# Solvency and Financial Condition Report

## Ecclesiastical Insurance Group plc

For the year ended 31 December 2017

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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 (EIG, 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 £300bn of property and in the UK we are the leading insurer of Grade I listed buildings, insure thousands of charities and churches and many of the UK's 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

2017 has been another very successful year for the Group where it delivered increased pre-tax profit and underwriting results for the fourth year running. These profits saw the Group's capital position remain strong on all measures.

Over the course of 2017 global equity markets trended higher on the back of continued optimism in the outlook for the global economy. The return to volatility at the beginning of 2018 was a timely reminder that the stable market returns, seen over the last two years, cannot be taken for granted.

The higher than expected profits reported in 2017 have increased the Group's regulatory capital cover, but haven't materially changed its risk profile.

## Solvency and financial condition

A summary of the Group's solvency position at the end of 2017 and the change over the year is shown below:

| Summary Solvency position | 2017 | 2016 | Change |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Available Own Funds** | **530,793** | **448,418** | **82,375** |
| Standard Formula SCR | | | |
| Market risk | 210,837 | 191,319 | 19,518 |
| Counterparty default risk | 34,367 | 31,608 | 2,759 |
| Non-life underwriting risk | 181,342 | 171,739 | 9,603 |
| Life underwriting risk | 3,320 | 3,483 | (163) |
| Diversification | (101,372) | (94,213) | (7,159) |
| Operational risk | 14,825 | 15,696 | (871) |
| Loss absorbing capacity of deferred tax | (39,584) | (32,020) | (7,564) |
| Consolidated SCR | 303,735 | 287,612 | 16,123 |
| Sectoral capital requirement of investment firm *(unaudited)* | 4,800 | - | 4,800 |
| **Group SCR** | **308,535** | **287,612** | **20,923** |
| **Coverage ratio** | **172%** | **156%** | **16%** |

The Group's regulatory solvency position has remained very strong. Own funds increased by £82.4m in the year mainly due to the retained profit and other comprehensive income result for 2017. This is explained in more detail in section E.1.

The Group's Solvency Capital Requirement (SCR) also increased in the year (by £20.9m) due mainly to increases in market risk due to the unwind of the transitional rate on equities and non-life underwriting risk as the business grew. More detail on the changes in SCR during the year are given in section E.2.

## Outlook for 2018

Global insurance markets continue to be competitive and price focused. Political events look set to continue to dominate the risk outlook, with the potential for shocks to financial markets as they seek to evaluate the impacts for global trade and growth. Although Brexit does not have a significant operational impact on the Group there is still a long way to go before the full implications become clear.

Cyber-crime also continues to be a risk for the financial services sector as a whole, and the regulatory change agenda is set to continue. In particular, the General Data Protection Regulation (GDPR) which brings regulation of data privacy up to date, came into operation in May 2018.

The Group anticipates continued investment market volatility. As described in section C.2 below, the Group is exposed to market risk, particularly equity, spread and property 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 charitable 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 2017

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: 14 June 2018**

## 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 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR of the Company as at 31 December 2017, ('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 S.05.01.02, S.05.02.01;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Group SFCR ('the Statement of Directors' Responsibilities');
- 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 2017 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) (ISAs (UK), including 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 FRC's Ethical Standard as applied to public interest entities, 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.

**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.

**Conclusions relating to going concern**

We are required by ISAs (UK) 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.

**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 relation to these matters.

**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) 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.

**Use of our Report**

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**

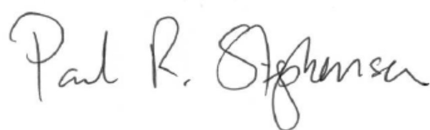
**Sectoral Information**

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 relation to this matter.



**Paul Stephenson** BA FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 June 2018

**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 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

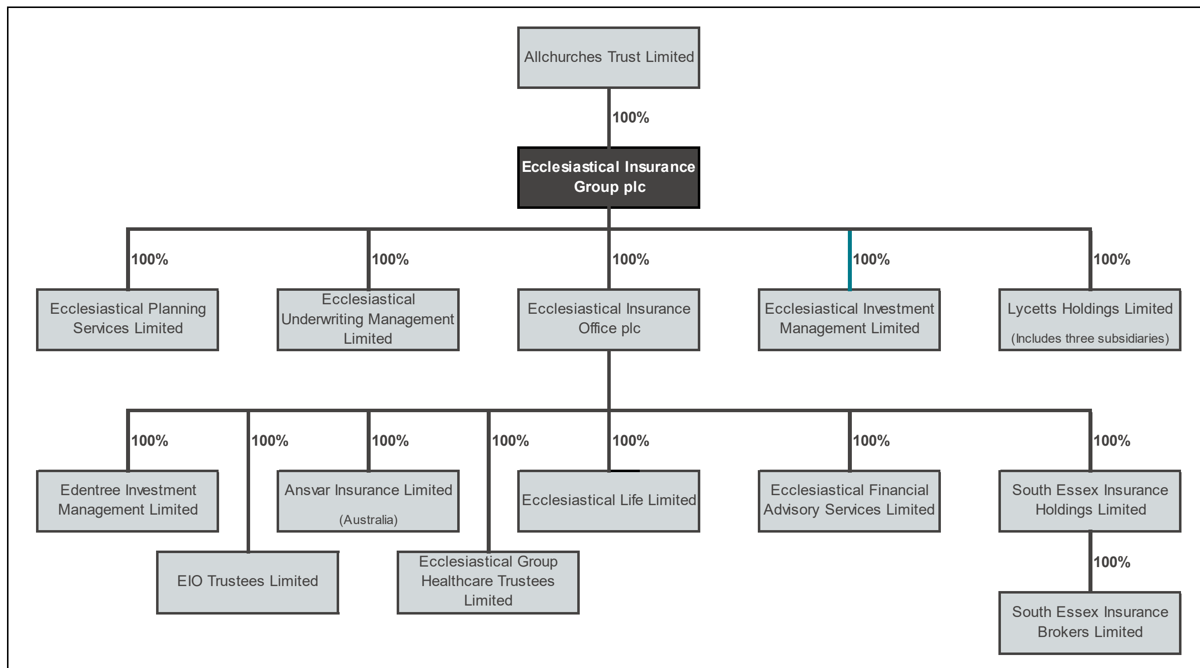
### Qualifying holdings

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 (EdenTree)* 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.
    - *Ansvar Insurance Limited (Ansvar Australia)* is a third country non-life insurance undertaking incorporated and domiciled in Australia. Ansvar 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.
- *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.

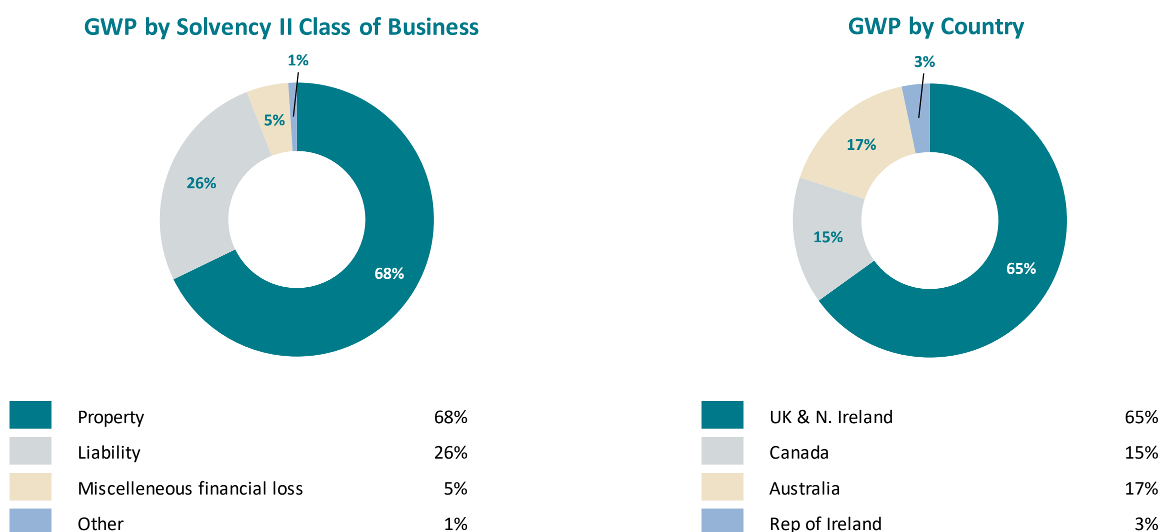
## Lines of business

### *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 gross written premium (GWP) by country are shown in the charts below:




### *Life insurance business*

The Group's only material line of life business is whole-of-life insurance policies, and has not underwritten any new business since April 2013.

### Significant events

We expect the ongoing political uncertainty and Brexit negotiations to increase the risk of continuing investment market volatility and currency instability. The significant risks to which the Group is exposed and how we manage them are discussed in more detail in section C below.

## A.2 Performance from underwriting activities

### Overall underwriting performance

The Group's general insurance underwriting performance for the year was a profit of £27.1m (2016: £20.1m). Significant natural events including winter storms, floods and above average large loss experience in Canada were offset by benign weather conditions in the UK and Ireland. The result was also supported by a large reduction in UK case reserves as older claims continue to close, coupled with an associated release of incurred but not reported (IBNR) reserves. The Group's Life business, which is currently closed to new business made an underwriting profit of £0.4m (2016: £0.7m loss).

### Performance by material class of business

| Underwriting performance by Solvency II line of business | General Liability | | Fire and Other Damage to Property | | Misc. Financial Loss | | Life Business | |
|---|---|---|---|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Net Earned Premium | 80,604 | 75,666 | 113,953 | 110,345 | 11,067 | 9,897 | 28 | 77 |
| Net Claims Incurred | (19,622) | (23,919) | (53,019) | (48,464) | (1,569) | (2,868) | (2,400) | (12,648) |
| Operating Expenses | (38,833) | (36,171) | (60,805) | (59,862) | (5,910) | (5,860) | (342) | (302) |
| **Underwriting Performance** | **22,149** | **15,576** | **130** | **2,019** | **3,587** | **1,169** | **(2,713)** | **(12,873)** |
| Investment return of assets backing liabilities | | | | | | | **3,082** | **12,216** |
| **Net underwriting result** | | | | | | | **368** | **(657)** |

#### *General Liability*

The underwriting result from the liability account was very favourable and was 43% higher than the prior year. Current year claims performance was again better than expected, and results also benefitted from reserve releases in the UK & Ireland and Australia as historical claims were settled at amounts that were less than anticipated. UK and Ireland run-off of liability claims, in respect of unprofitable business exited in 2012 and 2013, is now well progressed and the Group is not expecting to see prior-year releases continuing at the levels seen in the last two years.

#### *Fire and other damage to property*

The underwriting result on the property account was behind last year with improved performance in the UK and Ireland more than offset by higher losses in Canada from weather and fire damage, and losses in Australia reflecting the impact of Tropical Storm Debbie and the New South Wales hail storm.

The weather in the UK and Ireland was again very settled across most of the year, with Storm Doris and ex-tropical storm Ophelia being the only notable exceptions. The latter mainly affected geographical areas where the Group has limited exposure and the number of fire related losses in the UK and Ireland was down on both 2015 and 2016. The UK property result also benefitted from a higher distribution from the pooled terrorism reinsurance arrangements reflecting a surplus in the pool.

*Miscellaneous financial loss*

The underwriting result on the miscellaneous financial loss account was ahead of last year. This was driven by a favourable business interruption claims experience in the UK and Ireland, due to the benign weather and a reduction in the number of large fire claims.

*Life business*

During the reporting period claims of £6.2m were paid, compared to £6.3m paid in the prior year. With no material changes in underlying calculation methodology or assumptions, reserves decreased by £3.8m over the year, in comparison to a £6.4m increase in reserves in the prior year when there had been a sharp reduction in the discount rate.

The net result, when movements in assets backing policy liabilities are taken into account, was a gain of £0.4m, in line with the expected favourable run-off. In the prior year a loss of £0.7m was recorded, primarily due to an increase in the expected future cost base and discount rate effect in 2016, which generated an increase in reserves of £0.6m in the year.

### 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 | |
|---|---|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 | 2017 £'000 | 2016 £'000 |
| Net Earned Premium | 146,035 | 142,640 | 38,692 | 33,564 | 22,457 | 17,879 |
| Net Claims Incurred | (39,722) | (43,996) | (24,936) | (19,038) | (8,950) | (7,348) |
| Operating Expenses | (73,016) | (72,261) | (20,920) | (17,973) | (12,822) | (11,734) |
| **Underwriting Performance** | **33,297** | **26,383** | **(7,165)** | **(3,447)** | **685** | **(1,202)** |

*UK & Ireland[1]*

The benign weather and favourable liability performance described above contributed to the positive underwriting performance.

*1 - Underwriting performance for the UK & Ireland differs from that disclosed in note 5 to the Ecclesiastical Insurance Group Plc IFRS financial statements as it includes other UK insurance operations that are in run-off or not reportable as segments under IFRS due to their immateriality.*

*Canada*

Canada had another difficult year following on from the 2016 Fort McMurray wildfire in Alberta, with property business impacted by a number of weather events and fire losses. This was compounded by a loss on liability business as reserves were strengthened during the year to take account of adverse claims development.

*Australia*

The improved 2017 performance was driven by the growing liability account which benefited from prior year releases, partly offset by losses on property business. The property result reflected the impact of tropical cyclone Debbie and the New South Wales hail storm, but losses on those events were in part offset by releases on catastrophe event claims from prior years. The reinsurance arrangements in place also helped reduce the impact of the property loss at the net level.

## A.3 Performance from investment activities

### Investment performance by asset class

| | Investment income | | | Fair value gains/(losses) | | | Total return | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 £'000 | 2016 £'000 | Growth % | 2017 £'000 | 2016 £'000 | Growth % | 2017 £'000 | 2016 £'000 | Growth % |
| Debt | 16,410 | 17,681 | (7%) | (2,871) | 8,225 | (135%) | 13,539 | 25,906 | (48%) |
| Equities | 10,797 | 10,091 | 7% | 42,013 | 28,494 | 47% | 52,810 | 38,585 | 37% |
| Property | 7,511 | 6,387 | 18% | 7,414 | (1,116) | (764%) | 14,925 | 5,271 | 183% |
| Cash | 455 | 687 | (34%) | - | - | - | 455 | 687 | (34%) |
| Derivatives | - | - | - | (7,778) | (681) | 1042% | (7,778) | (681) | 1042% |
| Exchange | 333 | 2,995 | (89%) | - | - | - | 333 | 2,995 | (89%) |
| Discount rate | - | - | - | (1,839) | (18,612) | (90%) | (1,839) | (18,612) | (90%) |
| Other | 1,251 | 1,257 | (0%) | - | - | - | 1,251 | 1,257 | (0%) |
| | **36,757** | **39,099** | **(6%)** | **36,939** | **16,310** | **126%** | **73,696** | **55,408** | **33%** |
| Investment expenses | (1,035) | (660) | 57% | - | - | - | (1,035) | (660) | 57% |
| Total investments | **35,723** | **38,438** | **(7%)** | **36,939** | **16,310** | **126%** | **72,662** | **54,748** | **33%** |

Investment returns were boosted for the second year running by significant fair value gains on equities.

UK stock markets concluded a strong year with solid gains in the fourth quarter, ending the year at another record high. This was allied with relatively stable underlying investment income which was lower than the prior year due to the effects of exchange.

The small and mid-cap bias in the Group's UK equity portfolio had a positive impact in 2017. The FTSE small-cap and FTSE 250 mid-cap indices delivered returns of 18%, significantly higher than the FTSE 100 large-cap return of 12%. The direct property investments also performed well in the year, returning 11% overall (2016: 5%).

The shorter duration of the Group's bond investments resulted in underperformance relative to the broader FTSE Allstock index, and reflects the Group's strategy of favouring capital protection over marginal increases

in returns. The fixed interest portfolio benefitted from a healthy allocation to corporate bonds, as well as solid performance from long-dated preference shares and permanent interest bearing shares, whilst investments in government bonds were broadly flat on the year.

Of the total return on debt instruments, £3.1m 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 slight downward movement in yields also reduced the discount rate applied in calculating the present value of certain long-tail general business insurance liabilities (shown in the previous table 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 £0.9m in the current year (2016: £2.1m) which was recognised directly in equity and is included in 'Gains/losses on currency translation difference' within section A.4.

### Investments in securitisation

The Group has no material holdings in securitisations.

## A.4 Performance from other activities

| Other activities | 2017<br>£'000 | 2016<br>£'000 | Change<br>% |
|---|---|---|---|
| Return from non-insurance operations | 4,242 | 1,308 | 224% |
| Corporate costs | (14,783) | (10,134) | 46% |
| Actuarial losses on retirement plans | 37,370 | (29,152) | (228%) |
| Gains/(losses) on currency translation differences | (860) | 15,327 | (106%) |

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 gains or losses on retirement plans primarily relate to the Group's defined benefit pension scheme. Gains seen in 2017 are mainly due to strong investment returns during the year. Actuarial gains arising from changes in demographic assumptions in the year were broadly offset by actuarial losses arising from changes in financial assumptions. The losses in 2016 were mainly due to the fall in discount rate which followed the Brexit vote.

Losses on currency translation were relatively small in 2017. The Pound strengthened against the Canadian Dollar and Australian Dollar resulting in a reduction in the value of the Group's investment in its Canadian

business and Australian subsidiary. The loss was partially offset by gains on currency derivatives the Group holds to hedge the foreign exchange risk.

By contrast, the weakening of the Pound following the Brexit result in the prior year resulted in gains in the value of the Group's investments in its Canadian business and Australian subsidiary.

## 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 Group 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.

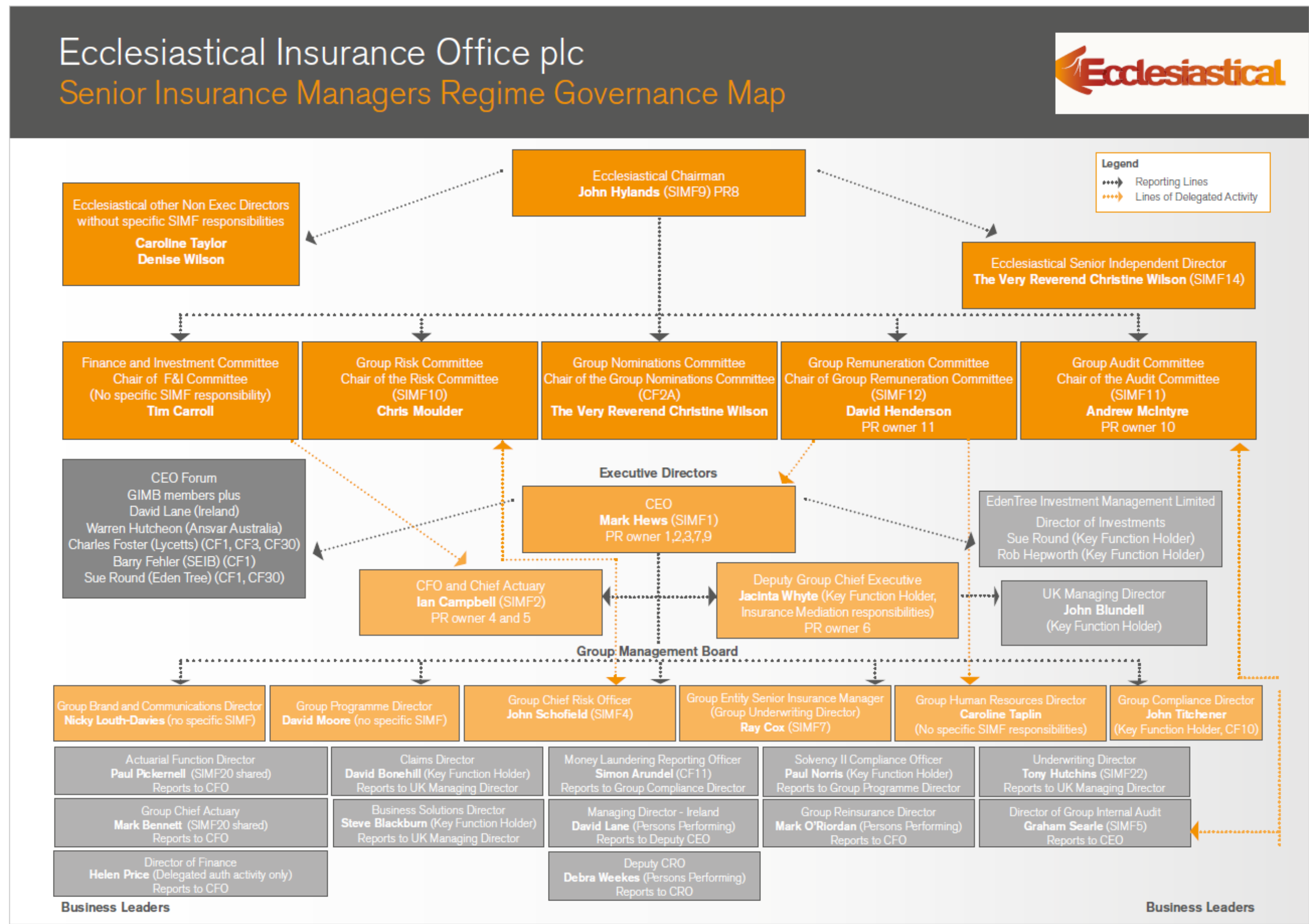
*Non-Executive Directors*

The NEDs have a responsibility to uphold high standards of integrity and probity, including acting as both internal and external ambassadors of the Group. 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.

The Group's governance map sets out the Group's delegation of responsibilities and reporting lines as at the date of this report:




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 November 2017, Christine Wilson was appointed as SID. In addition, the members of some of the committees changed. The current Committee membership is detailed in the Governance Map above.

## 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 five 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 four independent NEDs and an Executive Director, 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 (GMB), Remuneration Code staff and heads of strategic business units. The Committee also has overarching responsibility for the group-wide remuneration policy.

*Group Nominations Committee*

Comprising the Chairman and three independent NEDs. 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. The Group Nominations Committee was disbanded during the year following the Board evaluation and a Temporary Nominations Committee established. The reasons for establishing a Temporary Nominations Committee related to Board succession and the need to appoint a SID. Once its remit was achieved, the Temporary Nominations Committee was disbanded and the Group Nominations Committee was reformed.

**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.

**Assessment of the adequacy of the system of governance**

The Board, through the GAC and GRC, annually reviews the adequacy of the system of governance on a holistic basis and has concluded that it is adequate 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;
- an annual assessment of the governance, risk and control framework by GIA;
- 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 2017.

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 recommendations contained within the Board Evaluation Report were all implemented as at the date of this report.

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.

### 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 Group Remuneration Committee'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.

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. individuals 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 explore:

- Appropriate market knowledge
- Business strategy
- Financial analysis
- Governance and risk management
- Oversight and controls
- Regulatory framework
- Cultural fit

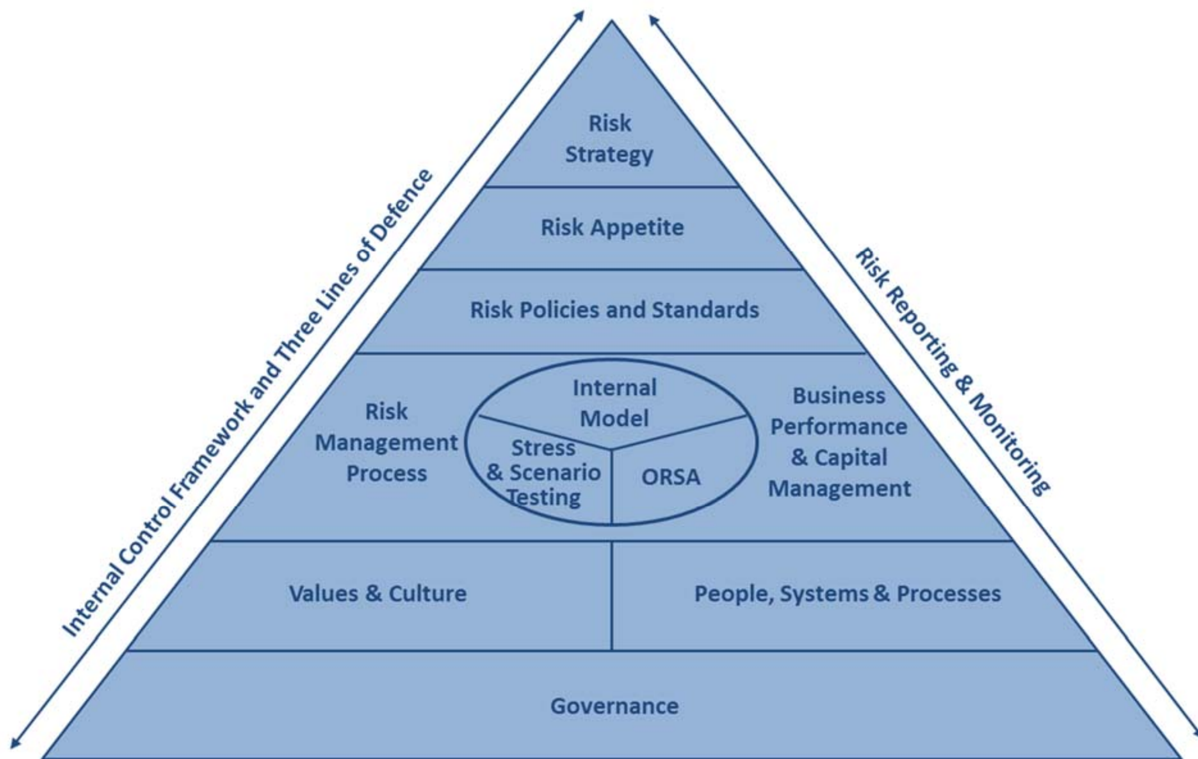
Criminal record checks and sanctions checks are carried out for each person in quantifying honesty, integrity and reputation along with a credit check to assist in verifying financial soundness. The Group will also check the Financial Conduct Authority (FCA) register where persons have previously been a key function holder to check that no disciplinary actions have occurred against them. References are also taken from previous employers. The fitness and propriety process for assessing key function holders (KFH's) mirrors the above approach for 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 for clarification. Post-appointment, individuals are responsible for their own 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.

The risk management process is integrated into the culture of the Group and is led by the GMB, which is supported by three executive committees, an Insurance Risk Committee, a Market and Investment Risk Committee and a Group Operational, Regulatory and Conduct Risk Committee.

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 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 Board has established a risk appetite for the Group. 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. 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 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 register – to also note the mitigations or other responses agreed to appropriately manage these exposures and report to relevant stakeholders across the organisation. The risk register 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. This is regularly reviewed and drives improvements in the internal controls. Appropriate reporting of such items is provided 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 for example, 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. 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 the effectiveness of the system of governance and risk management, and whether revisions are required to cover any changes to the Group'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
- *3rd Line - Assurance* - provides independent and objective assurance of the effectiveness of the Group'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.

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, |

| Role | Responsibilities |
| --- | --- |
| | 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. |
| 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 SII Directive 2009/138/EC (the Directive).

### Own risk and solvency assessment process

The objective of the ORSA process is to demonstrate that the Group (including all subsidiaries) has, or can access, the necessary resources to carry out its corporate strategy and 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.

In accordance with SII Regulations, the Group maintains an ORSA policy framework to regulate and manage the ORSA process. The ORSA combines the Group's underlying risk and capital management processes, looking forward over the period of the business plan in order to:

- assess the liquidity, funding, capital and other critical resources required to execute the business plan;
- assess 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
- demonstrate that the Group 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.

Preparation of the ORSA report is coordinated by the Group Risk Function in accordance with ORSA policy, process, standards and guidance. The process includes the following key steps;

- review 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; and
- assess the adequacy of the risk management environment to support the business plan.

### Frequency of review

The Group performs a full ORSA is at least annually based on the reference date 31st December. The 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. However, the ORSA is re-run, either in full or partially, in accordance with several pre-defined ORSA triggers that are defined and monitored to identify events that could significantly impact business decision making.

Each ORSA report is reviewed and approved by the GMB and GRC, who make a recommendation for final approval by the Board. The Board take an active role in the ORSA, primarily through the actions of the GRC, particularly in the forward-looking assessment of risk. The most recent ORSA Report was approved by the Board in October 2017.

Key ORSA metrics are updated quarterly on an approximate basis and an update provided to the Board and GRC within the CRO Report.

### 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:

- maintaining the Risk Management Framework, including policies and risk appetite;
- assessment of the current risk profile of the business and ensuring adherence to 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
- 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 meet regulatory and internally assessed capital requirements;
- assessment of the risk profile in comparison to the assumptions underlying the calculation of the regulatory capital requirements;
- consideration of how capital shortfall 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

The system of Internal control is implemented by the Board and GMB, and 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;
- Group capital 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 Group's 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

The 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 the Group's compliance risk exposures;
- assessing possible impact of legal and regulatory change and monitoring the appropriateness of compliance procedures; and
- assisting, supporting and advising the Group in fulfilling its responsibilities to manage compliance risks.

The activities and responsibilities undertaken 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;

Group Compliance gains its authority from the GRC 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, amongst other things; review the work of the internal auditors of the Group, and to evaluate the adequacy and effectiveness of the Group's 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 by employees and others, management overriding controls 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 - GIA may be asked to undertake additional roles and responsibilities outside of internal auditing (for example compliance, risk management, independent investigations). These roles and responsibilities may impair, or appear to impair, the independence of the audit function, audit activity or objectivity of the individual auditor. Safeguards to the impairment of independence and objectivity include oversight by the GAC and Board, periodic evaluation of the reporting lines, responsibilities and obtaining additional sources of assurance in the area of additional responsibility.

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.

Where it is identified by data owners that information should be redacted before being provided to members of the GIA team, the redacted information will be reviewed by the Director of Group Internal Audit to ensure that the redaction is appropriate and does not constitute a restriction of scope. In the event that the redacted data relates directly to the Director of Group Internal Audit, or the GIA team, the Chair of the GAC will review the redactions and confirm (or otherwise) to the Director of GIA whether the redactions are appropriate.

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

The delivery of the operations of the Actuarial Function, incorporating pricing, reserving and capital management are the responsibility of the Group Chief Actuary, who is an experienced, qualified actuary. The responsibility of the Group Chief Actuary includes, but is not limited to:

- The deliveries of the Group Reserving team including production of technical provisions (TPs) and IFRS reserves;
- The development, maintenance and use of the Group Capital Model to manage the overall internal capital requirements of the business and to assist senior management in key business decisions

across the Group, including the business planning process, optimisation of reinsurance strategy and optimising the use of capital; and
- The deliveries of the Pricing team, ensuring the development of appropriate pricing models exist within the Group.

In order to provide the Board with an independent opinion over the deliverables of the actuarial function, the Group has an Actuarial Function Director, who is an experienced qualified actuary, holding an Institute of Actuaries Chief Actuary certificate. 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 Director's key areas of responsibility are;

- the provision of oversight and co-ordination of the calculation of the TPs, ensuring appropriateness of data, assumptions, methodologies and underlying models used;
- to give an opinion on the TPs 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.

## 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

This section provides information on each risk category setting out material exposures, risk concentrations and risk mitigation techniques.

The following table provides a quantitative overview of the Group's level of exposure to the SCR risk categories:

| Solvency Capital Requirement risk modules | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Non-life underwriting risk | 181,342 | 171,739 |
| Life underwriting risk | 3,320 | 3,483 |
| Market risk | 210,837 | 191,319 |
| Counterparty default risk | 34,367 | 31,608 |
| Operational risk | 14,825 | 15,696 |

Underwriting and market risks represent the most material areas of exposure for the Group and a quantitative breakdown for these risks is provided in Sections C.1 and C.2 respectively, to give context to the impact of these risks to the SCR. Movements in the SCR values compared to the prior year are covered in section E.2.

In Section C.7, an overview of key sensitivities, stress and scenario testing, and reverse stress testing is provided. This analysis plays a material part as a key risk management tool for the Group, enabling an assessment of the robustness of the business plan, and facilitating greater understanding of the impact of risks to which the business is exposed.

## C.1 Underwriting risk

### Underwriting risk exposure

The following table provides a quantitative overview of the Group's level of exposure to underwriting risk:

| Solvency Capital Requirement - Underwriting risk | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Reserve risk | 71,514 | 79,987 |
| Premium risk | 48,568 | 44,338 |
| Catastrophe Risk | 109,140 | 91,405 |
| Lapse risk | 1,044 | 896 |
| Diversification | (48,924) | (44,887) |
| **Non-life underwriting risk** | **181,342** | **171,739** |
| Longevity risk | 3,000 | 3,169 |
| Life expense risk | 858 | 857 |
| Diversification | (538) | (543) |
| **Life underwriting risk** | **3,320** | **3,483** |

### *General Business*

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

- *Reserve Risk –* the risk of adverse change in the value of insurance liabilities relating to outstanding claims from prior accident years, arising from differences in the timing and amount of claims settlements and related expenses from those assumed in the best estimate reserves;
- *Premium Risk –* the risk that premiums relating to future accident years will be insufficient to cover all liabilities arising from that business including net of reinsurance non-catastrophe claims and expenses as a result of fluctuations in frequency and severity of claims, timing of claim settlements or adverse levels of expenses;
- *Catastrophe Risk –* the risk of financial loss relating to future accident years, arising from net of reinsurance claims generated by catastrophic events.

*Reserve risk*

Reserve 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 ORSA is carried out on an ultimate basis, including allowance for all future deterioration.

Latent reserving risk, such as 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. Exposure to PSA liability claims is a distinctive feature of the Group's risk profile, which arises primarily from historic coverage of the core church book.

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.

The Group has regular monitoring and review processes in place to assess reserving risks, for example actual against projected claims analyses and assessment of PSA incurred claim volumes.

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

*Premium and catastrophe risk*

The underwriting risk for the Group related to future accident years 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 main peril to which the Group is exposed for catastrophe underwriting risk is UK windstorm and storm surge. A significant proportion of the property portfolio is in the faith and education niches, where the traditional nature of construction for most of the buildings insured is such that they are built to withstand

the normal type of storm activity seen in the UK and many have undergone significant amount of renovation and repair work following the material weather events of 1987 and 1990.

The most material premium 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 multiple large property losses.

The Group uses various measures to assess underwriting risks, in particular regular and ad hoc MI, and modelling including scenarios and reverse stress testing.

Previously the property business for Australia was fully reinsured. However, changes to the reinsurance arrangements at the beginning of the year has led to some net exposure. There have been no other significant changes to the risk exposures over the reporting period.

### *Life Business*

The Group is exposed to only a limited level of life business underwriting 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.

## Underwriting risk concentration

### *General Business*

The Group 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, gives rise to a concentration in respect of PSA risks.

Geographical concentrations arise through operations focused in the territories in which insurance operations are based. The majority of the risks insured by the Group are located in the UK.

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 underwriting risk. Risk measurement and sophisticated modelling and analysis are used to establish the impact and value of reinsurance. Reinsurance programmes are then arranged at both local and Group levels. Global reinsurance relationships are developed strategically and transparently, and are overseen by the Group Reinsurance Board which approves all strategic reinsurance decisions.

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.

Group underwriting and reserving policies and procedures, and risk appetite statements are in place to limit insurance risk concentrations. There are also Centres of Excellence which aim to disseminate best practice and ensure a consistency of approach where appropriate.

The Group has an Insurance Risk Committee, chaired by the Group Underwriting Director, which is responsible for the oversight of the non-life insurance risks of the Group. The committee is supported by additional bodies such as the Catastrophe Risk Management Group which carries out close oversight of the catastrophe model outputs and the PSA Governance Committee which oversees PSA claims and the PSA reserving model. The Insurance Risk Committee reports to the GRC which provides challenge on the management of insurance risks and monitors overall risk exposure.

***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 also monitor the Group's and the wider population's experience to ensure that reserving assumptions remain appropriate.

**Underwriting risk sensitivity**

Various stresses and scenarios are considered. These are detailed in Section C.7.

## C.2 Market risk

The following table provides a quantitative overview of the Group's level of exposure to market risk:

| Solvency Capital Requirement - Market risk | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Equity risk | 117,277 | 97,959 |
| Property risk | 49,849 | 42,399 |
| Spread risk | 50,631 | 45,385 |
| Interest rate risk | 12,745 | 25,722 |
| Currency risk | 18,726 | 22,510 |
| Market concentration risk | 1,864 | 530 |
| Market Diversification | (40,255) | (43,186) |
| **Market Risk** | **210,837** | **191,319** |

Equity risk represents the largest market risk for the Group, arising from high exposure to global equity investments.

### 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;
- *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.
- *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
- *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.

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

Throughout the year, there has been no material change in the Group's gross exposure to market risk. The Group continues to monitor risks relating to the UK's impending withdrawal from the European Union (EU). Despite the initial fluctuations in investment fair values and currency exposure from the Brexit decision, the net impact on the Group's solvency cover has been relatively low.

### Compliance with prudent person principle

The Group sets out a mandate 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 only 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 TPs is held which has appropriate cashflows 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, and are overseen by the Group Market and Investment Risk Committee, which reports to the GRC.

### Market risk concentration

The majority of market risk exposure is located in the UK. The largest exposure is to the UK Government, with 7% 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 uses derivatives to mitigate equity risk by reducing the effective exposure to equity markets when the assessment of market conditions has resulted in a reduced appetite for bearing this risk. During 2017, all equity futures held at the end of 2016 expired and were replaced by put options. Regular investment performance and risk reports provide information that allows assessment of the effectiveness of derivative holdings.

Interest rate risk is partially mitigated by holding assets of appropriate duration to back some of the TPs 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 is monitored as part of the investment strategy review each year and adjusted as determined to be appropriate. The amount of Liability Driven Investments held by the defined benefit pension scheme has increased over the year, which acts to further mitigate interest rate risk attributable to the pension fund.

All liabilities are matched with assets in the same currency, so mitigating currency risk. Throughout 2017 forward currency contracts have been held to mitigate the risk from exposures to foreign currency arising from investments in overseas equities and the value of surplus assets held in overseas operations.

### Market risk sensitivity

Various stresses and scenarios are considered. These are detailed in Section C.7.

## 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. This risk is modelled stochastically with 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, although these risks are not considered material. There have been no material changes to the exposures over the reporting period.

### Credit risk concentration

The Group has risk appetite limits in place which cap exposure to any single reinsurer group. The largest individual reinsurance balance owed at 31 December 2017 was less than £2m.

### Credit risk mitigation

The Group has a wide, well-diversified panel of reinsurers, thereby 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

Various stresses and scenarios are considered. These are detailed in Section C.7.

## 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. Further detail is provided below.

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

### 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 80% of the Group's investments are held in highly liquid assets so should be readily accessible in stressed circumstances.

In the event of a natural catastrophe 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 such that reinsurers will make payment of their proportion of the claim in advance of or simultaneously with payment to policyholders.

The Group also maintains a well-diversified panel of strongly rated reinsurers to minimise the potential for over-reliance on any one reinsurer, as discussed in Section C.3.

The Group regularly monitors liquidity risk and manages the risk on an ongoing basis with oversight provided by the CFO. Examples of processes for managing liquidity risk are monitoring of risk limits and tolerances, monitoring of the investment strategy, and structuring of reinsurance contracts.

### 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. Scenario analysis is undertaken examining resilience against extreme catastrophe losses combined with recoveries from the Group's largest reinsurer being disputed. The outcome is that, despite damage to profitability and solvency coverage, all expected payments could be made from cash and short-term bonds. An even more extreme stress is also modelled whereby quicker claims payments are required and multiple reinsurers fail, but sales of collective funds, equities or property are still not required under this scenario.

The scenario analysis confirms that there is sufficient liquidity in the Group's portfolio of assets to have confidence that all payments would continue to be met even in the most extreme outcomes. However, liquidity remains a key consideration when setting investment policy.

### Expected profit in future premiums

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 the 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 £3,328k.

The total amount of expected profit included in future life premiums is £9k.

## 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 in section C.6.

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.

Legal risk includes, but is not limited to, exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as private settlements.

These risks have not changed significantly during the year although the level of external threat from cyber risk continues to evolve across the industry.

Our current approach to the quantification of operational risk involves the analysis of a range of scenarios through workshops held with subject matter experts and senior management, as detailed below.

### Operational risk concentration

With respect to operational risk concentration, there are a number of key systems that support business operations 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 it 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.

The Operational, Regulatory and Conduct Risk Committee provides 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 second line Cyber Security Officer.

### Operational risk sensitivity

Stress 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.

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

## C.6 Other material risks

### Other material risk exposure

The Group's other material risks are strategic, group and reputational risk.

Strategic risk relates to risks associated with the effective development and ongoing implementation of the Group's 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 having a group of operating companies. One particular risk that applies to any company that is part of a group is contagion risk, the effect of an event in one part of the group having an adverse impact on other parts of 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.

All of these risks have been considered when developing the business plans and actions have been derived to address the risks identified. All key risks are also explored within the stress-testing and scenario analysis framework in order to ensure that the business has a good understanding of their potential impacts.

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

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

## C.7 Any other information

*Stress & scenario testing*

The Group's business plan is subject to a wide range of single and combination scenarios that explore the impact that risk events can have on the business. Each scenario represents an extreme yet plausible event that could impact the business plan, operations and financial health of the Group. Whilst extreme, each event is also reasonably foreseeable as part of future developments, e.g. within a 1 in 200 year range of probability.

The approach involves identification of events and independent derivation of losses and return periods associated with these events. These are compared against a distribution of group capital model outputs using pre-defined pass/fail criteria in order to draw conclusions on model accuracy and risk coverage.

Some examples of single scenarios performed are;

- various business plan stresses, e.g. competition undercuts premiums concurrently with a significant deterioration in claims experience;
- market risk stresses, e.g. falls in equity markets, changes in interest rates, or widening of spreads on corporate bonds;
- market risk scenarios, e.g. simulating the impact of the Great Depression, the 2008 Global Financial Crisis, and Brexit;
- simultaneous CAT events - A succession of severe windstorms / floods;
- PSA Claims – Scenarios involving a spike in both the number and severity of claims;
- arson – Targeted arson attacks on churches;

- terrorism – Insured properties of the Group become the target of terrorist attacks; and
- liquidity risk – Extreme CAT event followed by smaller CAT events in a short space of time.

Some examples of joint scenarios performed are;

- earthquake in Canada with reinsurer default;
- market shock similar to 2008 with a series of windstorms;
- severe economic downturn with an impact on insurance market (i.e. claims and premiums); and
- reinsurer default and investment default.

The impact of the single scenarios is in line with Group expectations. Combining the more extreme market stresses with the most extreme underwriting scenario puts the greatest strain on the business. Overall, the Group is resilient to these adverse scenarios.

*Reverse stress testing (RST)*

Reverse stress testing is an important risk management tool and provides the Board with further insight into the ability of the Group to withstand extremely severe adverse scenarios. Various RSTs are performed by starting from the point at which the business model becomes unviable and working backwards to identify plausible root causes.

Consideration is given to both single risk event scenarios, such as extreme economic shocks and reinsurer defaults, as well as combination risk event scenarios, such as an economic shock combined with a material insurance risk event. The exercise shows key risks and scenarios that may materially impact the Group and confirms the business model is sufficiently resilient.

# D. Valuation for solvency purposes

All material asset and liability classes other than TPs 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-14/181 – Guidelines on group solvency
- EIOPA-BoS-15/113 – Guidelines on recognition and valuation of assets and liabilities other than technical provisions

TPs 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 £6.1m (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 summarises the SII Valuation and the differences that arise in comparison with the financial statements' net asset value prepared in accordance with IFRS, together with an analysis of assets:

| Solvency II valuation | | 2017 As reported IFRS Basis | Unconsolidate non-insurance undertakings | Reclassify to aid comparison | 2017 Reclassified IFRS | Net valuation difference | 2017 Solvency II Valuation |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| | Total Assets | 1,674,995 | (168,341) | (94,695) | 1,411,959 | (142,356) | 1,269,603 |
| | Total liabilities | 1,063,727 | (168,341) | (94,695) | 800,691 | (85,966) | 714,725 |
| | **Net assets** | 611,268 | - | - | 611,268 | (56,390) | 554,878 |
| **Breakdown of asset valuation** | | | | | | | |
| Goodwill | | 47,236 | (7,509) | - | 39,727 | (39,727) | - |
| Intangible assets | | 12,288 | (3,740) | - | 8,548 | (8,548) | - |
| Deferred acquisition costs | | 31,267 | - | - | 31,267 | (31,267) | - |
| Deferred tax assets | | 2,544 | (823) | - | 1,721 | (823) | 898 |
| Pension benefit surplus | | 20,036 | - | - | 20,036 | - | 20,036 |
| Property, plant & equipment held for own use | | 9,682 | (1,365) | - | 8,317 | - | 8,317 |
| Investments | Participations | - | 29,174 | 4,517 | 33,691 | (11,167) | 22,524 |
| | Other | 1,018,800 | (1) | 13,728 | 1,032,527 | 3 | 1,032,530 |
| Loans & mortgages | | 16 | (1) | - | 15 | (15) | - |
| Reinsurance recoverables | Non-life | 159,208 | - | (6,101) | 153,107 | (46,600) | 106,507 |
| | Life | 128,065 | (128,065) | - | - | - | - |
| Insurance & intermediaries receivables | | 78,025 | 72 | (75,222) | 2,875 | - | 2,875 |
| Reinsurance receivables | | 14,482 | - | (14,250) | 232 | - | 232 |
| Receivables (trade, not insurance) | | 34,984 | (20,036) | (7,338) | 7,610 | (4,212) | 3,398 |
| Cash and cash equivalents | | 118,272 | (36,565) | (9,511) | 72,196 | - | 72,196 |
| Any other assets, not elsewhere shown | | 90 | 518 | (518) | 90 | - | 90 |
| **Total assets** | | 1,674,995 | (168,341) | (94,695) | 1,411,959 | (142,356) | 1,269,603 |

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 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.

A description of how the assets have been valued, and any differences from the IFRS valuation, are explained below.

### *Goodwill*

Goodwill in the financial statements 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*

In the financial statements a proportion of commission and other acquisition costs relating to unearned premiums is deferred and 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.

### *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 the bended rate used in the financial statements.

### *Pension benefit surplus*

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.

Below is an analysis of the assets of the defined benefit pension plan:

| Plan Assets | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Government bonds | 1,823 | 16,278 |
| Corporate Bonds | 81,412 | 68,574 |
| Listed Equity | 140,390 | 147,113 |
| Unlisted Equity | 1,031 | 743 |
| Investment funds | 75,817 | 32,613 |
| Collateralised securities | 613 | 4,535 |
| Cash and cash equivalents | 15,386 | 14,077 |
| Investment Property | 44,902 | 42,121 |
| Derivatives | 790 | 2,143 |
| Other | 1,015 | 1,197 |
| | **363,179** | **329,394** |

*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 | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Property improvements, fixtures and fittings & computer equipment | 4,493 | 4,342 |
| Owner occupied property | 2,255 | 2,565 |
| Motor vehicles | 1,569 | 1,423 |
| | **8,317** | **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 financial statements. Their IFRS carrying value is assumed to be an appropriate 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.

*Investments – participations (subsidiary undertakings)*

The Group's 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 tables above and in section D.3 therefore include a column where the assets and liabilities of other subsidiaries are removed from the IFRS consolidation and included in 'participations' as a single value.

The value of the Group's investment firm, EdenTree Investment Management Limited has been valued under sectoral rules for SII *(unaudited)*, as required by Articles 329 and 335 of the Delegated Act.

As all the remaining 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).

Key drivers for the difference in valuation of subsidiaries (£11,167k) are the removal of goodwill, intangible assets and prepayments.

*Investments - other*

Other investments comprises property, equities, corporate and government bonds, investment funds, derivatives and deposits.

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.

Accrued interest of £4,216k included within 'receivables (trade, not insurance)' in the financial statements have been moved to investments as bond valuations are inclusive of accrued interest for SII. This is a presentational difference only with no change in value.

*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 – 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.

*Reinsurance recoverables*

The valuation of reinsurers' share of TPs and the differences in valuation methodology compared with the IFRS financial statements is covered in section D.2.

*Insurance & intermediaries receivables and reinsurance receivables*

Due to the short term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value. Under SII only amounts past their due date are included in insurance and intermediaries receivables and reinsurance receivables. Amounts not past their due date form part of TPs (See 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. The valuation of non-insurance receivables for SII is the same as in the financial statements except for £4,212k of prepayments which have no economic 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.

### 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*

Under SII non-life TPs are made up of:

- Discounted Best Estimate Claims Provisions
- Discounted Best Estimate Premium Provisions
- Risk Margins.

The non-life 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*

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 following methods are used accordingly:

- Incurred Development Factor Method used either in isolation for 'fire and other property damage' classes or in combination with other methods for 'liability' and latent classes;
- Bornhuetter Ferguson Method used primarily for more recent development years for the 'liability' classes;
- Frequency-Severity Approach either deterministic for liability classes or stochastic for latent claims;
- Scenarios framework for Events Not In Data (ENID), which generally would not have been foreseen at the time of writing the policies;
- Simplified methods like scaling based on exposure measures for smaller territories; and

- Discontinued and inwards reinsurance businesses are either a fixed percentage of case outstanding or a fixed amount.

Once the best estimates are calculated 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.

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. Expected defaults are calculated by reference to reinsurer credit ratings and the expected term of the recoverable.

*Valuation*

The two major contributors to the non-life TPs are the 'general liability' (66% of TP's) and 'fire and other property damage' (29% of TPs) classes of business. 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 2017 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. This 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 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 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 life business; whole of life policies backing funeral plans. The value of life TPs at 31 December 2017 was:

| Life net technical provisions | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Best estimate liabilities | 86,919 | 92,504 |
| Premium debtors | (262) | (245) |
| Risk margin | 2,525 | 2,738 |
| **SII Net technical provisions** | 89,182 | 94,997 |

The life TPs 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 – 98% of population mortality tables, ELT16M (males) and ELT16F (females) in 2018 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 2017); and
- future renewal expenses - £13.40 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 non-life 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 life TPs. For each of these the actual future outcomes may differ from the values assumed, so giving uncertainty in the value of life TPs.

The assumed level of future inflation will affect the value of assumed future benefit payments and so the value of life TPs. 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 life TPs. Experience of this portfolio of business has been sufficiently credible to give comfort that the level of mortality in 2018 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 for the Group 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 non-life TPs can be split between those for which the valuation methodology is compatible between SII and current IFRS, and those which by requirements of the SII technical specifications will necessarily be different.

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 and applied to the total reserves, whilst the accounts discount rate currently includes an input for liquidity premium based on actual assets held and discounts only the latent classes claims.

The adjustment for Risk Margin reflects the difference between the Board's appetite of holding reserves that are sufficient at least 3 out of 4 years and the requirement under SII of holding an amount over and above the best estimate reserves reflective of the cost of capital required to run off the best estimates to settlement.

Other adjustments relate to the consideration of future premium cash inflows in the premium provision for SII and inclusion of ENID in the best estimate under SII.

| Non-life net technical provisions | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| **IFRS Technical Provisions net of deferred acquisition costs, debtors and creditors** | 438,229 | 452,121 |
| Adjustment for risk margin | (11,517) | (7,606) |
| Adjustment for discounting | 10,883 | 17,046 |
| Other adjustments | (8,248) | (7,049) |
| **SII Net technical provisions** | 429,347 | 454,512 |

*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 (18 basis points at 31 December 2017), 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 table below shows the overall impact of the SII basis compared with financial statements:

| Life net technical provisions | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| **IFRS reserves** | 88,142 | 91,900 |
| Expenses assumed | (3,742) | (3,497) |
| Real interest rate | 3,820 | 5,476 |
| Investment expenses | (144) | (209) |
| Mortality | (1,157) | (1,166) |
| Premium debtors | (262) | (245) |
| Explicit Risk Margin | 2,525 | 2,738 |
| **SII Net technical provisions** | 89,182 | 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 life and non-life TPs compared with those used by the Group's subsidiaries for their own solvency purposes.

### Use of the matching adjustment

The matching adjustment has not been used in the calculation of life or non-life TPs.

### Use of the volatility adjustment

The volatility adjustment is used to calculate the value of life TPs for the single premium funeral plan business. The volatility adjustment is not applied to the non-life TPs.

If the volatility adjustment was changed to zero, the impact would be an increase in life TPs of £1,707k, and an increase in the Group SCR of £136k. This would decrease both basic own funds and eligible own funds available to cover the Group SCR by £1,707k.

### Use of the transitional risk-free interest rate-term structure and the Article 308[d] transitional deduction

The transitional risk-free interest rate term structure and transitional deduction are not applied in calculating the life or non-life 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 non-life 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 TPs.

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.

*Life technical provisions*

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

The impact over this period has not been as material as the previous year as relevant market conditions at 31 December 2017 were not significantly different from those at 31 December 2016.

## 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 summarises the SII Valuation and the differences that arise in comparison with the financial statements' net asset value prepared in accordance with IFRS, together with an analysis of liabilities:

| Solvency II valuation | | 2017 As reported IFRS Basis | Unconsolidate non-insurance undertakings | Reclassify to aid comparison | 2017 Reclassified IFRS | Net valuation difference | 2017 Solvency II Valuation |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Total Assets | | 1,674,995 | (168,341) | (94,695) | 1,411,959 | (142,356) | 1,269,603 |
| Total liabilities | | 1,063,727 | (168,341) | (94,695) | 800,691 | (85,966) | 714,725 |
| **Net assets** | | 611,268 | - | - | 611,268 | (56,390) | 554,878 |
| **Breakdown of liability valuation** | | | | | | | |
| Technical provisions | Non-life | 681,107 | - | (76,078) | 605,029 | (69,175) | 535,854 |
| | Life | 216,206 | (128,065) | (262) | 87,879 | 1,303 | 89,182 |
| Provisions other than technical provisions | | 7,520 | (1,937) | - | 5,583 | - | 5,583 |
| Pension benefit obligations | | 15,110 | (4,178) | - | 10,932 | - | 10,932 |
| Deferred tax liabilities | | 38,975 | 43 | - | 39,018 | (660) | 38,358 |
| Debts owed to credit institutions | | 1,611 | - | - | 1,611 | - | 1,611 |
| Insurance & intermediaries payables | | 1,693 | - | (1,693) | - | - | - |
| Reinsurance payables | | 20,662 | - | (20,662) | - | - | - |
| Payables (trade, not insurance) | | 63,007 | (33,735) | 4,000 | 33,272 | (68) | 33,204 |
| Any other liabilities, not elsewhere shown | | 1 | - | - | 1 | - | 1 |
| Deferred income | | 17,835 | (469) | - | 17,366 | (17,366) | - |
| **Total liabilities** | | 1,063,727 | (168,341) | (94,695) | 800,691 | (85,966) | 714,725 |

The table includes reclassification of certain IFRS assets and liabilities to aid comparability, as explained in section D.1. A description of how the liabilities have been valued, and any differences from the IFRS valuation, are explained below.

#### *Technical provisions – life and non-life*

The valuation of life and non-life TPs and the differences in valuation methodology compared with the IFRS financial statements are 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 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 in the financial statements is covered in deferred tax assets in section D.1. 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. The liabilities are mainly in relation to unrealised gains on financial investments.

*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.

*Insurance & intermediaries payables and reinsurance payables*

Due to the short term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value. Under SII only amounts past their due date are included in insurance & intermediaries payables and reinsurance payables as amounts not past their due date form part of TPs (Section D.2).

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

*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.

**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 less any foreseeable distributions and non-available own funds at group level, constitutes total eligible own funds that are available to meet the group SCR:

| Own Funds | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Solvency II valuation of assets | 1,269,603 | 1,234,873 |
| Solvency II valuation of liabilities | (714,725) | (762,002) |
| Excess of assets over liabilities | 554,878 | 472,871 |
| Qualifying subordinated debt | - | - |
| Foreseeable distributions | (4,476) | (4,521) |
| Non-available own funds at group level | (19,609) | (19,932) |
| **Total eligible own funds** | **530,793** | **448,418** |

The Group has no subordinated debt. Foreseeable distributions 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 distribution.

Due to the requirement for regulated undertakings within the Group to retain sufficient eligible own funds to cover their own solvency requirement, 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 referred to as 'non-available own funds at group level' and 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 fungiblity 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 solvency capital requirements*

- 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, is used to calculate the Group's solvency. This method fully consolidates all insurance companies, ancillary services companies and insurance holding companies in the Group. The own funds of EdenTree, an investment firm, are calculated in accordance with its own sectoral rules as required by Articles 329 and 335 of the Delegated Act (unaudited). This is a change to the prior year when EdenTree was valued on a SII basis using the adjusted equity method. The prior year has not been restated. All remaining subsidiaries are consolidated using the adjusted equity method in accordance with Articles 13 and 335 of the Delegated Act.

**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.

## 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 | | |
| **2017** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Ordinary share capital | 20,000 | 20,000 | - | - | - |
| Minority interests | 96,765 | - | 96,765 | - | - |
| Amount equal to deferred tax asset | 898 | - | - | - | 898 |
| Reconciliation reserve | 413,130 | 413,130 | - | - | - |
| (Net of non-available items) | **530,793** | **433,130** | **96,765** | **-** | **898** |
| **2016** | | | | | |
| Ordinary share capital | 20,000 | 20,000 | - | - | - |
| Minority interests | 97,199 | - | 97,199 | - | - |
| Amount equal to deferred tax asset | 1,329 | - | - | - | 1,329 |
| Reconciliation reserve | 329,890 | 329,890 | - | - | - |
| (Net of non-available items) | **448,418** | **349,890** | **97,199** | **-** | **1,329** |
| **Movement in own funds** | | | | | |
| Ordinary share capital | - | - | - | - | - |
| Minority interests | (434) | - | (434) | - | - |
| Amount equal to deferred tax asset | (431) | - | - | - | (431) |
| Reconciliation reserve | 83,240 | 83,240 | - | - | - |
| (Net of non-available items) | **82,375** | **83,240** | **(434)** | **-** | **(431)** |

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.

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** | **448,418** | **349,890** | **97,199** | **-** | **1,329** |
| IFRS total comprehensive income | 106,471 | 106,935 | - | - | (464) |
| Preference dividends paid to minority interest | (8,953) | (8,953) | - | - | - |
| Acquisition of minority interest | (1,478) | (428) | (1,050) | - | - |
| Charitable grant paid net of tax relief | (20,995) | (20,995) | - | - | - |
| Movement in: | | | | | |
| SII valuation of non-life technical provisions | 9,422 | 9,422 | - | - | - |
| SII valuation of life technical provisions | 2,039 | 2,039 | - | - | - |
| SII revaluation of participations | (4,481) | (4,481) | - | - | - |
| Other SII deductions & revaluations | 2,623 | 2,623 | - | - | - |
| SII calculation of deferred tax | (1,938) | (1,971) | - | - | 33 |
| Sectoral revaluation of investment firm *(unaudited)* | (703) | (703) | - | - | - |
| Foreseeable distributions | 45 | 45 | - | - | - |
| Non-availability of Own Funds at group level | 323 | (293) | 616 | - | - |
| Total movement for year | **82,375** | **83,240** | **(434)** | **-** | **(431)** |
| **Current year balance** | **530,793** | **433,130** | **96,765** | **-** | **898** |

The movement in unrestricted tier 1 capital is in respect of the reconciliation reserve, including the movement in sectoral valuation (unaudited) of EdenTree, the Group's investment firm, and changes in the non-availability of own funds at group level.

The £106,471k IFRS total comprehensive income is reported in the Group's financial statements and includes profit after tax of £69,955k, actuarial gains of £37,370k in respect of the Group's retirement benefit obligations and losses on currency translation of £860k.

Two key components of profit after tax are underwriting performance, covered in section A.2, and Investment performance, covered in section A.3. Actuarial gains and currency translation are covered in section A.4.

The adjustment to TPs has changed compared to last year due to an increase in discount rates. The movement in adjustment for valuation of participations is mostly due to increased deductions for goodwill and intangibles compared to the prior year. The movement in SII adjustment for deferred tax reflects the movement in adjustment for TPs.

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

| Analysis of eligible own funds available to cover Group SCR | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Unrestricted tier 1 capital | 433,130 | 349,890 |
| Restricted tier 1 capital | 96,765 | 87,473 |
| **Total eligible tier 1 capital** | **529,895** | **437,363** |
| Restricted tier 1 relegated to tier 2 | - | 9,727 |
| Other tier 2 capital | - | - |
| **Total eligible tier 2 capital** | **-** | **9,727** |
| **Eligible tier 3 capital** | **898** | **1,329** |
| **Total eligible capital** | **530,793** | **448,418** |
| **Ineligible capital** | **-** | **-** |
| **Total eligible own funds*** | **530,793** | **448,418** |

****- Including own funds of investment firm***

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 Consolidated Group SCR

| Analysis of eligible own funds available to cover minimum consolidated Group SCR | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Unrestricted tier 1 capital* | 423,910 | 349,890 |
| Restricted tier 1 capital | 96,765 | 87,473 |
| **Total eligible tier 1 capital** | **520,675** | **437,363** |
| Restricted tier 1 relegated to tier 2 | - | 9,727 |
| Tier 2 capital | - | - |
| **Total eligible tier 2 capital** | **-** | **9,727** |
| **Total eligible own funds*** | **520,675** | **447,089** |
| **Ineligible own funds** | **898** | **1,329** |
| **Total basic own funds after deductions** | **521,573** | **448,418** |

****- Excluding own funds of investment firm***

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 consolidated 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 | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| Equity as reported in IFRS Financial Statements | 611,268 | 536,223 |
| Revalue participations | (10,464) | (5,983) |
| Revalue life technical provisions | (1,303) | (3,342) |
| Revalue non-life technical provisions | 22,575 | 13,153 |
| Remove deferred commission income and deferred acquisition costs | (13,901) | (15,298) |
| Remove goodwill and intangible assets | (48,275) | (49,759) |
| Remove prepayments and other items with no fair value | (4,156) | (3,898) |
| Impact of revaluation on deferred tax | (163) | 1,775 |
| Impact of valuing investment firm using sectoral rules *(unaudited)* | (703) | - |
| Solvency II valuation of excess of assets over liabilities | 554,878 | 472,871 |
| Foreseeable dividends & distributions | (4,476) | (4,521) |
| Group availability restriction | (19,609) | (19,932) |
| Solvency II Valuation of own funds | 530,793 | 448,418 |

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.

Life and non-life TPs 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 sections D.1 and D.3.

As EdenTree is an investment firm, its net assets are removed from the SII consolidation and replaced by own funds valued in accordance with its own sectoral rules *(unaudited)*.

As noted at the beginning of this section, foreseeable distributions are deducted from SII own funds.

Calculation of the group availability restriction is covered in the following section.

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

| Analysis of adjustments to group basic own funds | | EIO | | | ELL | Ansvar Australia | EIG Parent | EIG Group |
|---|---|---|---|---|---|---|---|---|
| | | Canada Branch | Remainder | Total | | | | |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Excess of assets over liabilities excluding intra group transactions** | | | | | | | | **554,878** |
| Foreseeable distributions | | | | | | | | (4,476) |
| **Restriction due to solo SII requirements** | | | | | | | | |
| Notional solo SCR based on group data | | 22,969 | 247,988 | 270,957 | 18,238 | 32,414 | 4,209 | |
| Notional pro-rata share of Group SCR | | 21,412 | 231,180 | 252,592 | 17,002 | 30,217 | 3,924 | |
| Contribution ratio to Group SCR | | 93.2% | 93.2% | 93.2% | 93.2% | 93.2% | 93.2% | |
| Stand-alone solo SCR | | 22,969 | 269,382 | 292,351 | 18,260 | 32,414 | 4,209 | |
| **Contribution of Solo to Group SCR** | **(c)** | **21,412** | **251,125** | **272,536** | **17,023** | **30,218** | **3,924** | |
| **Fungibility restrictions:** | | | | | | | | |
| Due to local capital requirement | | | | | | | | |
| Own Funds | | 21,527 | 165,582 | | 18,260 | 16,433 | | |
| Minority interest | | | 103,800 | | | | | |
| Due to deferred tax asset | | | | | | 898 | | |
| | **(d)** | 21,527 | 269,382 | | 18,260 | 17,331 | - | |
| **Unavailable at group level** | **(If d>c)** | (115) | (18,257) | | (1,237) | - | - | **(19,609)** |
| *(Amount in excess of contribution to Group SCR)* | | | | | | | | |
| **Available Group Own Funds** | | | | | | | | **530,793** |
| Unavailability split by tier: | | | | | | | | |
| Tier 1 | | | | | | | | (12,573) |
| Restricted Tier 1 (Minority interest) | | | | | | | | (7,036) |
| | | | | | | | | (19,609) |

## 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. As at 31 December 2017 the SCR for the Group was £308,535k, 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 | 2017 | 2016 |
|---|---|---|
| | £'000 | £'000 |
| MCR of Ecclesiastical Insurance Office plc | 73,088 | 69,538 |
| MCR of Ecclesiastical Life Limited | 4,565 | 3,951 |
| Local regulatory requirement of Ansvar Insurance ltd | 16,433 | 15,404 |
| **Minimum group solvency capital requirement** | **94,086** | **88,894** |

### SCR by risk module and Changes to the SCR and minimum group SCR compared to the prior period

| Solvency Capital Requirement | 2017 | 2016 | Change |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Market risk | 210,837 | 191,319 | 19,518 |
| Counterparty default risk | 34,367 | 31,608 | 2,759 |
| Non-life underwriting risk | 181,342 | 171,739 | 9,603 |
| Life underwriting risk | 3,320 | 3,483 | (163) |
| Diversification | (101,372) | (94,213) | (7,159) |
| Basic SCR | 328,494 | 303,936 | 24,558 |
| Operational risk | 14,825 | 15,696 | (871) |
| Loss absorbing capacity of deferred tax | (39,584) | (32,020) | (7,564) |
| Consolidated SCR | 303,735 | 287,612 | 16,123 |
| Sectoral capital requirement of investment firm *(unaudited)* | 4,800 | - | 4,800 |
| **Group SCR** | **308,535** | **287,612** | **20,923** |
| **Minimum group SCR** | **94,086** | **88,894** | **5,192** |

The movement in the year is driven by increases in both market risk and non-life underwriting risk. Market risk has grown due to increases in both equity and property risk, partially offset by a decrease in interest rate risk.

The Group has utilised the transitional calculation for equity risk in the calculation of the SCR. This transitional option tapers the capital charge that is applied to equities over seven years when using the standard formula, but only for assets held prior to January 2016. The increase in equity risk within the year is

due to the transitional benefit unwinding. Property risk has increased in line with the growth of the investment property portfolio.

Interest rate risk has fallen due to the increased use of liability driven investments (LDI's) within the pension fund to reduce the fund's exposure to this type of risk.

Non-life underwriting risk has increased primarily due to organic premium growth in the year which has increased the Group's exposure to both premium risk and catastrophe risk.

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

The capital requirement of Edentree, an investment firm, is calculated in accordance with its own sectoral rules (unaudited), which is a change from prior year when Edentree was stressed as a strategic investment as part of market risk. Although the impact of the change on the Group's solvency cover is not material, the revised treatment has been implemented to ensure compliance with Articles 329 and 336 of the Delegated Act.

As the MCR for each insurance entity continues to be 25% of their respective SCR, the minimum group SCR has increased in line with the growth of the solo SCRs.

### Use of simplified calculations

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

### Undertaking specific parameters and Use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC

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

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.

## 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 | Group SCR | Diversification Impact |
|---|---|---|---|---|---|---|---|
| | EIO | ELL | AUS | EIG | | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Interest rate risk | 15,521 | 1,817 | 1,991 | - | **19,329** | **12,745** | (6,584) |
| Spread risk | 37,347 | 8,612 | 3,945 | - | **49,904** | **50,631** | 727 |
| Equity risk | 105,369 | 9,289 | 584 | 2,813 | **118,055** | **117,277** | (778) |
| Property risk | 49,755 | 94 | - | - | **49,849** | **49,849** | - |
| Market concentration risk | 963 | 1,070 | 1,986 | 3,316 | **7,335** | **1,864** | (5,471) |
| Currency risk | 13,503 | 2,110 | - | 1,378 | **16,991** | **18,726** | 1,735 |
| Market risk Diversification | (34,273) | (5,317) | (3,285) | (2,738) | **(45,613)** | **(40,255)** | 5,358 |
| Market risk | 188,185 | 17,675 | 5,221 | 4,769 | **215,850** | **210,837** | (5,013) |
| Counterparty default risk | 28,291 | 455 | 6,350 | 457 | **35,553** | **34,367** | (1,186) |
| Non-life underwriting risk | 172,541 | - | 24,422 | - | **196,963** | **181,342** | (15,621) |
| Life underwriting risk | - | 3,320 | - | - | **3,320** | **3,320** | - |
| Diversification | (89,413) | (2,536) | (6,003) | (323) | **(98,275)** | **(101,372)** | (3,097) |
| Basic SCR | 299,604 | 18,914 | 29,990 | 4,903 | **353,411** | **328,494** | (24,917) |
| Operational risk | 12,053 | 390 | 2,424 | - | **14,867** | **14,825** | (42) |
| Loss-absorbing capacity of deferred taxes | (40,700) | (1,066) | - | (695) | **(42,461)** | **(39,584)** | 2,877 |
| Sectoral capital requirement of investment firm *(unaudited)* | - | - | - | - | **-** | **4,800** | 4,800 |
| SCR | 270,957 | 18,238 | 32,414 | 4,208 | **325,817** | **308,535** | (17,282) |

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.

## 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 Group'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 |
|---|---|---|
| | Assets | C0010 |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | 898 |
| R0050 | Pension benefit surplus | 20,036 |
| R0060 | Property, plant & equipment held for own use | 8,317 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 1,055,053 |
| R0080 | *Property (other than for own use)* | 152,239 |
| R0090 | *Holdings in related undertakings, including participations* | 22,524 |
| R0100 | *Equities* | 100,946 |
| R0110 | *Equities - listed* | 50,914 |
| R0120 | *Equities - unlisted* | 50,032 |
| R0130 | *Bonds* | 517,012 |
| R0140 | *Government Bonds* | 193,419 |
| R0150 | *Corporate Bonds* | 322,581 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 1,011 |
| R0180 | *Collective Investments Undertakings* | 239,062 |
| R0190 | *Derivatives* | 3,900 |
| R0200 | *Deposits other than cash equivalents* | 19,371 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 1 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | |
| R0260 | *Other loans and mortgages* | 1 |
| R0270 | Reinsurance recoverables from: | 106,507 |
| R0280 | *Non-life and health similar to non-life* | 106,507 |
| R0290 | *Non-life excluding health* | 106,507 |
| R0300 | *Health similar to non-life* | |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 0 |
| R0320 | *Health similar to life* | |
| R0330 | *Life excluding health and index-linked and unit-linked* | |
| R0340 | *Life index-linked and unit-linked* | |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 2,875 |
| R0370 | Reinsurance receivables | 232 |
| R0380 | Receivables (trade, not insurance) | 3,398 |
| 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 | 72,196 |
| R0420 | Any other assets, not elsewhere shown | 90 |
| R0500 | Total assets | 1,269,603 |

| | Liabilities | Solvency II value |
|---|---|---|
| | | C0010 |
| R0510 | Technical provisions - non-life | 535,853 |
| R0520 | *Technical provisions - non-life (excluding health)* | 535,853 |
| R0530 | *TP calculated as a whole* | 0 |
| R0540 | *Best Estimate* | 481,153 |
| R0550 | *Risk margin* | 54,700 |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 89,182 |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP calculated as a whole* | |
| R0630 | *Best Estimate* | |
| R0640 | *Risk margin* | |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 89,182 |
| R0660 | *TP calculated as a whole* | 0 |
| R0670 | *Best Estimate* | 86,657 |
| R0680 | *Risk margin* | 2,525 |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | |
| R0710 | *Best Estimate* | |
| R0720 | *Risk margin* | |
| R0740 | Contingent liabilities | 0 |
| R0750 | Provisions other than technical provisions | 5,583 |
| R0760 | Pension benefit obligations | 10,932 |
| R0770 | Deposits from reinsurers | 0 |
| R0780 | Deferred tax liabilities | 38,359 |
| R0790 | Derivatives | 0 |
| R0800 | Debts owed to credit institutions | 1,611 |
| R0810 | Financial liabilities other than debts owed to credit institutions | 0 |
| R0820 | Insurance & intermediaries payables | 0 |
| R0830 | Reinsurance payables | 0 |
| R0840 | Payables (trade, not insurance) | 33,204 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 1 |
| R0900 | **Total liabilities** | 714,726 |
| | | |
| R1000 | **Excess of assets over liabilities** | 554,878 |

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

S.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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Medical expense insurance | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Misc. financial loss | Health | Casualty | Marine, aviation and transport | Property | |
| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 | C0150 | C0160 | C0200 |
| | **Premiums written** | | | | | | | | | | | | | | | | | |
| R0110 | Gross - Direct Business | | | | 943 | 0 | | 219,784 | 87,527 | | 2,082 | 144 | 16,030 | | | | | 326,510 |
| R0120 | Gross - Proportional reinsurance accepted | | | | 80 | 74 | | 12,747 | 2,418 | | 113 | 0 | 947 | | | | | 16,380 |
| R0130 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0140 | Reinsurers' share | | | | 8 | 0 | | 115,106 | 6,341 | | 1,881 | 140 | 5,911 | | | | | 129,387 |
| R0200 | Net | | | | 1,015 | 74 | | 117,424 | 83,604 | | 314 | 5 | 11,067 | | 0 | | 0 | 213,503 |
| | **Premiums earned** | | | | | | | | | | | | | | | | | |
| R0210 | Gross - Direct Business | | | | 945 | 0 | | 210,880 | 84,537 | | 2,085 | 127 | 15,522 | | | | | 314,095 |
| R0220 | Gross - Proportional reinsurance accepted | | | | 95 | 87 | | 12,793 | 2,302 | | 114 | 0 | 1,036 | | | | | 16,426 |
| R0230 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | | | | 0 |
| R0240 | Reinsurers' share | | | | 8 | 0 | | 109,601 | 6,234 | | 1,876 | 123 | 5,494 | | | | | 123,336 |
| R0300 | Net | | | | 1,031 | 87 | | 114,072 | 80,604 | | 322 | 4 | 11,064 | | 0 | | 0 | 207,185 |
| | **Claims incurred** | | | | | | | | | | | | | | | | | |
| R0310 | Gross - Direct Business | | | | 368 | -410 | | 78,894 | 20,813 | | 812 | 1 | 1,268 | | | | | 101,746 |
| R0320 | Gross - Proportional reinsurance accepted | | | | -234 | -217 | | 3,757 | 821 | | 0 | 0 | 135 | | | | | 4,262 |
| R0330 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | -200 | | -1 | -201 |
| R0340 | Reinsurers' share | | | | -98 | -123 | | 29,760 | 2,002 | | 810 | 1 | -156 | | 0 | | 0 | 32,196 |
| R0400 | Net | | | | 232 | -504 | | 52,891 | 19,632 | | 2 | 0 | 1,560 | | -200 | | -1 | 73,611 |
| | **Changes in other technical provisions** | | | | | | | | | | | | | | | | | |
| R0410 | Gross - Direct Business | | | | 0 | 0 | | 0 | 0 | | 0 | 0 | 0 | | | | | 0 |
| R0420 | Gross - Proportional reinsurance accepted | | | | 0 | 0 | | 0 | 0 | | 0 | 0 | 0 | | | | | 0 |
| R0430 | Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | 0 | | 0 | 0 |
| R0440 | Reinsurers' share | | | | 0 | 0 | | 0 | 0 | | 0 | 0 | 0 | | 0 | | 0 | 0 |
| R0500 | Net | | | | 0 | 0 | | 0 | 0 | | 0 | 0 | 0 | | 0 | | 0 | 0 |
| R0550 | **Expenses incurred** | | | | 393 | 89 | | 61,255 | 41,406 | | 711 | 32 | 5,932 | | 1 | | 44 | 109,863 |
| R1200 | **Other expenses** | | | | | | | | | | | | | | | | | 14,559 |
| R1300 | **Total expenses** | | | | | | | | | | | | | | | | | 124,422 |

## 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 | |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| | **Premiums written** | | | | | | | | | |
| R1410 | Gross | | | | 28 | | | | | 28 |
| R1420 | Reinsurers' share | | | | | | | | | 0 |
| R1500 | Net | | | | 28 | | | | | 28 |
| | **Premiums earned** | | | | | | | | | |
| R1510 | Gross | | | | 28 | | | | | 28 |
| R1520 | Reinsurers' share | | | | | | | | | 0 |
| R1600 | Net | | | | 28 | | | | | 28 |
| | **Claims incurred** | | | | | | | | | |
| R1610 | Gross | | | | 2,400 | | | | | 2,400 |
| R1620 | Reinsurers' share | | | | | | | | | 0 |
| R1700 | Net | | | | 2,400 | | | | | 2,400 |
| | **Changes in other technical provisions** | | | | | | | | | |
| R1710 | Gross | | | | | | | | | 0 |
| R1720 | Reinsurers' share | | | | | | | | | 0 |
| R1800 | Net | | | | 0 | | | | | 0 |
| R1900 | **Expenses incurred** | | | | 513 | | | | | 513 |
| R2500 | **Other expenses** | | | | | | | | | |
| R2600 | **Total expenses** | | | | | | | | | 513 |

## Appendix 4 - QRT S.05.02.01 Non-life premiums, claims and expenses by country (unaudited)

S.05.02.01

Premiums, claims and expenses by country

Non-life

| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
|---|---|---|---|---|---|---|---|---|
| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | Top 5 countries (by amount of gross premiums written) - non-life obligations | | Total Top 5 and home country |
| R0010 | | | AU | CA | IE | | | |
| | | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| | **Premiums written** | | | | | | | |
| R0110 | Gross - Direct Business | 206,764 | 56,865 | 51,580 | 11,301 | | | 326,510 |
| R0120 | Gross - Proportional reinsurance accepted | 15,977 | 0 | 0 | 403 | | | 16,380 |
| R0130 | Gross - Non-proportional reinsurance accepted | 0 | 0 | | | | | 0 |
| R0140 | Reinsurers' share | 82,269 | 31,905 | 11,717 | 3,496 | | | 129,387 |
| R0200 | Net | 140,471 | 24,960 | 39,863 | 8,209 | 0 | 0 | 213,503 |
| | **Premiums earned** | | | | | | | |
| R0210 | Gross - Direct Business | 201,252 | 51,983 | 50,088 | 10,773 | | | 314,095 |
| R0220 | Gross - Proportional reinsurance accepted | 16,021 | 0 | 0 | 405 | | | 16,426 |
| R0230 | Gross - Non-proportional reinsurance accepted | 0 | 0 | | | | | 0 |
| R0240 | Reinsurers' share | 79,055 | 29,525 | 11,396 | 3,360 | | | 123,336 |
| R0300 | Net | 138,217 | 22,457 | 38,692 | 7,818 | 0 | 0 | 207,185 |
| | **Claims incurred** | | | | | | | |
| R0310 | Gross - Direct Business | 47,512 | 19,827 | 31,671 | 2,812 | | | 101,822 |
| R0320 | Gross - Proportional reinsurance accepted | 4,294 | 0 | 0 | -31 | | | 4,262 |
| R0330 | Gross - Non-proportional reinsurance accepted | -201 | 0 | | | | | -201 |
| R0340 | Reinsurers' share | 13,421 | 10,877 | 6,735 | 1,241 | | | 32,274 |
| R0400 | Net | 38,183 | 8,950 | 24,936 | 1,540 | 0 | 0 | 73,609 |
| | **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** | 71,418 | 12,948 | 20,947 | 4,550 | | | 109,862 |
| R1200 | **Other expenses** | | | | | | | 14,559 |
| R1300 | **Total expenses** | | | | | | | 124,421 |

## 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

| | | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | Top 5 countries (by amount of gross premiums written) - life obligations | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| R1400 | | | | | | | | |
| | | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| | **Premiums written** | | | | | | | |
| R1410 | Gross | 28 | | | | | | 28 |
| R1420 | Reinsurers' share | | | | | | | 0 |
| R1500 | Net | 28 | 0 | 0 | 0 | 0 | 0 | 28 |
| | **Premiums earned** | | | | | | | |
| R1510 | Gross | 28 | | | | | | 28 |
| R1520 | Reinsurers' share | | | | | | | 0 |
| R1600 | Net | 28 | 0 | 0 | 0 | 0 | 0 | 28 |
| | **Claims incurred** | | | | | | | |
| R1610 | Gross | 2,400 | | | | | | 2,400 |
| R1620 | Reinsurers' share | | | | | | | 0 |
| R1700 | Net | 2,400 | 0 | 0 | 0 | 0 | 0 | 2,400 |
| | **Changes in other technical provisions** | | | | | | | |
| R1710 | Gross | | | | | | | 0 |
| R1720 | Reinsurers' share | | | | | | | 0 |
| R1800 | Net | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| R1900 | **Expenses incurred** | 513 | | | | | | 513 |
| R2500 | **Other expenses** | | | | | | | |
| R2600 | **Total expenses** | | | | | | | 513 |

# 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 | 625,036 | 0 | 0 | 1,707 | 0 |
| R0020 | Basic own funds | 530,793 | 0 | 0 | -1,707 | 0 |
| R0050 | Eligible own funds to meet Solvency Capital Requirement | 530,793 | 0 | 0 | -1,707 | 0 |
| R0090 | Solvency Capital Requirement | 308,535 | 0 | 0 | 136 | 0 |

# Appendix 7 – QRT S.23.01.22 Own funds

S.23.01.22
Own Funds

| | Basic own funds before deduction for participations in other financial sector | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| R0010 | Ordinary share capital (gross of own shares) | 20,000 | 20,000 | | 0 | |
| R0020 | *Non-available called but not paid in ordinary share capital at group level* | 0 | | | | |
| R0030 | Share premium account related to ordinary share capital | 0 | 0 | | 0 | |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 | Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0060 | *Non-available subordinated mutual member accounts at group level* | 0 | | | | |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0080 | *Non-available surplus funds at group level* | 0 | 0 | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0100 | *Non-available preference shares at group level* | 0 | | | | |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0120 | *Non-available share premium account related to preference shares at group level* | 0 | | | | |
| R0130 | Reconciliation reserve | 413,130 | 413,130 | | | |
| R0140 | Subordinated liabilities | 0 | | 0 | 0 | 0 |
| R0150 | *Non-available subordinated liabilities at group level* | 0 | | | | |
| R0160 | An amount equal to the value of net deferred tax assets | 898 | | | | 898 |
| R0170 | *The amount equal to the value of net deferred tax assets not available at the group level* | 0 | | | | 0 |
| R0180 | Other items approved by supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0190 | *Non available own funds related to other own funds items approved by supervisory authority* | 0 | | | | |
| R0200 | Minority interests (if not reported as part of a specific own fund item) | 103,800 | | 103,800 | | |
| R0210 | *Non-available minority interests at group level* | 7,035 | | 7,035 | | |
| R0220 | **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | |
| R0230 | **Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities** | 9,220 | 9,220 | | | |
| R0240 | *whereof deducted according to art 228 of the Directive 2009/138/EC* | 0 | | | | |
| R0250 | Deductions for participations where there is non-availability of information (Article 229) | 0 | | | | |
| R0260 | Deduction for participations included by using D&A when a combination of methods is used | 0 | | | | |
| R0270 | **Total of non-available own fund items** | 7,035 | 0 | 7,035 | 0 | 0 |
| R0280 | **Total deductions** | 16,256 | 9,220 | 7,035 | 0 | 0 |
| R0290 | **Total basic own funds after deductions** | 521,573 | 423,910 | 96,765 | 0 | 898 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0380 | Non available ancillary own funds at group level | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 0 | | | 0 | 0 |
| | **Own funds of other financial sectors** | | | | | |
| R0410 | Credit Institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies | 9,220 | 9,220 | | | |
| R0420 | Institutions for occupational retirement provision | 0 | | | | |
| R0430 | Non regulated entities carrying out financial activities | 0 | | | | |
| R0440 | **Total own funds of other financial sectors** | 9,220 | 9,220 | 0 | 0 | 0 |

S.23.01.22
Own Funds

| | Basic own funds before deduction for participations in other financial sector | Total | Tier 1 unrestricted | Tier 1 restricted | Tier 2 | Tier 3 |
|---|---|---|---|---|---|---|
| | | C0010 | C0020 | C0030 | C0040 | C0050 |
| | **Own funds when using the D&A, exclusively or in combination of method 1** | | | | | |
| R0450 | Own funds aggregated when using the D&A and combination of method | 0 | | | | |
| R0460 | Own funds aggregated when using the D&A and combination of method net of IGT | 0 | | | | |
| R0520 | Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A ) | 521,573 | 423,910 | 96,765 | 0 | 898 |
| R0530 | Total available own funds to meet the minimum consolidated group SCR | 520,675 | 423,910 | 96,765 | 0 | |
| R0560 | Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A ) | 521,573 | 423,910 | 96,765 | 0 | 898 |
| R0570 | Total eligible own funds to meet the minimum consolidated group SCR (group) | 520,675 | 423,910 | 96,765 | 0 | |
| R0610 | **Minimum consolidated Group SCR** | 94,086 | | | | |
| R0650 | **Ratio of Eligible own funds to Minimum Consolidated Group SCR** | 553.40% | | | | |
| R0660 | **Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A )** | 530,793 | 433,130 | 96,765 | 0 | 898 |
| R0680 | **Group SCR** | 308,535 | | | | |
| R0690 | **Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A** | 172.04% | | | | |

| | Reconcilliation reserve | C0060 |
|---|---|---|
| R0700 | Excess of assets over liabilities | 554,878 |
| R0710 | Own shares (held directly and indirectly) | |
| R0720 | Forseeable dividends, distributions and charges | 4,476 |
| R0730 | Other basic own fund items | 124,698 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| R0750 | Other non available own funds | 12,573 |
| R0760 | **Reconciliation reserve** | 413,130 |
| | **Expected profits** | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | 9 |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | 3,328 |
| R0790 | **Total Expected profits included in future premiums (EPIFP)** | 3,337 |

# 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 | C0090 | C0120 |
| R0010 | Market risk | 210,837 | | |
| R0020 | Counterparty default risk | 34,367 | | |
| R0030 | Life underwriting risk | 3,320 | | |
| R0040 | Health underwriting risk | 0 | | |
| R0050 | Non-life underwriting risk | 181,342 | | |
| R0060 | Diversification | -101,373 | | |
| R0070 | Intangible asset risk | 0 | | |
| R0100 | **Basic Solvency Capital Requirement** | 328,494 | | |

| | | |
|---|---|---|
| | **Calculation of Solvency Capital Requirement** | C0100 |
| R0130 | Operational risk | 14,825 |
| R0140 | Loss-absorbing capacity of technical provisions | 0 |
| R0150 | Loss-absorbing capacity of deferred taxes | -39,584 |
| 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** | 303,735 |
| R0210 | Capital add-ons already set | 0 |
| R0220 | **Solvency capital requirement for undertakings under consolidated method** | 303,735 |
| | **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 | 94,086 |
| | **Information on other entities** | |
| R0500 | Capital requirement for other financial sectors (Non-insurance capital requirements) | 4,800 |
| R0510 | *Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies* | 4,800 |
| R0520 | *Institutions for occupational retirement provisions* | 0 |
| R0530 | *Capital requirement for non- regulated entities carrying out financial activities* | 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** | 308,535 |

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

S.32.01.22

Undertakings in the scope of the group

| Row | Country | Identification code of the undertaking | Type of code of the ID of the undertaking | Legal Name of the undertaking | Type of undertaking | Legal form | Category (mutual/non mutual) | Supervisory Authority |
|---|---|---|---|---|---|---|---|---|
| | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 | C0080 |
| 1 | GB | 213800E5HL2O1FU4I690 | LEI | Ecclesiastical Insurance Office Plc | Non life insurance undertaking | Company limited by shares or by guarantee or unlimited | Non-mutual | Prudential Regulation Authority |
| 2 | GB | 213800I6N42TMC2CCC49 | LEI | Ecclesiastical Life Limited | Life insurance undertaking | Company limited by shares or by guarantee or unlimited | Non-mutual | Prudential Regulation Authority |
| 3 | AU | 213800E5HL2O1FU4I690AU16506 | Specific code | Ansvar Insurance Ltd | Non life insurance undertaking | Company limited by shares or by guarantee or unlimited | Non-mutual | Australian Prudential Regulation Authority |
| 4 | GB | 2138007SX6JDAUVXLI53 | LEI | Edentree Investment Management Ltd | Credit institution, investment firm and financial institution | Company limited by shares or by guarantee or unlimited | Non-mutual | Financial Conduct Authority |
| 5 | GB | 213800E5HL2O1FU4I690GB46087 | Specific code | Ecclesiastical Financial Advisory Services | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | Financial Conduct Authority |
| 6 | GB | 213800E5HL2O1FU4I690GB17313 | Specific code | South Essex Insurance Holdings Ltd | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | |
| 7 | GB | 213800O4B9KNVTLIVR02GB66203 | Specific code | Lycetts Holdings Limited | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | |
| 8 | GB | 213800O4B9KNVTLIVR02GB11698 | Specific code | Ecclesiastical Investment Management Ltd | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | |
| 9 | GB | 213800O4B9KNVTLIVR02 | LEI | Ecclesiastical Insurance Group Plc | Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC | Company limited by shares or by guarantee or unlimited | Non-mutual | Prudential Regulation Authority |
| 10 | GB | 213800O4B9KNVTLIVR02GB44860 | Specific code | Ecclesiastical Planning Services Ltd | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | |
| 11 | GB | 213800O4B9KNVTLIVR02GB68571 | Specific code | Ecclesiastical Underwriting Management Ltd | Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35 | Company limited by shares or by guarantee or unlimited | Non-mutual | |
| 12 | GB | 213800E5HL2O1FU4I690GB41199 | Specific code | EIO Trustees | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | |
| 13 | GB | 213800E5HL2O1FU4I690GB17314 | Specific code | South Essex Insurance Brokers Ltd | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | Financial Conduct Authority |
| 14 | GB | 213800O4B9KNVTLIVR02GB06042 | Specific code | Lycett Browne - Swinburne and Douglass Ltd | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | Financial Conduct Authority |
| 15 | GB | 213800O4B9KNVTLIVR02GB57974 | Specific code | Lycetts Financial Services Ltd | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | Financial Conduct Authority |
| 16 | GB | 213800O4B9KNVTLIVR02GB42714 | Specific code | Farmers and Mercantile Insurance Brokers Ltd | Other | Company limited by shares or by guarantee or unlimited | Non-mutual | Financial Conduct Authority |

| Row | Criteria of influence | | | | | | Inclusion in the scope of Group supervision | | Group solvency calculation |
|---|---|---|---|---|---|---|---|---|---|
| | % capital share | % used for the establishment of consolidated accounts | % voting rights | Other criteria | Level of influence | Proportional share used for group solvency calculation | YES/NO | Date of decision if art. 214 is applied | Method used and under method 1, treatment of the undertaking |
| | C0180 | C0190 | C0200 | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 |
| 1 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 2 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 3 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 4 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Sectoral Rules |
| 5 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 6 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 7 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 8 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 9 | | | | | Dominant | | Included in the scope | | Method 1: Full consolidation |
| 10 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 11 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 12 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 13 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 14 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 15 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 16 | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | 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 |
| GWP | Gross written premiums |
| IAS | International Accounting Standards |
| IBNR | Incurred But Not Reported |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| KFH | Key Function Holder |
| LTIP | Long-Term Incentive Plan |
| MCR | Minimum Capital Requirement |
| MLRO | Money Laundering Reporting Officer |
| NEDs | Non-Executive Directors |
| ORSA | Own Risk and Solvency Assessment |
| 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 |