaries receivables and reinsurance receivables

This comprises debtor balances past due. Due to the short term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value. Debtor balances that are not past due are future cash flows that form part of technical provisions as covered in section D.2.

Receivables (trade, not insurance)

This comprises trade debtor balances. Due to the short-term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value.

Cash and cash equivalents

Cash and cash equivalents include 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. As cash balances are not subject to a significant risk of change in value, they are considered to be held at fair value.

Any other assets

Intercompany debtor balances within the wider Group are shown as any other assets. The balances are repayable on demand, and the amortised cost is assumed to approximate to fair value.

Comparison of solvency II assets with valuation in annual financial statements

The table below summarises the difference between the financial statements' net asset value prepared in accordance with IFRS and the SII valuation, with a breakdown of the differences in the valuation of assets:

Reconciliation from IFRS to Solvency II valuation		2016	Unconsolidate	Reclassify to	2016	2016	Net
	As reported	non-insurance	aid	Reclassified	Solvency II	valuation	
	IFRS Basis	undertakings	comparison	IFRS	Valuation	difference	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Total Assets	1,590,314	(122,639)	(90,853)	1,376,822	1,234,873	(141,949)	
Total liabilities	1,054,091	(122,639)	(90,853)	840,599	762,002	(78,597)	
Net assets	536,223	-	-	536,223	472,871	(63,352)	
Breakdown of asset valuation differences							
Non-life technical provisions - Reinsurance recoverables	165,932	-	(3,066)	162,866	112,207	(50,659)	
Life technical provisions - Reinsurance recoverables	90,452	(90,452)	-	-	-	-	
Goodwill	44,244	(4,517)	-	39,727	-	(39,727)	
Intangible assets	11,335	(1,303)	-	10,032	-	(10,032)	
Deferred acquisition costs	30,705	-	-	30,705	-	(30,705)	
Deferred tax asset	3,075	(890)	-	2,185	1,329	(856)	
Investments: Participations	-	28,614	-	28,614	22,631	(5,983)	
Other	997,562	(1)	13,040	1,010,601	1,010,597	(4)	
Insurance & intermediaries receivables	70,605	29	(67,542)	3,092	3,092	-	
Reinsurance receivables	15,631	-	(15,523)	108	108	-	
Receivables (trade, not insurance)	38,219	(18,152)	(9,752)	10,315	6,346	(3,969)	
Loans & mortgages	17	(1)	-	16	2	(14)	
All other assets	122,537	(35,966)	(8,010)	78,561	78,561	-	
Total assets	1,590,314	(122,639)	(90,853)	1,376,822	1,234,873	(141,949)	

The table includes reclassification of certain IFRS assets and liabilities to aid comparability.

This has been done as items such as creditors arising from reinsurance contracts, which are included within other liabilities in the annual financial statements, are included within the valuation of reinsurance recoverables for SII provided they are not past their due date. Moving this balance from liabilities to assets removes the need to disclose the same difference in both assets and liabilities.

Assets that have no valuation difference are not itemised and are included within 'All other assets'. A small valuation movement has arisen on the elimination of intragroup transactions where differing deferred tax rates have been applied.

Technical provisions – reinsurance recoverables

The difference in valuation methodology of technical provisions is covered in detail in section D.2.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets and liabilities acquired at the date of acquisition. SII requires goodwill to be valued at nil.

Intangible assets

Intangible fixed assets are valued at amortised cost in the financial statements. For SII these assets have been valued at nil as amortised cost is not a permitted method of valuation and it is not practicable to obtain an independent valuation of these assets.

Deferred acquisition costs

For general insurance business, a proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs. Deferred acquisition costs are amortised over the period in which the related revenues are earned. For SII deferred acquisition costs have a nil value as they have no future cash flow and therefore have no fair value.

Investments – participations

The Group's IFRS consolidated financial statements fully consolidate all of the group's subsidiaries. Under SII, only insurance companies, insurance holding companies and ancillary service companies of the Group are fully consolidated. The value of the excess of assets over liabilities of the remaining subsidiaries is included in group assets using the adjusted equity method in accordance with Article 13(1)(b) of the Delegated Act. The table therefore includes a column where these subsidiaries are removed from the IFRS consolidation and included in 'participations' as a single value.

Key drivers for the differences in valuation of these subsidiaries are the removal of goodwill, intangible assets and prepayments.

Investments - other

Accrued interest of £4,855k included within 'receivables (trade, not insurance)' in the financial statements have been moved to investments as investment valuations are valued inclusive of accrued interest for SII. This is a presentational difference only with no change in value.

Insurance & intermediaries receivables and reinsurance receivables

Only amounts past their due date are included in insurance and intermediaries receivables and reinsurance receivables under SII as amounts not past their due date form part of technical provisions (See section D.2).

Receivables (trade, not insurance)

The valuation of non-insurance receivables for SII is the same as in the financial statements except for £3,969k of prepayments which have no economic value.

Loans and mortgages

£14k of paintings has been grouped with loans in 'loans and receivables' in the financial statements. As their economic value has not been verified, they have been valued at nil for SII.

Differences between group- and subsidiary- level valuation basis

There are no material differences in the bases, methods and main assumptions used at Group level for the valuation for SII purposes of the Group's assets compared with those used by the Group's subsidiaries for their own solvency purposes.

D.2 Technical provisions

Solvency II valuation of technical provisions and assumptions used

Non-life technical provisions

The non-life technical provisions (TPs) are calculated as a sum of best estimate and risk margin using a three-stage process of grouping data for homogeneous risks, selecting methodologies and setting assumptions which take into account the economic, underwriting and reserving cycles. The reserving process captures material factors via engagement and interaction across relevant business areas, particularly the claims and underwriting functions. These factors may not be inherent in the historical data, for example a change introduced to the claims management philosophy may impact the incurred development pattern going forward.

The reserving framework is structured such that sufficient oversight exists within the reserve setting process through reviews by key stakeholders within management, by the Actuarial Function Director, and ultimately by the Board via the GAC. This ensures there is an independent challenge to the process and results, and that future developments within the business are incorporated into the projections where appropriate.

Modelling methodologies and assumptions

An overview of the building blocks and methods of the TPs calculation is as follows:

Category	Building block	Description	Summary method
Claim provision – future cash flows on earned business	OCR	Outstanding Case Reserves (OCR) for reported claims.	Amounts are booked as recorded in the system data at the period end based on internal claims handlers estimates, plus amounts sourced from external parties where applicable (e.g. where claims handling is outsourced).
	IBNR	<p>Incurred But not Reported (IBNR) reserves to cover late reported claims (after the accident date) and future development in OCR to ultimate settlement.</p> <p>The mean ultimate cost includes Events Not in Data (ENID), which generally would not have been foreseen at the time of writing the policies.</p>	<p>A range of standard actuarial techniques are employed for IBNR ‘best estimate’ modelling of the average outcome based on relevant available data.</p> <p>The final method selected varies by the nature of the class and availability of reliable input assumptions, as described further below.</p> <p>Scenario analysis conducted with business experts is used to ensure sufficient ENID allowance considering the cover provided by policies and wider industry knowledge over potential emerging risks.</p>

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Category	Building block	Description	Summary method
	ULAE	Unallocated Loss Adjustment Expense, being expenses that will be incurred to manage the settlement of all claims relating to obligated business, where not already included in the OCR or IBNR projections	<p>Where claims-related expenses are not directly attributable to individual claims these are not included in the data used to project IBNR.</p> <p>Such costs, including related overheads, are allocated by class of business based on activity analysis and used to project the expenses relating to future claim payments.</p>
	Expenses	Predominantly investment expenses payable to the investment manager over the life of managing the portfolio which supports the run-off of the TPs.	The contractual investment management charge is applied to the projected portfolio for each relevant future year.
	Inflation and discount	The economic assumptions used to adjust future cash flows to real values at the future payment date and to adjust them to reflect their present value.	<p>Future claims and expense inflation is included either implicitly, or explicitly where material, in arriving at the expected cash flows per future year.</p> <p>All future years' cash flows are discounted to present value using the prescribed EIOPA risk-free discount curve for the relevant currency interest rate-term structure. No transitional arrangements or adjustments are applied for the non-life TPs relating to matching / volatility adjustment.</p>
	RI	Reinsurance cash flows.	<p>The reinsurer's share of IBNR calculations are varied depending on the type of treaty. Proportional arrangements use assumptions on net to gross ratios and excess of loss arrangements incorporate stochastic modelling of net average costs where applicable.</p> <p>Expected defaults are calculated by reference to reinsurer credit ratings and the expected term of the recoverable.</p>

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Category	Building block	Description	Summary method
Premium provision – future cash flows on unearned or bound business	Unearned business	<p>All the above building blocks of future cash flow items, as they apply to the business held as Unearned Premium Reserve (UPR) in the financial accounts.</p> <p>This also includes the administration expense relating to servicing the policies for the remainder of the earnings period, and outward reinsurance premiums relating to all contracts expected to cover the unearned business.</p>	<p>Best estimate business planning assumptions are used to derive the inputs to each relevant building block. E.g. OCR and IBNR are replaced by the frequency-severity or loss ratio modelled ultimate claims costs, applied to the appropriate unearned exposure adjusted for the relevant period if necessary.</p> <p>ENID is allowed for based on the profile of unearned business and is also used to capture adjustments to business planning assumptions if appropriate such as alignment to the capital model mean catastrophe loss assumptions.</p> <p>Reinsurance is allowed for following the correspondence principle, with a floor value being the contractually bound minimum premium.</p>
	Bound policies	Allowance for expected future profits or losses on business that is contractually bound but not yet incepted, taking account of expected cancellations.	<p>System and non-system data is captured relating to bound premium, together with expected premium from bound inwards reinsurance contracts, and then considering all relevant building blocks as above.</p> <p>In addition, acquisition costs relating to this business is allowed for within TPs where this has not been recognised elsewhere in the financial accounts.</p>
	Insurance debtors & creditors	Insurance balances in the course of payment.	These balances are identified through the accounting process and reallocated to TP cash flows.
Risk margin	Cost of capital on projected future SCR's	The theoretical transfer value for TPs in excess of the best estimate liability taking account of the present value cost of capital for a reference undertaking which uses the SII standard formula for calculating the SCR.	<p>The initial standard formula SCR is calculated in relation to the obligated business, excluding avoidable market risk.</p> <p>The projection method of this SCR to future years varies by risk category, and allows for changes in diversification.</p> <p>The run-off of gross, ceded and net TPs is used to inform the run-off of SCR components where appropriate.</p>

Ecclesiastical Insurance Group plc – Solvency and Financial Condition Report

The nature of input assumptions for the reserving models used in projecting ultimate claims costs varies based on the class of business modelled, the levels of historical data available and the nature and complexity of the underlying risk. The final choice of model and assumptions involves professional actuarial judgement and a technical review within the reserving Governance Framework.

The table below is a high-level summary of the reserving models used for the claim provision, and the internal classification of risk, by territory for the material SII classes of business.

Methodology	Internal Classification	Territory / Business Unit	Class of Business
Incurred Development Factor Method (DFM)	Commercial Property	All applicable territories	Fire & Other Property Damage
	Household Property		Fire & Other Property Damage
	Pecuniary Loss		Miscellaneous financial loss
Bornhuetter Ferguson Method (BF)	Motor	All applicable territories	Motor Third Party Liability, Motor Other
	Personal Accident	All applicable territories	Miscellaneous financial loss
	Total Liability	All applicable territories	General Liability
Frequency-Severity Approach (Deterministic)	Asbestos-related disease	UK General Insurance (UKGI)	General Liability
	Employers Liability	UKGI, Southern Ireland	General Liability
	Public Liability	UKGI, Southern Ireland	General Liability
	Periodic Payment Orders (PPO's) - Motor and Liability	All applicable territories	Motor Third Party Liability, General Liability
Frequency-Severity Approach (Stochastic)	PSA	UKGI, Canada and Australia (for occurrence based exposure), Methodist Adverse Development Cover	General Liability, Non-proportional Casualty Reinsurance
Simplified methods	PSA (scaled from UKGI model using exposure metrics)	Smaller territories occurrence based exposure, all relevant territories claims made exposure	General Liability

Methodology	Internal Classification	Territory / Business Unit	Class of Business
	Non-modelled	Other discontinued and inwards reinsurance business	Fire & Other Property Damage, General Liability, Non-proportional Property Reinsurance

Valuation

The two major contributors to the TPs are the ‘General Liability’ and ‘Fire and Other Property Damage’ classes of business. The level of risk margin held is driven by the primary risks for the non-life insurance business, being General Liability reserve risk and catastrophe risk for Fire and Other Property Damage. Under SII principles this margin is not allocated as gross and ceded, but is a single value based on the risk net of reinsurance.

The distribution of reserves by line of business reflects differences in risk and claim behavioural experiences. Comments on material lines are given individually below.

Fire & Other Property Damage

The TPs for this class are weighted between both premium and claims provisions due to the short-tail nature of these risks and potential for unusually large or catastrophe event claims to occur during the future exposure period.

General Liability

The TPs for this class are heavily weighted towards the claim provision due to the longer-tail nature of these risks, which may be complex and take many years to settle, and with potential for late reported or latent claims to emerge.

Latent classes are particularly sensitive to changes in the discount rate. The EIOPA prescribed UK risk free rate decreased over 2016 which resulted in an increase in the discounted latent provisions.

Motor vehicle classes

The majority of motor business has been in run-off since 2013. The motor TPs are calculated at an aggregated level for Motor Third Party Liability and Other Motor, with substantially all of the remaining reserve relating to liability claims.

The line of business will reduce in significance over time, but remains subject to risk of late developments on open cases or settlement on a periodic payments basis, for which reserves are held.

Non-proportional reinsurances

These classes relate to casualty and property reinsurance arrangements entered into with managed companies and businesses in run-off, and run-off London Market business.

Risk margin

The SCR used for calculating the risk margin is a subset of the full standard formula calculated on a 1-year view of risk, reflecting only those risks on already obligated future business as at the balance sheet date.

The risk margin is calculated at a total level then allocated to the classes of business and territories based on risk characteristics of the best estimate TP's.

Life technical provisions

The Group has only one material line of business; whole of life policies backing funeral plans.

The technical provisions are valued by projecting probability-weighted future cash-flows using best-estimate assumptions and discounting these to the reporting date using the risk-free discount curve specified by EIOPA.

The main assumptions made for this are:

- mortality – 99% of population mortality tables, ELT16M (males) and ELT16F (females) in 2017 with improvement of 1% per annum in future years;
- benefit escalation (Retail Prices Index (RPI)) – derived from market inflation swap rates at the reporting date (31 December 2016); and
- future renewal expenses - £11.60 per policy per annum, inflating at RPI (as above) plus 0.75% per annum.

Level of uncertainty

Non-life technical provisions

The estimation of the ultimate liability arising from claims made under non-life insurance contracts is subject to uncertainty as to the total number of claims made on each class of business, the amounts that such claims will be settled for and the timings of any payments. Examples of uncertainty include:

- whether a claims event has occurred or not and how much it will ultimately settle for;
- variability in the speed with which claims are notified and in the time taken to settle them, especially complex cases resolved through the courts;
- changes in the business portfolio affecting factors such as the number of claims and their typical settlement costs, which may differ significantly from past patterns;
- new types of claim, including latent claims, which arise from time to time;
- changes in legislation and court attitudes to compensation, which may apply retrospectively;
- the potential for periodic payment awards, and uncertainty over the discount rate to be applied when assessing lump sum awards;
- the way in which certain reinsurance contracts (principally liability) will be interpreted in relation to unusual/latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

While the best estimate TPs calculation targets reserving for the average or expected future cost within a range of possible outcomes, due to the uncertainties it is likely that the actual costs will differ from the reserved amount.

Life technical provisions

Judgement is made to derive all of the assumptions used in the calculation of technical provisions. For each of these the actual future outcomes may differ from the values assumed, so giving uncertainty in the value of technical provisions.

The assumed level of future inflation will affect the value of assumed future benefit payments and so the value of technical provisions. The assumptions are derived from market swap rates at the reporting date and are consistent with the methodology used to set the risk free yields.

The assumption of future levels of mortality will have a relatively minor impact on the value of technical provisions. Experience of this portfolio of business has been sufficiently credible to give comfort that the level of mortality in 2017 will not deviate materially from the base level assumption. For the future improvements in mortality, the main uncertainty is related to greater annual rates of improvement.

The expenses incurred in running off the in-force business could differ from assumed levels, though the expense base has been relatively stable in recent years.

Comparison of solvency II technical provisions with valuation in annual financial statements

Non-life technical provisions

The building blocks making up the TPs can be split between those for which the valuation methodology is compatible between Solvency II and current IFRS, and those which by requirements of the Solvency II technical specifications will necessarily be different.

Claims provision

The claims provision calculation (liability on earned business) may follow similar bases, methods and assumptions as IFRS, with the exception that the SII discount rate is prescribed by EIOPA (the accounts discount rate currently includes an input for liquidity premium based on actual assets held).

Other than this difference, there are three material areas for which different methods have currently been selected:

TP claim provision building block	IFRS accounts approach	Solvency II TPs approach
Discount scope	Only latent classes claims and related expenses have been discounted	All cash flows are discounted
Investment expenses	An implicit allowance is made by deducting the investment charge rate (using the rate allocated to bonds management) from the yield curve applied.	An explicit allowance is made in every future year for all categories of TP held, based on the actual active management expense rate applied to the projected fund required to back the average

		liabilities for that year.
ENID	An allowance for future uncertainty is applied as a stable percentage loading on total reserves for earned business (Liability and Motor classes). The classes of liabilities which have ENID loading applied exclude PSA liabilities, due to the previous emergence of this latent exposure that is separately modelled together with associated uncertainty.	A scenario analysis has been carried out. The resulting loading is applied to best estimate TPs to uplift to a mean outcome.

The SII ENID scenarios are determined on the following basis:

- Identify events/threats which the business is potentially exposed to (on all business written to date or in the pipeline).
- This involves looking at both ‘known-unknowns’ and a brainstorming session internally to generate ‘unknown unknowns’ (e.g. new category of latent claims).
- Once the events are identified, the exposure on an event or loss year basis is estimated and the range of outcomes generated.
- A consideration of the likelihood and impact of each of the outcomes enables a high-level expected value to be derived.
- This is then used as the mean claims reserve for ENID, after also considering payment patterns, applicable reinsurance arrangements and size of earned and unearned exposure to determine the effect on the claim and premium provisions.

At the balance sheet date, there are no material undiscounted best estimate claim provision differences by class. After applying discounting there is a material valuation difference of +£17m which affects the General Liability class due to the SII prescribed rate being lower and no liquidity premium allowance being adopted for SII.

Premium liability

The net premium provision under SII is £7m lower than recorded in the financial statements (Unearned Premium Reserve less: Deferred Acquisition Costs and net insurance debtors which are valued at total level rather than line of business) because although additional bound contracts are in scope for SII, profit is recognised at the contractually bound date.

Total including uncertainty margins

The financial accounts uncertainty margin is targeted to meet at least 75% probability of sufficiency to ultimate, with additions made where deemed appropriate by management. This is not directly comparable to the SII risk margin concept. At total level, including all allowances for risk, uncertainty and discounting, considering valuation differences only rather than presentational changes, the net technical reserves held in the statutory Group accounts are £2m lower than the SII TP equivalents.

Life technical provisions

A key difference between the valuation of liabilities for solvency purposes and those used in the financial statements is that the latter includes a margin for each assumption whereas the former uses best estimates and incorporates an explicit risk margin. The underlying best-estimates are the same for both bases.

In addition the SII valuation discounts cash flows using a risk-free curve derived from swap rates with the addition of a volatility adjustment (30 basis points at 31 December 2016), whilst the valuation for the financial statements uses a flat discount rate based on the risk-adjusted yield of the assets backing the insurance liabilities.

The expenses assumed in future cashflows differ between the bases; the SII basis assumes that a unit expense at the current level, which has been benchmarked against industry levels, will continue to be incurred into the future. For the financial statements it is assumed that a material element of the expense base is not fully linked to policy volumes.

The overall impact of the differences (SII basis compared with financial statements) are:

Reconciliation from IFRS to SII	2016
	£'000
IFRS reserves	91,900
Expenses assumed	(3,497)
Real interest rate	5,476
Investment expenses	(209)
Mortality	(1,166)
Insurance receivables	(245)
Explicit Risk Margin	2,738
SII technical provisions	94,997

Differences between group- and subsidiary- level valuation basis

There are no material differences in the bases, methods and main assumptions used at group level for the valuation for solvency purposes of the Group's technical provisions compared with those used by the Group's subsidiaries for their own solvency purposes.

Use of the matching adjustment

The matching adjustment is not applied to either the life or non-life insurance TPs.

Use of the volatility adjustment

Non-life technical provisions

The volatility adjustment is not applied to the non-life insurance TPs.

Life technical provisions

The volatility adjustment is used to calculate the value of technical provisions for the Single Premium Funeral Plan business.

If the volatility adjustment was changed to zero, the impact would be an increase in technical provisions of £3.5m, and an increase in the Group SCR of £0.2m. This would decrease both basic own funds and eligible own funds available to cover the Group SCR by £3.5m.

Use of the transitional risk-free interest rate-term structure

The transitional risk-free interest rate-term structure is not applied to either the life or non-life insurance TPs.

Use of the Article 308[d] transitional deduction

The transitional deduction is not applied to either the life or non-life insurance TPs.

Recoverables from reinsurance contracts and special purpose vehicles

Non-life technical provisions

The recoverables are calculated separately by territory and by class of business taking into account the arrangements that are in place for each year of loss. Various arrangements apply to the fire and other property damage classes. These include surplus proportional reinsurance treaties and facultative arrangements for risks larger than those covered by the treaties. Quota share arrangements are also in use. Excess of loss cover applies for single events or aggregation of losses, and to the general liability and motor classes. Special purpose vehicles are not used.

The relative size of reinsurance recoverables included in the TPs from period to period is closely linked to the relative size of reserves by class, subject to occurrence or otherwise of unusually large losses for the excess of loss accounts.

For the premium provision, the amounts also reflect the nature of the reinsurance contracts due to the inclusion of future premiums payable in the reinsurance TP.

Where coverage is purchased on a risks-attaching basis, the premium is either pre-paid or effectively held as a short-term creditor on the balance sheet. Where coverage is purchased on a losses occurring basis, the TP includes any future cost not yet recorded elsewhere – on the balance sheet in respect of obligated business.

Life technical provisions

There are no recoverables assumed from reinsurance contracts or special purpose vehicles. This is unchanged from the previous reporting period.

Material changes in the assumptions made in the calculation of technical provisions compared with the previous reporting period

Non-life technical provisions

There have been no significant changes to previously used assumptions for the premium provision, which remain aligned to business plans. The scope of future profit contracts was extended to include inwards reinsurance arrangements.

For the claims provision, the frequency and severity of non-latent liability claims has decreased over the year while the severity of asbestos-related disease claims has increased.

For the risk margin calculation, the standard formula SCR run-off pattern has been closely replicated by recalculating the t1 SCR and then applying the proportional method, and extending the run-off period to fully reflect the impact of low discount rates in the current market.

Life technical provisions

The only material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period are those reflecting economic conditions and outlook at the reference dates of the respective calculations.

In particular, over the period market interest rates reduced significantly which was reflected in the level of the discount rate curve used to value the cash-flows.

D.3 Other liabilities

Solvency II valuation of other liabilities

A copy of the QRT 'S.02.01.02 – Balance sheet' is included in Appendix 1 and shows a list of liabilities by class as reported in the annual QRT of the Group. The table below shows a summary of liabilities held:

SII valuation of liabilities	2016 £'000
Technical provisions - non-life	566,719
Technical provisions - life	94,997
Provisions other than technical provisions	5,394
Pension benefit obligations	32,376
Deferred tax liabilities	26,689
Derivatives	718
Debts owed to credit institutions	1,417
Payables (trade, not insurance)	33,692
Total liabilities	762,002

Technical provisions – life and non-life

The valuation of TPs is covered in section D.2.

Provisions other than technical provisions

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources, embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when it is virtually certain that the reimbursement will be received.

Pension benefit obligations

The Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds.

In accordance with IAS 19, Employee Benefits, for defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries. The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high-quality corporate bonds. The resulting pension plan surplus or deficit appears as an asset or obligation in the statement of financial position. Any asset resulting from this calculation is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future employer contributions to the plan.

The table below shows an analysis of the assets of the defined benefit pension plan:

Plan Assets	2016
	£'000
Government bonds	16,278
Corporate Bonds	68,574
Listed Equity	147,113
Unlisted Equity	743
Investment funds	32,613
Collateralised securities	4,535
Cash and cash equivalents	14,077
Investment Property	42,121
Derivatives	2,143
Other	1,197
	329,394

The Group provides post-employment medical benefits to some of their retirees. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Independent qualified actuaries value these obligations annually.

Deferred tax liabilities

The calculation of deferred tax is covered in deferred tax assets in section D.1. The liabilities are mainly in relation to unrealised gains on financial investments.

Derivatives

The valuation methodology for derivatives is covered in investments in section D.1.

Debts owed to credit institutions

This comprises amounts due in respect of finance leases. Finance leases are leases where a significant portion of the risks and rewards of ownership is transferred to the Group. Assets obtained under finance lease contracts are capitalised as property, plant and equipment and are depreciated over the period of the lease. Obligations under such agreements are included within liabilities net of finance charges allocated to future periods.

Payables (trade, not insurance)

All balances recognised are short-term in nature and so their carrying value in the financial statements is deemed to be an appropriate approximation of fair value.

Comparison of solvency II other liabilities with valuation in annual financial statements

The table below summarises the variance between the financial statements prepared in accordance with IFRS and the SII valuation, with a breakdown of the differences in the valuation of liabilities:

Reconciliation from IFRS to Solvency II valuation	2016 As reported IFRS Basis	Unconsolidate non-insurance undertakings	Reclassify to aid comparison	2016 Reclassified IFRS	2016 Solvency II Valuation	Net valuation difference
	£'000	£'000	£'000	£'000	£'000	£'000
Total Assets	1,590,314	(122,639)	(90,853)	1,376,822	1,234,873	(141,949)
Total liabilities	1,054,091	(122,639)	(90,853)	840,599	762,002	(78,597)
Net assets	536,223	-	-	536,223	472,871	(63,352)
Breakdown of liability valuation differences						
Technical provisions - non-life	701,152	-	(70,621)	630,531	566,719	(63,812)
Technical provisions - life	182,351	(90,451)	(245)	91,655	94,997	3,342
Deferred commission income	15,862	(455)	-	15,407	-	(15,407)
Deferred tax liabilities	29,281	39	-	29,320	26,689	(2,631)
Insurance & intermediaries payables	1,464	-	(1,464)	-	-	-
Reinsurance payables	18,698	-	(18,698)	-	-	-
Payables (trade, not insurance)	60,289	(26,508)	-	33,781	33,692	(89)
All other liabilities	44,994	(5,264)	175	39,905	39,905	-
Total liabilities	1,054,091	(122,639)	(90,853)	840,599	762,002	(78,597)

As mentioned in section D.1, the table includes a column moving the value of certain subsidiaries that are not fully consolidated under SII to 'participations' and a column showing reclassification of certain IFRS assets and liabilities to aid comparability.

Technical provisions – life and non-life

The difference in valuation of TPs is covered in detail in section D.2.

Deferred commission income

As with deferred acquisition costs, covered in section D.1, deferred commission income has not been recognised in the SII valuation as they have no future cash flow and therefore have no fair value.

Deferred tax liabilities

For SII, the deferred tax liability has been recalculated to take into account the valuation differences between the financial statements and the SII valuation of assets and liabilities.

Insurance & intermediaries payables and reinsurance payables

Only amounts past their due date are included in insurance & intermediaries receivables and reinsurance receivables under SII as amounts not past their due date form part of TPs (Section D.2).

Payables (trade, not insurance)

Included within Payables (trade, not insurance) are unpresented cheques which are removed in the SII valuation as they have no economic value.

Differences between group- and subsidiary- level valuation basis

There are no material differences in the bases, methods and main assumptions used at group level for the valuation for solvency purposes of the Group's liabilities compared to those used by the Group's subsidiaries for their own solvency purposes.

D.4 Alternative methods for valuation

No assets or liabilities have been valued using alternative valuation methods.

D.5 Any other information

There is no further material information regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

E.1 Own funds

Under SII, capital that the Group can use to meet its regulatory SCR is called own funds. Off balance sheet items that can be called upon to absorb losses are called ancillary own funds. The Group does not hold any such items.

The excess of assets (section D.1) over liabilities (section D.3) plus qualifying subordinated debt constitutes basic own funds:

Basic Own Funds	2016
	£'000
Solvency II valuation of assets	1,234,873
Solvency II valuation of liabilities	(762,002)
Excess of assets over liabilities	472,871
Qualifying subordinated debt	-
Basic Own Funds	472,871

The Group has no subordinated debt. Deducted from basic own funds are foreseeable distributions, which are future material expense items at Group level such as dividends that have been approved for payment by the Board. The payment to minority interests payable at the end of June have been approved for payment by the Board of EIO and therefore has been included as a foreseeable dividend.

Due to the requirement for regulated undertakings within the Group to retain sufficient eligible own funds to cover their own individual SCR, not all own funds of each undertaking can be freely moved around the Group and therefore may be unavailable to the Group to cover the Group SCR. This is covered at the end of this section.

Own funds - objectives, policies and processes

The overall responsibility for reviewing and approving the Capital Management Policy lies with the Board. The responsibility for the policy implementation resides with all management and employees involved in managing capital and solvency across the Group.

The policy provides a robust framework for the management and control of capital that underpins business performance and supports the strategic development across the Group. The policy can be summarised as follows:

Regulatory, legislative and rating agency

- Ensure current and future rules are monitored and understood, particularly regarding the definition of capital (quality and fungibility) and various capital requirements.

Definition and monitoring of capital available

- Ensure capital is maintained at a sufficient quality in order to meet current and future capital requirements, in accordance with regulatory and rating agency restrictions.
- Ensure the Group has a defined risk appetite regarding the quality and tiering of capital required to meet its own internal appetite for solvency.
- Ensure there is sufficient capital held within all subsidiaries and branches in order to satisfy local capital requirements (regulatory or otherwise).
- Ensure that fungibility restrictions are carefully monitored and controlled to avoid having a detrimental impact on the Group's solvency position, regulatory or otherwise.
- Ensure that the level of capital available in the Group, regulatory or otherwise, is monitored on a regular basis in accordance with an agreed process.
- Ensure there is regular monitoring and review of the quality, tiering and fungibility of capital, in order to assess whether the above targets are met on an ongoing basis.

Definition and monitoring of capital requirements (solvency)

- Ensure all current and future capital requirements, regulatory or otherwise, are understood at all times.
- Ensure the Group has an agreed definition of an 'Economic Capital Requirement', reflecting its own view of risk.
- Ensure the Group has an agreed risk appetite to ensure a satisfactory level of capital coverage on all relevant bases, including a statement of coverage for its economic capital, regulatory capital and rating agency capital.
- Ensure the Group has at least enough capital to meet its regulatory and rating agency requirements at all times, and for all relevant subsidiaries and branches.
- Ensure all Group capital requirements covered by the risk appetite are calculated and the relevant solvency position reviewed on a regular basis in accordance with an agreed process.
- Ensure that relevant stakeholders (i.e. regulators, rating agencies) are informed of any changes to solvency positions in excess of agreed reporting levels.
- Ensure that future capital requirements and projected solvency positions throughout the period of the business plan are assessed in the ORSA process.

Principles around the distribution and raising of capital

- Ensure there is a clearly defined process for assessing level of dividends and grants prior to any payment being made.
- Ensure there is a clearly defined process for monitoring market conditions and future capital needs in order to assess the requirement and benefit of capital raising or redemptions.
- Ensure the appropriateness for raising or redeeming capital is assessed against all other principles outlined in this policy (e.g. solvency coverage, capital quality).

Principles around the allocation and use of capital

- Ensure there is an agreed approach for allocating Economic Capital to different business units and risks.
- Ensure the Group has an agreed return on capital target which is aligned to the expectations of all key stakeholders (i.e. the Board, ATL).
- Ensure there is an agreed approach to setting and monitoring the return on capital of the Group and each business unit or risk.
- Ensure that there is a clear process for determining when a strategic decision should take into account a capital perspective; this must cover all decisions that materially change the use of capital or solvency position.
- Ensure that each such decision considers the impact on solvency, capital allocation, return on capital and any other principles included in this policy.

Reporting

The Board will continue to monitor and maintain the integrity of the Capital Management Policy, Standards and Guidance to ensure they reflect the culture of the business and the regulatory environment in which it operates.

Reports detailing performance against this policy or any business critical changes will be reviewed periodically, but at least annually, by the Group Finance and Investment Committee.

Business planning

Corporate planning and budgeting is undertaken on an annual basis, covering a three year planning horizon.

Consolidation methodology

In accordance with Article 230 of the Directive, method 1, the default method, had been used to calculate the Group's solvency. This method fully consolidates all insurance companies, ancillary services companies and insurance holding companies in the Group. All remaining subsidiaries are consolidated using the adjusted equity method in accordance with Article 13 of the Delegated Act.

Movement in own funds compared to prior period

A copy of the QRT 'S.23.01.22 – Own Funds' is included in Appendix 7. The table below is a summary of own funds, with comparison to the prior year:

Analysis of Own Funds	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
2016	£'000	£'000	£'000	£'000	£'000
Ordinary share capital	20,000	20,000	-	-	-
Minority interests	97,199	-	97,199	-	-
Amount equal to deferred tax	1,329	-	-	-	1,329
Reconciliation reserve	329,890	329,890	-	-	-
(Net of non-available items)	448,418	349,890	97,199	-	1,329
2015 <i>(unaudited)</i>					
Ordinary share capital	20,000	20,000	-	-	-
Minority interests	101,524	-	101,524	-	-
Amount equal to deferred tax	1,424	-	-	-	1,424
Reconciliation reserve	335,407	335,407	-	-	-
(Net of non-available items)	458,355	355,407	101,524	-	1,424
Movement in own funds <i>(unaudited)</i>					
Ordinary share capital	-	-	-	-	-
Minority interests	(4,325)	-	(4,325)	-	-
Amount equal to deferred tax	(95)	-	-	-	(95)
Reconciliation reserve	(5,517)	(5,517)	-	-	-
(Net of non-available items)	(9,937)	(5,517)	(4,325)	-	(95)

The ordinary share capital is called up, issued and fully paid, and is classified as unrestricted tier 1 capital as it meets the relevant requirements of Article 71 of the Delegated Act. The minority interest is in respect of preference share capital issued by EIO. The minority interest is classified as restricted tier 1 capital as this is the tier classification of the underlying preference share capital of EIO.

The reconciliation reserve is primarily retained earnings from the financial statements adjusted for differences in valuation between the financial statements and SII, as covered in section D.

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The table below summarises the key movements in own funds by tier between the current and prior year:

Movement in Own Funds	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
	£'000	£'000	£'000	£'000	£'000
Prior year balance (unaudited)	458,355	355,407	101,524	-	1,424
IFRS total comprehensive income	38,727	38,216	-	-	511
Preference dividends paid to minority interest	(9,104)	(9,104)	-	-	-
Acquisition of minority interest	(2,232)	(632)	(1,600)	-	-
Charitable grant paid net of tax relief	(19,200)	(19,200)	-	-	-
Movement in SII valuation of non-life technical provisions	(16,672)	(16,672)	-	-	-
Movement in SII valuation of life technical provisions	288	288	-	-	-
Movement in other SII deductions & revaluations	1,044	1,044	-	-	-
Movement in SII calculation of deferred tax	2,055	2,697	-	-	(642)
Movement in foreseeable distributions	(4,521)	(4,521)	-	-	-
Movement in availability of Own Funds at group level	(322)	2,367	(2,725)	-	36
Total movement for year (unaudited)	(9,937)	(5,517)	(4,325)	-	(95)
Current year balance	448,418	349,890	97,199	-	1,329

The movement in unrestricted tier 1 capital is wholly in respect of the reconciliation reserve.

Transitional arrangements

There are no own fund items that are subject to transitional arrangements.

Ancillary own funds

Approval has not been sought for any form of ancillary own funds.

There is no unpaid share capital in issue and no material letters of credit, guarantees or any other legally binding commitments have been identified or recognised.

Eligible amount of own funds available to cover the Solvency Capital Requirement

The table below summarises the own funds eligible to cover the Group SCR:

Analysis of eligible own funds available to cover Group SCR	2016 £'000
Own funds eligible to cover SCR:	
Unrestricted tier 1 capital	349,890
Restricted tier 1 capital	87,473
Total eligible tier 1 capital	437,363
Restricted tier 1 relegated to tier 2	9,727
Tier 2 capital	-
Total eligible tier 2 capital	9,727
Eligible tier 3 capital	1,329
Total eligible capital	448,418
Ineligible capital	-
Total own funds	448,418

The restricted tier 1 own funds cannot amount to more than 20% of total tier 1 own funds, which equates to 25% of unrestricted tier 1 own funds. The remainder is classified as tier 2 own funds.

Tier 2 own funds cannot amount to more than 50% of the SCR and tier 3 own funds cannot amount to more than 15% of the SCR.

Eligible amount of own funds available to cover the Minimum Group SCR

The table below summarises the own funds eligible to cover the Minimum Group SCR:

Analysis of eligible own funds available to cover Minimum Group SCR	2016 £'000
Own funds eligible to cover MCR:	
Unrestricted tier 1 capital	349,890
Restricted tier 1 capital	87,473
Total eligible tier 1 capital	437,363
Restricted tier 1 relegated to tier 2	9,727
Tier 2 capital	-
Total eligible tier 2 capital	9,727
Total eligible capital	447,089
Ineligible capital	1,329
Total own funds	448,418

The restricted tier 1 own funds cannot amount to more than 20% of total tier 1 own funds, which equates to 25% of unrestricted tier 1 own funds. The remainder can be treated as tier 2 own funds.

Tier 2 capital cannot amount to more than 20% of the minimum group SCR and tier 3 capital cannot be used to cover the minimum group SCR. The ineligible capital represents the own funds classified as tier 3.

Comparison between solvency II own funds and equity reported in the financial statements

Reconciliation from IFRS net assets to Solvency II own funds	2016
	£'000
Equity as reported in IFRS Financial Statements	<u>536,223</u>
Revalue participations	(5,983)
Revalue life technical provisions	(3,342)
Revalue non-life technical provisions	13,153
Remove deferred commission income and deferred acquisition costs	(15,298)
Remove goodwill and intangible assets	(49,759)
Remove prepayments and other items with no fair value	(3,898)
Impact on deferred tax of revaluation	1,775
Solvency II valuation of excess of assets over liabilities	<u>472,871</u>
Foreseeable dividends & distributions	(4,521)
Solvency II Valuation of own funds	<u>468,350</u>
Group availability restriction	<u>(19,932)</u>
	<u>448,418</u>

As explained in section D.1, not all participations are fully consolidated for SII. The revaluation of those participations that are not fully consolidated is therefore shown as a single line entry. The change in value is due to the removal of intra-group transactions, goodwill, intangible assets and prepayments.

Technical provisions are valued on a SII basis as described in section D.2.

The following are inadmissible or have no expected future cash flows and are removed from the SII valuation:

- Deferred income and deferred acquisition costs;
- Goodwill and intangible assets; and
- Prepayments

The difference between the Solvency II value of net assets and the value used for the calculation of tax gives rise to an adjustment to the deferred tax asset and liability. This is covered in section D.3.

The Group availability restriction is covered below.

Fungibility and transferability of group own funds

Due to the need for regulated undertakings within the Group to retain sufficient eligible own funds to cover their own individual solvency requirement, not all own funds of each undertaking can be freely moved around the group and therefore an element is unavailable to the Group to cover the Group SCR.

Own funds that cannot be moved to other parts of the group because it is required to cover an individual company's SCR or other local legal or regulatory requirement can only be recognised at the level of the Group to the extent that it contributes to the Group SCR. This is defined in Article 330 of the Delegated Act and explained in Guidelines 12 to 16 of 'EIOPA-BoS-14/181 – Guidelines on group solvency'. The contribution to Group SCR is calculated in accordance with technical annex 1 of the above guidelines.

For example, if a company within a group has an individual SCR of £100m and the risks of that company represent £80m of the group's SCR, of the £100m that must remain with the company to cover its own

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solvency requirement, £80m can be recognised at the level of the group, and £20m is deemed to be unavailable.

Consideration also needs to be given to availability of liquid assets to enable the movement of own funds to take place. As at 31 December 2016, £69,580k of cash balances and deposits and £597,823k of highly liquid listed investments were held by EIO. Of these investments, £68,759k (C\$113,940k) are vested with the Canadian Council of Insurance Regulators in respect of EIO's Canadian branch and leads to a small liquidity restriction (£219k). This and local regulatory capital requirement (£18,736k) is less than the branch contribution to the Group SCR, no availability restriction arises in relation to the Canadian branch.

The table below summarises the availability of own funds for the group. For the purposes of calculating availability all notional calculations are net of intra-group transactions:

Analysis of adjustments to group basic own funds	EIO			ELL	Ansvar Australia	EIG Parent	EUML	EIG Group
	Canada Branch	Remainder	Total					
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Excess of assets over liabilities excluding intra group transactions								472,871
Foreseeable distributions								(4,521)
Restriction due to solo SII requirements								
Notional solo SCR based on group data	20,814	237,580	258,394	15,733	31,663	4,343	119	
Notional pro-rata share of Group SCR	19,295	220,244	239,539	14,585	29,352	4,026	110	
Contribution ratio to Group SCR	92.7%	92.7%	92.7%	92.7%	92.7%	92.7%	92.4%	
Stand-alone solo SCR	20,814	257,340	278,154	15,805	31,663	4,343	119	
Contribution of Solo to Group SCR	19,295	238,561	257,856	14,652	29,352	4,026	110	
Fungibility restrictions:								
Due to local capital requirement								
Own Funds	(18,736)	(152,490)		(15,805)	(15,404)			
Minority interest		(104,850)						
Due to liquidity	(219)							
Due to deferred tax asset					(1,329)			
	<u>(18,955)</u>	<u>(257,340)</u>		<u>(15,805)</u>	<u>(16,733)</u>			
Unavailable at group level	-	(18,779)		(1,153)	-	-	-	(19,932)
<i>(Amount in excess of contribution to Group SCR)</i>								
Available Group Own Funds								448,418
Unavailability split by tier:								
Tier 1								(12,281)
Restricted Tier 1 (Minority interest)								(7,651)
								<u>(19,932)</u>

E.2 Solvency Capital Requirement [SCR] & Minimum Capital Requirement [MCR]

Consolidated group SCR

The SCR is the amount of capital that the Group is required to hold as required by the Directive.

The Group uses the standard formula SCR calculation which is defined in the Delegated Act. This is formula based and consists of modules for each risk type, and adjustments for diversification and the loss absorbing capacity of deferred tax. A breakdown of the SCR elements applicable to the Group is given in the following section.

A copy of the QRT 'S.25.01.22 – Solvency Capital Requirement' is reproduced in Appendix 8.

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As at 31 December 2016 the SCR for the Group was £287,612k, and is still subject to supervisory assessment.

Minimum group SCR

The minimum consolidated group SCR, as defined in Article 331(2) of the Delegated Act and explained in Guideline 21 of the Group Solvency Guidelines is the sum of:

- the Minimum Capital Requirement (MCR) of each EU insurance undertaking within the Group; and
- the local capital requirement of third country insurance undertakings.

The table below provides a breakdown of the Group minimum consolidated SCR:

Minimum group solvency capital requirement	2016
	£'000
MCR of Ecclesiastical Insurance Office plc	69,538
MCR of Ecclesiastical Life Limited	3,951
Local regulatory requirement of Ansvar Insurance Ltd	15,404
Minimum group solvency capital requirement	88,894

SCR by risk module

Solvency Capital Requirement	2016
	£'000
Market risk	191,319
Counterparty default risk	31,608
Non-life underwriting risk	171,739
Life underwriting risk	3,483
Diversification	(94,213)
Basic SCR	303,936
Operational risk	15,696
Loss absorbing capacity of deferred tax	(32,020)
Group SCR	287,612

Group diversification

The table below compares the sum of the stand-alone SCRs for each component of the Group calculation with the Group SCR. Each stand-alone SCR is a notional calculation that excludes intra-group balances and the double counting of own funds. The notional SCR for EIO and ELL will, therefore, differ from the SCR calculation shown in their respective SFCR reports:

Group diversification effect	Notional SCR of individual companies					Cumulative Total SCR £'000	Group SCR £'000	Diversification Impact £'000
	EIO £'000	ELL £'000	AUS £'000	EIG £'000	EUML £'000			
Interest rate risk	28,862	1,438	2,603	-	-	32,903	25,722	(7,181)
Spread risk	32,023	9,010	4,224	-	-	45,257	45,385	128
Equity risk	89,152	6,131	747	2,439	-	98,469	97,959	(510)
Property risk	42,399	-	-	-	-	42,399	42,399	-
Market concentration risk	-	2,389	1,758	3,051	-	7,198	530	(6,668)
Currency risk	17,074	1,861	-	1,156	-	20,091	22,510	2,419
Market risk Diversification	(37,552)	(5,719)	(3,587)	(2,403)	-	(49,261)	(43,186)	6,075
Market risk	171,958	15,110	5,745	4,243	-	197,056	191,319	(5,737)
Counterparty default risk	27,148	241	6,433	348	119	34,289	31,608	(2,681)
Non-life underwriting risk	162,992	-	23,444	-	-	186,436	171,739	(14,697)
Life underwriting risk	-	3,483	-	-	-	3,483	3,483	-
Diversification	(83,448)	(2,431)	(6,285)	(248)	-	(92,412)	(94,213)	(1,801)
Basic SCR	278,650	16,403	29,337	4,343	119	328,852	303,936	(24,916)
Operational risk	13,038	415	2,327	-	-	15,780	15,696	(84)
Loss-absorbing capacity of deferred taxes	(33,293)	(1,085)	-	(433)	(1)	(34,812)	(32,020)	2,792
SCR	258,395	15,733	31,664	3,910	118	309,820	287,612	(22,208)

The material diversification effects are summarised below by risk module:

Interest rate risk

There is a diversification benefit as the net liability cash-flows of EIO are offset by the net asset cash-flows of ELL and Australia.

Market concentration risk

Due to the asset pool being considerably higher at the level of the Group, concentrations arising in an individual company are not impacting the Group.

Currency risk

Currency risk is higher for the Group, whose reporting currency is Sterling, due to the impact of Australia, creating currency exposure for the Group net of currency hedging on consolidation. The notional SCR of Australia has no currency exposure as the reporting currency for the stand-alone calculation is Australian dollars.

Market risk diversification

Diversification between market risk sub-modules has fallen due to the movements in the individual sub-modules covered above.

Counterparty default risk

This has fallen due to the amalgamation of balances between entities.

Non-life underwriting risk

Geographical diversification between Australia and the rest of the group is the key driver behind the fall in this risk module.

Use of simplified calculations

No simplifications have been used in calculating the standard formula SCR.

Undertaking specific parameters

No undertaking or group specific parameters have been used to calculate the standard formula SCR.

Use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC

As no capital add-on has been applied, and no undertaking specific parameters have been utilised, no illustration of their impact is necessary and use of the option provided for in the third subparagraph of Article 51(2) of the Directive has not been made.

Impact of using undertaking specific parameters

No undertaking specific parameters have been used to calculate the standard formula SCR and no capital add-on has been applied. It is therefore not necessary to disclose the impact of any undertaking-specific parameters used in accordance with Article 110 of that directive and the amount of any capital add-on applied to the SCR.

Changes to the SCR and minimum group SCR compared to the prior period

The table below summarises the movement in the SCR and minimum group SCR between the prior year and the current year:

Movement in Solvency Capital Requirement	2016	2015	Change
		<i>(unaudited)</i>	<i>(unaudited)</i>
	£'000	£'000	£'000
Market risk	191,319	214,024	(22,705)
Counterparty default risk	31,608	24,875	6,733
Non-life underwriting risk	171,739	168,051	3,688
Life underwriting risk	3,483	2,166	1,317
Diversification	(94,213)	(93,275)	(938)
Basic SCR	303,936	315,841	(11,905)
Operational risk	15,696	15,757	(61)
Loss absorbing capacity of deferred tax	(32,020)	(40,275)	8,255
Group SCR	287,612	291,323	(3,711)
Minimum group SCR	88,894	83,453	5,441

Market risk has fallen with the introduction of currency hedging, which has reduced the currency risk module from £50,796k (unaudited) to £22,510k. Additionally, in the prior year, the transitional rate of 22% on equity exposures was only applied to type 1 equities (unaudited), whereas in the current year this lower rate had been applied to both type 1 and type 2 equities as permitted by the commission amendment published on 1 April 2016.

The increased counterparty exposure resulting from the introduction of the currency hedging has increased counterparty default risk (unaudited).

Premium growth, which has increased gross exposure, the increase in TP's due to reductions in the discount rate and a change in reinsurance arrangements in Australia have all contributed to increased non-life underwriting risk (unaudited).

An increase in the discounted value of life technical provisions, driven primarily by the reduction in the discount rate following the fall in market yields during the year, has led to the higher life underwriting risk (unaudited).

The loss-absorbing capacity of deferred tax has fallen in line with the fall in value of the deferred tax provision as a consequence of the defined benefit pension scheme moving from a net asset in the prior year to a net liability in the current year (unaudited).

E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

The duration-based equity risk sub-module has not been used

E.4 Differences between the standard formula and the internal model

An internal model has not been used in the calculation of the Company's SCR.

E.5 Non-compliance with the minimum group SCR and non-compliance with the SCR

Minimum group SCR non-compliance

There has been no breach of the minimum group SCR during the reporting period.

SCR non-compliance

There has been no breach of the SCR during the reporting period.

E.6 Any other information

No further information regarding the capital management of the company is required.

Appendix 1 - QRT S.02.01.02 Balance Sheet

S.02.01.02 Balance sheet		Solvency II value
		C0010
Assets		
R0030	Intangible assets	
R0040	Deferred tax assets	1,329
R0050	Pension benefit surplus	144
R0060	Property, plant & equipment held for own use	8,330
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,033,228
R0080	<i>Property (other than for own use)</i>	125,284
R0090	<i>Holdings in related undertakings, including participations</i>	22,632
R0100	<i>Equities</i>	98,900
R0110	<i>Equities - listed</i>	57,607
R0120	<i>Equities - unlisted</i>	41,293
R0130	<i>Bonds</i>	553,761
R0140	<i>Government Bonds</i>	223,615
R0150	<i>Corporate Bonds</i>	326,924
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	3,221
R0180	<i>Collective Investments Undertakings</i>	208,405
R0190	<i>Derivatives</i>	5,216
R0200	<i>Deposits other than cash equivalents</i>	19,031
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	2
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	2
R0270	Reinsurance recoverables from:	112,207
R0280	<i>Non-life and health similar to non-life</i>	112,207
R0290	<i>Non-life excluding health</i>	112,207
R0300	<i>Health similar to non-life</i>	
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,092
R0370	Reinsurance receivables	108
R0380	Receivables (trade, not insurance)	6,346
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	70,017
R0420	Any other assets, not elsewhere shown	70
R0500	Total assets	1,234,873

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		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	566,720
R0520	<i>Technical provisions - non-life (excluding health)</i>	566,720
R0530	<i>TP calculated as a whole</i>	
R0540	<i>Best Estimate</i>	509,383
R0550	<i>Risk margin</i>	57,337
R0560	<i>Technical provisions - health (similar to non-life)</i>	0
R0570	<i>TP calculated as a whole</i>	
R0580	<i>Best Estimate</i>	
R0590	<i>Risk margin</i>	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	94,997
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	94,997
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	92,259
R0680	<i>Risk margin</i>	2,737
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	5,394
R0760	Pension benefit obligations	32,377
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	26,689
R0790	Derivatives	718
R0800	Debts owed to credit institutions	1,417
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	33,691
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	762,002
R1000	Excess of assets over liabilities	472,871

Appendix 2 - QRT S.05.01.02 Non-life premiums, claims and expenses by line of business (unaudited)

5.05.01.02

Premiums, claims and expenses by line of business

Non-life

	Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)													Line of business for: accepted non-proportional reinsurance				Total
	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200	
Premiums written																		
R0110 Gross - Direct Business				824	0		197,445	80,068			130	12,640						293,174
R0120 Gross - Proportional reinsurance accepted				122	113		12,910	2,268			0	1,361						16,887
R0130 Gross - Non-proportional reinsurance accepted																		18
R0140 Reinsurers' share				8	1		101,382	5,714			131	4,961						114,060
R0200 Net				938	112		108,973	76,622			-1	9,040						196,020
Premiums earned																		
R0210 Gross - Direct Business				637	0		199,937	79,236			129	13,825						295,886
R0220 Gross - Proportional reinsurance accepted				123	114		13,292	2,166			0	1,295						17,101
R0230 Gross - Non-proportional reinsurance accepted																		18
R0240 Reinsurers' share				8	1		102,884	5,736			130	5,223						115,882
R0300 Net				752	113		110,345	75,666			-1	9,897						197,123
Claims incurred																		
R0310 Gross - Direct Business				412	-2,535		92,862	27,448			44	2,475						121,417
R0320 Gross - Proportional reinsurance accepted				-350	-274		3,372	293			0	508						3,548
R0330 Gross - Non-proportional reinsurance accepted																		143
R0340 Reinsurers' share				139	-1,280		47,770	3,822			46	115						50,811
R0400 Net				-77	-1,028		48,464	23,919			-2	2,868						74,298
Changes in other technical provisions																		
R0410 Gross - Direct Business																		0
R0420 Gross - Proportional reinsurance accepted																		0
R0430 Gross - Non-proportional reinsurance accepted																		0
R0440 Reinsurers' share																		0
R0500 Net				0	0		0	0			0	0						0
R0550 Expenses incurred				311	201		60,217	38,467			57	5,881						105,736
R1200 Other expenses																		9,909
R1300 Total expenses																		115,646

Appendix 3 - QRT S.05.01.02 Life premiums, claims and expenses by line of business
(unaudited)

S.05.01.02
Premiums, claims and expenses by line of business

Life

	Line of Business for: life insurance obligations							Life reinsurance obligations		Total
	CO210	CO220	CO230	CO240	CO250	CO260	CO270	CO280	CO300	
Health insurance										
Insurance with profit participation										
Index-linked and unit-linked insurance										
Other life insurance										
Annuities stemming from non-life insurance contracts and relating to health insurance obligations										
Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance										
Health reinsurance										
Life reinsurance										
Premiums written										
R1410 Gross					77					77
R1420 Reinsurers' share										0
R1500 Net					77					77
Premiums earned										
R1510 Gross					77					77
R1520 Reinsurers' share										0
R1600 Net					77					77
Claims incurred										
R1610 Gross					12,648					12,648
R1620 Reinsurers' share										0
R1700 Net					12,648					12,648
Changes in other technical provisions										
R1710 Gross										0
R1720 Reinsurers' share										0
R1800 Net					0					0
R1900 Expenses incurred					454					454
R2500 Other expenses										
R2600 Total expenses										454

Appendix 5 - QRT S.05.02.01 Life premiums, claims and expenses by country
(unaudited)

S.05.02.01
Premiums, claims and expenses by country

Life

	C0150	C0160	C0170	C0180	C0190	C0200	C0210
	Home Country						Total Top 5 and home country
	Top 5 countries (by amount of gross premiums written) - life obligations						Total Top 5 and home country
	C0220	C0230	C0240	C0250	C0260	C0270	C0280
R1400							
Premiums written							
R1410 Gross	77						77
R1420 Reinsurers' share							0
R1500 Net	77	0	0	0	0	0	77
Premiums earned							
R1510 Gross	77						77
R1520 Reinsurers' share							0
R1600 Net	77	0	0	0	0	0	77
Claims incurred							
R1610 Gross	12,648						12,648
R1620 Reinsurers' share							0
R1700 Net	12,648	0	0	0	0	0	12,648
Changes in other technical provisions							
R1710 Gross							0
R1720 Reinsurers' share							0
R1800 Net	0	0	0	0	0	0	0
Expenses incurred							
R1900	454						454
Other expenses							
R2500							
Total expenses							454

Appendix 6 – QRT S.22.01.22 Impact of long term guarantees, measures and transitionals

S.22.01.22

Impact of long term guarantees measures and transitionals

	Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
	C0010	C0030	C0050	C0070	C0090
R0010 Technical provisions	661,716	0	0	3,532	0
R0020 Basic own funds	472,871	0	0	-3,532	0
R0050 Eligible own funds to meet Solvency Capital Requirement	448,417	0	0	-3,532	0
R0090 Solvency Capital Requirement	287,612	0	0	237	0

Appendix 8 – QRT S.25.01.22 Solvency Capital Requirement – for groups on Standard Formula

S.25.01.22

Solvency Capital Requirement - for groups on Standard Formula

	Gross solvency capital requirement	USP	Simplifications
	C0110	C0080	C0090
R0010 Market risk	191,319		
R0020 Counterparty default risk	31,608		
R0030 Life underwriting risk	3,483		
R0040 Health underwriting risk	0		
R0050 Non-life underwriting risk	171,740		
R0060 Diversification	-94,213		
R0070 Intangible asset risk	0		
R0100 Basic Solvency Capital Requirement	303,936		
Calculation of Solvency Capital Requirement			
R0130 Operational risk	15,697		
R0140 Loss-absorbing capacity of technical provisions	0		
R0150 Loss-absorbing capacity of deferred taxes	-32,020		
R0160 Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0		
R0200 Solvency Capital Requirement excluding capital add-on	287,612		
R0210 Capital add-ons already set	0		
R0220 Solvency capital requirement for undertakings under consolidated method	287,612		
Other information on SCR			
R0400 Capital requirement for duration-based equity risk sub-module	0		
R0410 Total amount of Notional Solvency Capital Requirements for remaining part	0		
R0420 Total amount of Notional Solvency Capital Requirements for ring fenced funds	0		
R0430 Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0		
R0440 Diversification effects due to RFF nSCR aggregation for article 304	0		
R0470 Minimum consolidated group solvency capital requirement	88,894		
Information on other entities			
R0500 Capital requirement for other financial sectors (Non-insurance capital requirements)	0		
R0510 <i>Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies</i>	0		
R0520 <i>Institutions for occupational retirement provisions</i>	0		
R0530 <i>Capital requirement for non-regulated entities carrying out financial activities</i>	0		
R0540 Capital requirement for non-controlled participation requirements	0		
R0550 Capital requirement for residual undertakings	0		
Overall SCR			
R0560 SCR for undertakings included via D&A	0		
R0570 Solvency capital requirement	287,612		

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Appendix 9 – QRT S.32.01.22 Undertakings in the scope of the group

5.3.2019

Undertakings in the scope of the group

No	Country	Identification code of the undertaking	Type of code of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (institution member)	Supervisory Authority	Criteria of influence							Inclusion in the scope of group supervision	Date of decision 17.6.2019 applied	Group solvency calculation	
									% capital share	% vote rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO					
1	GB	2130029120171	LEI	Ecclesiastical Insurance Office Plc	Non-life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Full consolidation
2	GB	2130029120172	LEI	Ecclesiastical Life Limited	Life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Full consolidation
3	AU	210071806	Specific code	Lawer Insurance Ltd	Non-life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Australian Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Full consolidation
4	GB	2130029120173	LEI	Barren Investment Management Ltd	Credit institution	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
5	GB	194313	Specific code	Ecclesiastical Finance Advisory Services	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
6	GB	00617113	Specific code	South East Insurance Holdings Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
7	GB	594620	Specific code	Securis Holdings Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
8	GB	162820	Specific code	Ecclesiastical Investment Management Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Full consolidation
9	GB	2130029120174	LEI	Ecclesiastical Insurance Group Plc	Insurance holding company or parent or affiliate or other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Full consolidation
10	GB	2130029120175	Specific code	Ecclesiastical Finance Services Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Full consolidation
11	GB	402223	Specific code	Ecclesiastical Underwriting Management Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Full consolidation
12	GB	461199	Specific code	EQ Trustees	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
13	GB	47947	Specific code	South East Insurance Brokers Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
14	GB	3070642	Specific code	Securis Finance, Shipping and Logistics Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
15	GB	2097714	Specific code	Securis Finance Services Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method
16	GB	01142714	Specific code	Parsons and Associates Insurance Brokers Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	Dominant	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	Method 1: Adjusted equity method

Appendix 10 – Glossary of Abbreviations

The Board	The Board of Directors of the Group
The Chairman	The Chairman of the Board
The Group	Ecclesiastical Insurance Group plc and its subsidiaries
The Group CEO	The Group Chief Executive Officer
The Directive	Solvency II Directive 2009/138/EC
The Delegated Act	Solvency II Delegated Regulation (EU) 2015/35
Ansvar Australia	Ansvar Insurance Limited
ATL	Allchurches Trust Limited
CF	Control Function
CFO	Group Chief Financial Officer
CRO	Group Chief Risk Officer
CRSA	Control Risk and Self-Assessment process
EIG	Ecclesiastical Insurance Group plc
EIO	Ecclesiastical Insurance Office plc
EIOPA	European Insurance and Occupational Pensions Authority
ELL	Ecclesiastical Life Limited
ENID	Events Not in Data
EU	European Union
FCA	Financial Conduct Authority
GAC	Group Audit Committee
GIA	Group Internal Audit
GMB	Group Management Board
GPP	Group Personal Pension
GRC	Group Risk Committee
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMGG	Internal Model Governance Group
KFH	Key Function Holder
LIBOR	London Inter-Bank Offer Rate
LTIP	Long-Term Incentive Plan
MCR	Minimum Capital Requirement
MLRO	Money Laundering Reporting Officer
NEDs	Non-Executive Directors
ORSA	Own Risk and Solvency Assessment
OCR	Outstanding Case Reserves
PRA	Prudential Regulation Authority
PSA	Physical and Sexual Abuse
QRT	Quantitative Reporting Template
RPI	Retail Prices Index
SBU	Strategic Business Unit
SCR	Solvency Capital Requirement
SIMR	Senior Insurance Managers Regime
SFCR	Solvency and Financial Condition Report
SID	Senior Independent Director
SII	Solvency II
TPs	Technical Provisions
UKGI	United Kingdom General Insurance
UPR	Unearned Premium Reserve