Solvency and Financial Condition Report

Ecclesiastical Insurance Group plc

For the year ended 31 December 2018

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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, with a distinctive positioning that sets us apart from other businesses in the financial services 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 use 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. It creates an environment where sustainable, long-term value generation is prized over short-term results.

We can do this because we manage an ethically run global portfolio of successful businesses covering specialist insurance and broking and advisory services. We provide products and services to businesses and, organisations and retail customers, both directly and through intermediaries. 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 Company structure and the business we write can be found in section A below.

Business performance

In 2018 the Group delivered another strong set of results, underpinned by its pursuit of sustainable profitable growth over the longer-term. There has been continued growth in our underwriting results over the last five years as we have successfully delivered against our redefined strategy.

Investment returns were impacted by short-term unrealised losses due to external market turbulence, including the impact of the uncertainty around Brexit. We manage the business by taking a long-term view of risk, and our approach to capital management means that we are able to withstand short-term volatility. In particular, our investment approach carries a level of risk, but enables us to take advantage of the opportunities to deliver higher investment returns over the long term from investing in equities, than from investing in lower risk, lower returning fixed income investments.

The Group remains well capitalised and received approval for our Internal Model in 2018, which was a significant milestone. The Internal Model enables us to continue to understand and quantify our risk profile and to optimise the use of capital in the future.

Our capital cover improved during the year as the Solvency Capital Requirement (SCR) decreased as a result of the Internal Model approval. The SCR for 2017 and prior was calculated using the standard formula.

Solvency and financial condition

A summary of the Group's solvency position at the end of 2018 and the change over the year is shown below:

Summary Solvency position	2018	2017	Change
	£'000	£'000	£'000
Available Own Funds	**523,990**	**530,793**	**(6,803)**
Solvency Capital Requirement			
Market risk	219,877	210,837	9,040
Counterparty default risk	13,528	34,367	(20,839)
Non-life underwriting risk	148,357	181,342	(32,985)
Life underwriting risk	2,724	3,320	(596)
Operational risk	31,105	14,825	16,280
Other risks	22,042	-	22,042
Diversification	(148,606)	(101,372)	(47,234)
Loss absorbing capacity of deferred tax	(19,000)	(39,584)	20,584
Other adjustments	(806)	-	(806)
Consolidated SCR	269,221	303,735	(34,514)
Sectoral capital requirement of investment firm	4,800	4,800	-
Group SCR	**274,021**	**308,535**	**(34,514)**
Coverage ratio	**191%**	**172%**	**19%**

The Group's regulatory solvency position has remained very strong. Own funds decreased by £6.8m in the year mainly due to the retained profit and other comprehensive income result for 2018 being less than the combined cost of the charitable grant paid to Allchurches Trust Limited (ATL) and preference dividend paid to minority interests. This is explained in more detail in section E.1.

The Group's Solvency Capital Requirement (SCR) has also decreased in the year (by £34.5m) due mainly to the Group's partial internal model replacing the previous standard formula calculation. More detail on the changes in SCR during the year are given in section E.2.

Outlook for 2019

While we expect continued uncertainty in investment markets and insurance markets to remain highly competitive, our consistently strong financial performance allows us to both withstand short-term uncertainties and invest in our future, laying the foundations for further sustainable and profitable growth.

In 2018 there were several significant new regulatory requirements, including the Markets in Financial Instruments Directive (MiFID2), General Data Protection regulations (GDPR), the Insurance Distribution Directive (IDD), the Senior managers and Certification Regime (SM&CR) and the fifth Anti-Money Laundering Directive. It is expected that regulatory focus and scrutiny will now shift towards firms demonstrating the successful embedding of recent requirements. Some regulatory fine-tuning may be needed, before the next major wave of regulations is implemented in the early 2020s including IFRS17 (International Financial Reporting Standard).

The UK's exit from the European Union (Brexit) will have a significant impact on insurance and investment management businesses. We have prepared for all potential outcomes arising from Brexit. The Group has one business based in the EU27, its Ireland Branch. We have applied to the Central Bank of Ireland for approval of this business as a Third Country Branch and have received authorisation in principle, to substitute for the current passporting of UK authorisation.

As described in section C.2 below, the Group is exposed to market risk, particularly interest rate, spread and equity risk, and this could lead to capital volatility in the future. However, the Group's capital position is very strong and it is well placed to weather continuing market volatility and currency instability, supported by its unique 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 2018

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: 29 May 2019

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 2018:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR of the Company as at 31 December 2018, ('the Narrative Disclosures subject to audit'); and
- Group templates S.02.01.02, S.22.01.22, S.23.01.22, S.32.01.22 ('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:

- information contained within the relevant elements of the Group SFCR set out above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- 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, S.25.02.22;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Group SFCR ('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 2018 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 Financial Reporting Council's (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 FRC's website at *https://www.frc.org.uk/auditorsresponsibilities*. The same responsibilities apply to the audit of the Group SFCR.

Other Matter

The Company has authority to calculate its Group Solvency Capital Requirement using a partial internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

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.

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.

Paul R. Stephenson

Paul Stephenson BA FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 May 2019

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

Group internal model

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

- The following elements of Group template S.02.01.02:
    - Row R0550: Technical provisions – non-life (excluding health) – risk margin
    - Row R0590: Technical provisions – health (similar to non-life) – risk margin
    - Row R0640: Technical provisions – health (similar to life) – risk margin
    - Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
    - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of Group template S.22.01.22
    - Column C0030 – Impact of transitional measure on technical provisions
    - Row R0010 – Technical provisions
    - Row R0090 – Solvency Capital Requirement
- The following elements of Group template S.23.01.22
    - Row R0020: Non-available called but not paid in ordinary share capital at group level
    - Row R0060: Non-available subordinated mutual member accounts at group level
    - Row R0080: Non-available surplus at group level
    - Row R0100: Non-available preference shares at group level
    - Row R0120: Non-available share premium account related to preference shares at group level
    - Row R0150: Non-available subordinated liabilities at group level
    - Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
    - Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
    - Row R0210: Non-available minority interests at group level
    - Row R0380: Non-available ancillary own funds at group level
    - Rows R0410 to R0440 – Own funds of other financial sectors
    - Row R0680: Group SCR
    - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
    - Row R0750: Other non available own funds
- 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

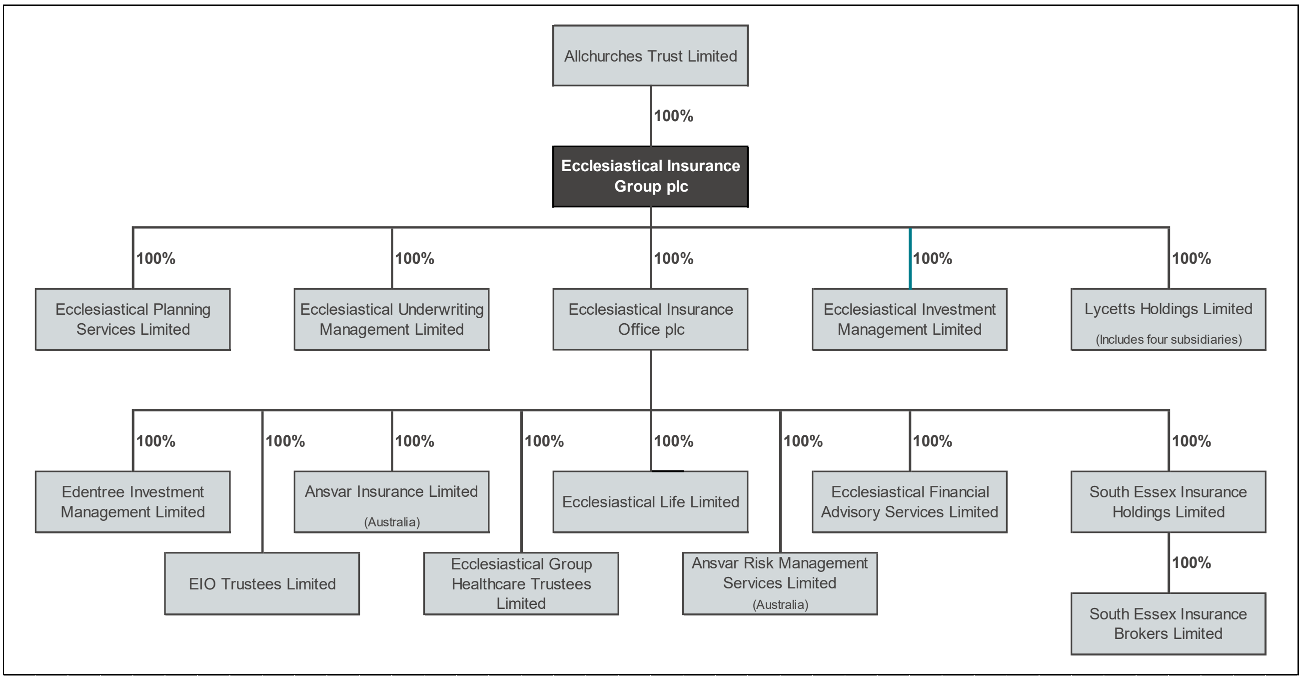
Qualifying holdings

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.

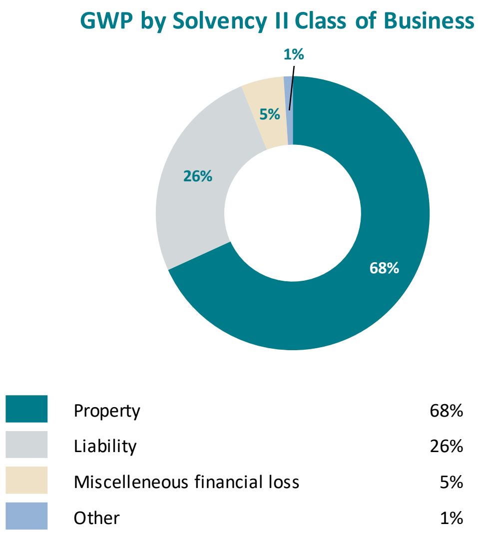
Lines of business

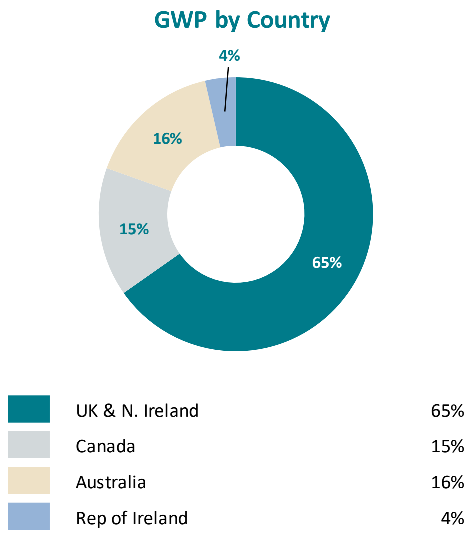
General Insurance business

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

The Group expects 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 these are managed are discussed in more detail in section C.

A.2 Performance from underwriting activities

Overall underwriting performance

The Group's general insurance underwriting performance for the year was a profit of £29.2m (2017: £27.1m). Our fifth consecutive year of improvement in underwriting profits has been aided by the favourable development of prior year claims on the Group's liability business. Additionally in the UK there has been good current year experience on the liability and property accounts which helped to offset the impact of a series of weather events in our Canadian business.

The Group's Life business, which is currently closed to new business, made an underwriting profit of £1.6m (2017: £0.4m profit). The 2018 results incudes a release in reserves for ELL of £1.0m as a result of reduced future direct costs as there is no longer a requirement for a Solvency II audit.

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Net Earned Premium	82,817	80,604	118,901	113,953	11,176	11,067	21	28
Net Claims Incurred	(15,218)	(19,622)	(57,769)	(53,019)	(2,861)	(1,569)	66	(2,400)
Operating Expenses	(40,914)	(38,833)	(63,337)	(60,805)	(6,430)	(5,910)	(253)	(342)
Underwriting Performance	**26,684**	**22,149**	**(2,206)**	**130**	**1,884**	**3,587**	**(166)**	**(2,713)**
Investment return of assets backing liabilities							**1,805**	**3,082**
Net underwriting result							**1,639**	**368**

General Liability

The underwriting result from the liability account continues to perform favourably. Current year claims performance was again better than expected, and we have also had the benefit of reserve releases in the UK and Ireland and Australia as historical claims have been 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, combined with the prudent approach to reserving have improved the overall result in the last three years.

Fire and other damage to property

The underwriting result on the property account was behind last year, impacted by adverse weather in the first half of the year. The UK and Ireland was impacted by claims related to the Beast from the East and Storm Emma, combined with subsidence claims following the exceptionally dry summer. In Canada the first half of the year was materially impacted by claims made as a result of severe winter weather.

The UK and Ireland current year loss ratios are in line with expectations and the result benefited from a distribution from our pooled terrorism reinsurance arrangements. Canada's gross current year loss was within expectation and performance in the second half of the year was stronger with a return to more normal weather experience. Australia's incurred losses improved over the prior year, driven by the more benign natural catastrophe experience in 2018.

Miscellaneous financial loss

The underwriting result on the miscellaneous financial loss account was lower than the prior year. This was due to 2018 net incurred claims being £1.4m higher than the prior year.

Life business

During the reporting period claims of £6.1m were paid, compared to £6.2m paid in the prior year. With no material changes in underlying calculation methodology or assumptions, reserves decreased by £6.2m over the year, in comparison to a £3.8m decrease in reserves in the prior year. In 2018 there was a release in reserves of £1.0m as a result of reduced future direct costs as there is no longer a requirement for this entity to complete a Solvency II audit.

The net result, when movements in assets backing policy liabilities are taken into account, was a gain of £1.6m, above expectations due to the reserve release, underlying profits are in line with expectations and similar to the prior year. In the prior year a gain of £0.4m was recorded.

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Net Earned Premium	152,113	146,035	39,768	38,692	22,187	22,457
Net Claims Incurred	(44,321)	(39,722)	(20,984)	(24,936)	(7,889)	(8,950)
Operating Expenses	(77,715)	(73,016)	(21,383)	(20,920)	(12,897)	(12,822)
Underwriting Performance	**30,077**	**33,297**	**(2,599)**	**(7,165)**	**1,400**	**685**

UK & Ireland[1]

In the UK and Ireland underwriting profit represents another good performance with a favourable result on the liability account and a solid outturn on the property book. It is not a level of underwriting performance on the liability account we expect to persist in the future.

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

In Canada, the severe winter weather at the beginning of 2018 and the occurrence of four weather related mini-catastrophes which were not significant enough to trigger the catastrophe reinsurance programme, materially impacted the result. Performance in the second half of the year was stronger, reflecting the benefit of rating action and a return to more normal weather experience.

Australia

Our Australian business reported an underwriting profit ahead of the prior year. The liability account performed well and includes the benefit of favourable development of prior year claims reserves. The property account incurred losses but improved over the prior year, driven by the more benign natural catastrophe experience in 2018.

A.3 Performance from investment activities

	Investment income			Fair value gains/(losses)			Total return		
	2018 £'000	2017 £'000	Growth %	2018 £'000	2017 £'000	Growth %	2018 £'000	2017 £'000	Growth %
Debt	15,026	16,410	(8%)	(9,823)	(2,871)	242%	5,203	13,539	(62%)
Equities	10,304	10,797	(5%)	(27,066)	42,013	(164%)	(16,762)	52,810	(132%)
Property	8,257	7,511	10%	29	7,414	(100%)	8,286	14,925	(44%)
Cash	543	455	19%	-	-	-	543	455	19%
Derivatives	-	-	-	1,874	(7,778)	(124%)	1,874	(7,778)	(124%)
Exchange	122	333	(64%)	-	-	-	122	333	(64%)
Discount rate	-	-	-	4,144	(1,839)	(325%)	4,144	(1,839)	(325%)
Other	1,288	1,251	3%	-	-	-	1,288	1,251	3%
	35,539	**36,757**	**(3%)**	**(30,842)**	**36,940**	**(183%)**	**4,697**	**73,697**	**(94%)**
Investment expenses	(771)	(1,035)	(26%)	-	-	-	(771)	(1,035)	(26%)
Total investments	34,769	35,722	(3%)	(30,842)	36,940	(183%)	3,927	72,662	(95%)

Investment performance by asset class

Following the strong market returns of the previous two years, 2018 saw a return to volatility in UK and worldwide stock markets which over the course of the year pushed market prices down, notably in the fourth quarter of the year.

Income from financial assets remained relatively stable with the low rate environment continuing to depress overall yields. As a result of the investment market downturn at the end of 2018 the fair value of financial instruments decreased.

The small and mid-cap bias in our UK equity portfolio had a negative impact in 2018 as the FTSE small-cap and FTSE 250 mid-cap indices lagged the FTSE 100 large-cap index and FTSE AllShare overall by 4%. Our allocation to lower volatility direct property investments was the largest positive contributor to total net investment returns over the period. On a relative basis our property investments delivered a return of 5.2% compared with the broader Investment property Databank (IPD) All Properties Index return of 7.4%. A strong return on industrial properties was offset by the retail property sector where our allocation is greater than the benchmark.

The Group's bond investment portfolio has a higher weighting of shorter duration bonds and corporate bonds than the FTSE Conventional Gilts Allstock Index. Overall, this has resulted in underperformance against the main index this year. An upward movement in yields led to an increase in the discount rate applied to long-tail general insurance liabilities.

Gains and losses recognised directly in equity

During the year the Company designated certain derivatives as a hedge of its net investments in foreign subsidiaries and branches. These generated a gain of £1.7m in the current year (2017:£0.9m) 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	2018 £'000	2017 £'000	Change %
Return from non-insurance operations	2,661	4,242	(37%)
Corporate costs	(16,829)	(14,783)	14%
Actuarial gains on retirement plans	3,773	37,370	(90%)
Gains/(losses) on currency translation differences	(1,577)	(860)	83%

Corporate costs are costs incurred in managing the Company and its subsidiaries and certain company-wide strategic investments. They increased in the year due to increased Pension one off costs (Defined Benefit Pension Scheme closure and Guaranteed Minimum Pension equalisation).

Actuarial gains or losses on retirement plans primarily relate to the Company's valuation of retirement benefits which includes the post-retirement medical benefit scheme and the defined benefit pension scheme. A £5m favourable movement in the post-retirement medical benefit scheme was due to a revised assumption setting methodology and updating for actual scheme experience. A £1m loss was due to the defined benefit pension scheme where gains on financial assumptions were more than offset by losses on experience and lower investment returns than expected. Gains seen in 2017 were mainly due to strong investment returns during the year.

Losses on currency translation were relatively small in 2018 & 2017. The Pound continued to strengthen against the Australian and Canadian Dollar resulting in a reduction in the value of the Company's investment in its Australian subsidiary and its Canadian business. The loss was partially offset by gains on currency derivatives the Company holds to hedge the foreign exchange risk.

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.

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.

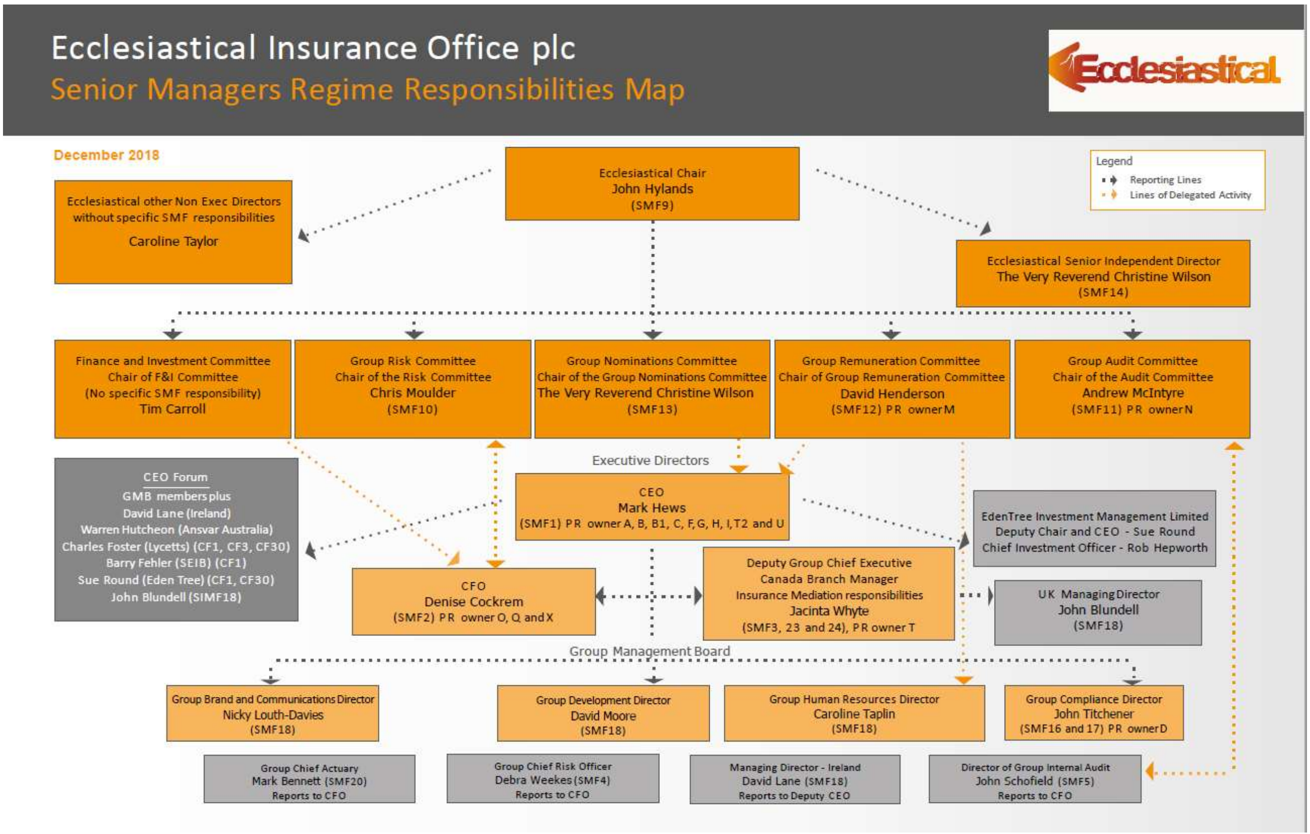
Non-Executive Directors (NED)

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)

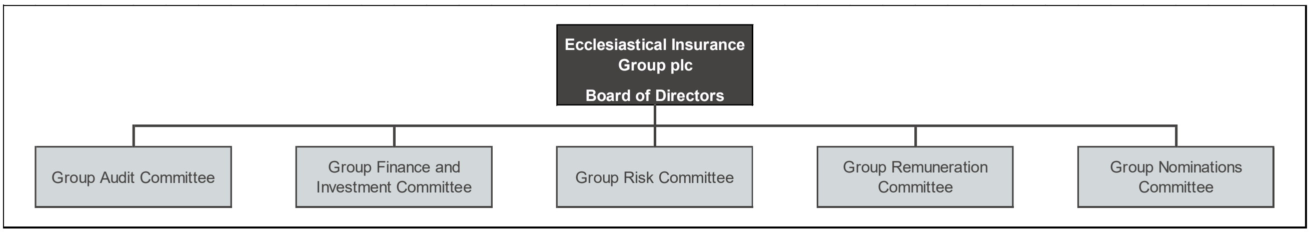
In addition to their other duties as a Non-Executive Director, the SID is responsible for leading the evaluation of the Chairman, meeting with the non-executives at least once a year without the Chairman present and being available to shareholders if they have concerns about the running of the Group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

The Group's governance map sets out the Group's delegation of responsibilities and reporting lines as at 31 December 2018:



Delegation to committees

The Board has established five committees which support the discharge of its duties:



Each Committee has agreed Terms of Reference which sets out requirements for membership, meeting administration, Committee responsibilities and reporting. A high-level overview of each Committee's delegated responsibilities is summarised below:

Group Audit Committee (GAC)

Comprising four independent NEDs, its responsibilities include:

- overseeing of the Group's financial and regulatory reporting processes;
- overseeing the Group's risk management systems and internal controls;
- reviewing the Group's whistleblowing arrangements;
- reviewing tax strategy and policies;

- 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 certain of the Group's financial assets, including its investment portfolio, is properly governed, controlled and performing as expected within agreed risk parameters. The Committee reviews and advises on any major financial decisions on behalf of the Board and reports to the Board on how it has discharged its responsibilities.

Group Risk Committee (GRC)

Comprising three independent NEDs and an Executive Director, 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;
- reporting to the Board on how it has discharged its responsibilities; and
- oversight of the Group capital model.

Group Remuneration Committee

Comprising four 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.

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 has adequate systems and controls sufficient to ensure compliance with its obligations under the regulatory system, associated risks 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 independent 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. This includes designing and recommending policies for the risk appetite and tolerances to the Group CEO for agreement by the Board and ensuring that these are appropriately monitored. The Group Chief Risk Officer (CRO) reports to the Group Chief Financial Officer (CFO) who 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 September 2018.

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. The Board has agreed that the next external evaluation would be postponed until 2019 once the new Chairman has been in role for a reasonable period.

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; and
- 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

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; and
- 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 annually.

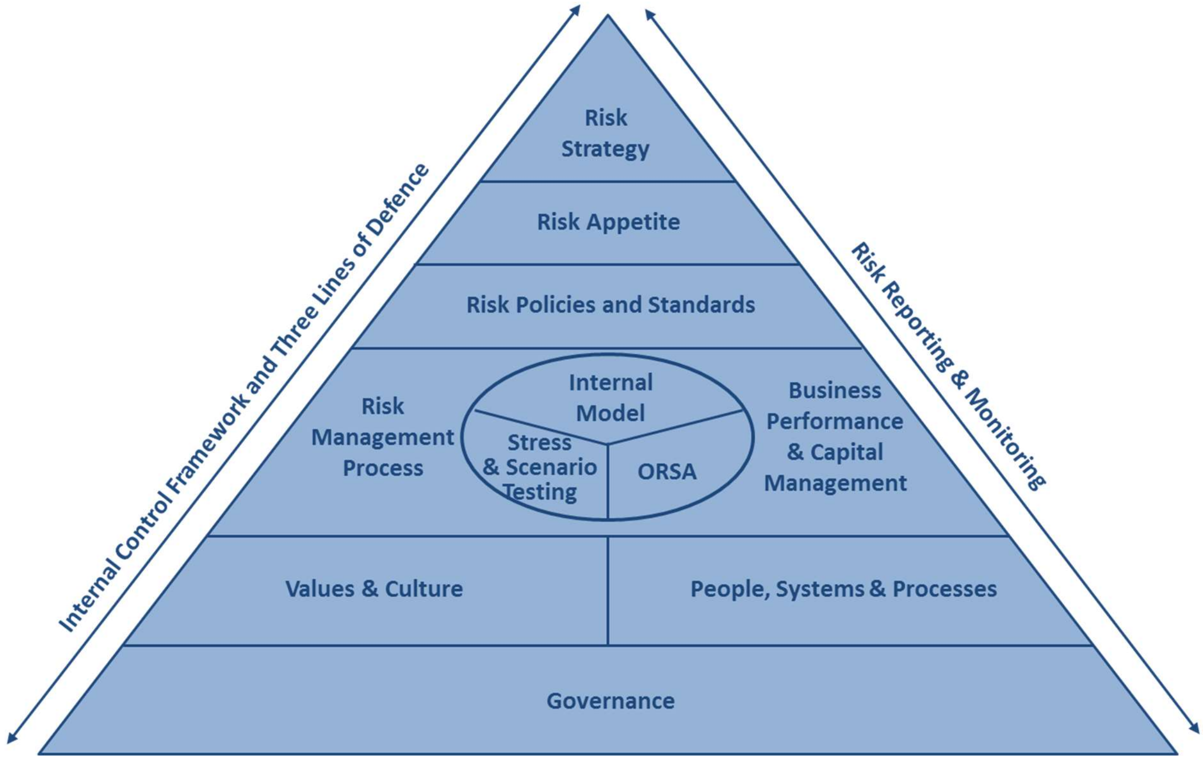
The Group prepared for the implementation of Senior Managers and Certification Regime, which came into effect on 10 December 2018. This means that the Group's approach to Fitness and Propriety was reviewed and refined. With the introduction of the Certified Persons Regime, this has significantly increased the amount of people deemed to be fit and proper, although the process replicates the process formerly used for KFH (i.e. notification).

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 Group Chief Risk Officer (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 Group Chief Executive and the Group Management Board (GMB), with support from 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 a review of the progress of risk management actions and challenge of any gaps in risk mitigants. 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 focuses on the material risk areas and establishes the risk taking capacity of the Group. SBU's maintain their own risk appetite limits, which are aligned to the overall Group 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 record details of these risks within a risk register and 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 updated on an ongoing basis 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 reports 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 reports 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 common risks across a number of business units and report to the GRC where it is believed that any of those risks 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.

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 adequate and appropriate actions are in place in response.
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 risk types for which they are responsible, including overseeing cross SBU risks and ensuring that coordinated organisation-wide responses are in place.
SBU Management and Risk committees (First Line of Defence)	Responsible for ensuring that they are aware of the key risks relating to their 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 to ensure a consistent and robust approach to risk management across the organisation. Facilitates the management and ongoing effectiveness of the Risk Management Framework by providing the tools, training and support to all levels of the business so stakeholders can effectively discharge their responsibilities.
Internal Audit (3rd Line of Defence)	Provide independent assurance over the design and operational effectiveness of the Risk Management Framework.

Consistency of implementation across the Group

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

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

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

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

Election to undertake a single Group ORSA report

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

Own risk and solvency assessment process

The objective of the ORSA 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.

Frequency of review

The Group performs a full ORSA at least annually, covering the solvency position at 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 November 2018.

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 analysis 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 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, challenging 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 and branches. Compliance standards are applied to 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

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

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

GIA maintains a professional audit team with sufficient knowledge, skills, experience and professional qualifications. Where specialist, technical support is necessary to supplement GIA resource, this is available through a co-sourcing contract with an external specialist 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 Audits are complied with.

GIA operates within the Company'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 organisation. 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 and 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;

- *Close and Continuous -* This will involve GIA having regular meetings with key stakeholders and attending decision making forums as appropriate. It will also include ongoing assessment of key documents as they are produced. Any concerns will be raised with management at an early stage to allow the programme to address them in a timely manner; and
- *Consultancy -* Completing a piece of ad-hoc work for management, usually around the development of controls in a specialised area. Such work may be characterised by the need to formally contract with the business to assist in control development. GIA will rarely perform these pieces of work as they potentially compromise our independence.

The above are communicated through the following methods:

- Reporting to the GAC, including thematic reporting. Quarterly reporting is provided to the GAC, where the Group Chief Internal Auditor attends GAC meetings to summarise the output within the reporting period and provide an opinion on a number of key risk themes; and
- 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, the action is assigned a single owner to enhance accountability.

Independence of the internal audit function

To ensure the independence of GIA, the Group Chief Internal Auditor is accountable to the EIG GAC Chair, reports administratively to the Group CFO and has access to the Chairman of the EIG Board.

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 Group Chief Internal Auditor 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 Group Chief Internal Auditor, or the GIA team, the Chair of the GAC will review the redactions and confirm (or otherwise) to the Group Chief Internal Auditor whether the redactions are appropriate.

The Group Chief Internal Auditor 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

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 Procurement and Outsourcing Policy is to outsource services on an exceptional basis. Outsourcing is considered as an option when reviewing the operational effectiveness and business requirements of meeting the needs of our customers and whether these can be better delivered from outside the organisation using specialist providers. Outsourcing will always be subject to the services maintaining the integrity of the Group's compliance with regulatory obligations and not increasing the Group's exposure to operational risk.

The Group remains responsible and accountable for any activities it has outsourced and operates a defined framework for supplier selection and management that includes risk assessing the services, conducting regular and appropriate due diligence and managing the supplier relationship and performance.

Comprehensive written contracts are entered into with accountability for managing the delivery of the services assigned to an individual manager within the Group along with a Senior Executive as ultimate owner. Exit and contingency plans are documented and are reviewed on a frequent basis to ensure they remain appropriate.

Outsourcing of critical or important functions or activities

The Group has outsourced services in respect of the provision of legal expense handling, off-site document and media storage, workplace recovery sites, IT data lines provision and management and IT infrastructure support.

All providers operate from the United Kingdom.

Intra-group outsourcing

The Group's investment management activity is outsourced to a subsidiary company, EdenTree Investment Management Limited, with a comprehensive 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 Ecclesiastical Insurance Office Plc and allocate them 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.

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 - Non-life underwriting risk	2018
	£'000
Premium risk	126,230
Reserving risk	77,788
Diversification	(55,660)
Non-life underwriting risk	**148,357**
Life underwriting risk	**2,724**

General Business

The elements of the Group's non-life underwriting risk are:

- *Premium Risk –* the risk that premiums relating to future accident years will be insufficient to cover all liabilities arising from that business as a result of fluctuations in frequency and severity of claims, timing of claim settlements or adverse levels of expenses. This includes Catastrophe Risk which is the risk of financial loss relating to future accident years, arising from net of reinsurance claims generated by catastrophic events;
- *Reserving 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 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. Many have undergone a 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.

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

Reserving risk

Reserving risk is the risk of actual claims payments exceeding the amounts held in claims reserves and may emerge at any time until final claim settlement, so can be long-term in nature, particularly for liability business. The Group's Own Risk and Solvency Assessment (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 v Projected claims analyses and assessment of PSA incurred claim volumes.

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

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	2018
	£'000
Market risk: excluding Pension risk	153,897
Market risk: Pension risk	74,382
Diversification	(8,402)
Market risk	**219,877**

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* - this represents the largest market risk for the Group, arising from exposure to global equity investments;

- *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.
- *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;
- *Spread risk* - arising from the possibility of deterioration in the credit rating of corporate bonds or changes in market spreads of corporate bond yields over risk-free rates;
- *Credit risk (bond default)* - arising from the possibility of default of corporate bonds; 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.

The Group sponsors a defined benefit pension scheme. Within the pension scheme, the main risk exposures arising are equity risk, property risk, interest rate risk, spread risk, currency risk and inflation risk.

Throughout the year, there has been no material change in the Group's overall exposure to market risk.

We continue to monitor macroeconomic and geopolitical risks, for example, at the time of writing the Group is continuing to assess risks relating to the UK's impending withdrawal from the European Union. Despite the increased volatility in investment fair values and currency exposure from the Brexit negotiations, the Group's solvency cover has been resilient.

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 at EOY 2018 is only 5% of overall investments.

Assets to cover all liabilities and any local capital requirements are held in the relevant matching currencies and held in those countries. The assets are managed so that a notional portfolio backing technical provisions is held which has appropriate 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 Group Risk Committee and the Finance & Investment Committee, which are both committees of the Board.

Market risk concentration

The majority of market risk exposure is located in the UK. The portfolio is well diversified, the largest exposure being to the UK Government, with 7% of total investments being in UK gilts.

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. Throughout 2018, the Group held put options in order to mitigate equity risk. 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. Implementation of the Liability Driven Investments portfolio within the defined benefit pension scheme was completed during 2018, 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 2018 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 2018 was approximately £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 Chief Financial Officer. 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 £5,333k.

The total amount of expected profit included in future life premiums is £7k.

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.

The Group is currently undertaking a long-term transformation programme which will include investing in a new core operating systems infrastructure. This will help to improve processes for front-line staff, provide a platform for business growth and better serve customers and partners.

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

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. Examples include an information security breach and systems unavailability.

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 model outputs using pre-defined pass/fail criteria in order to draw conclusions on model accuracy and risk coverage.

Some examples of single scenarios considered 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 considered 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		2018 As reported IFRS Basis	Unconsolidate non-insurance undertakings	Reclassify to aid comparison	2018 Reclassified IFRS	Net valuation difference	2018 Solvency II Valuation
		£'000	£'000	£'000	£'000	£'000	£'000
	Total Assets	1,644,727	(196,675)	(101,836)	1,346,216	(145,097)	1,201,119
	Total liabilities	1,039,671	(196,675)	(101,836)	741,160	(85,578)	655,582
	Net assets	605,056	-	-	605,056	(59,519)	545,537
Breakdown of asset valuation							
Goodwill		47,214	(7,487)	-	39,727	(39,727)	-
Intangible assets		12,634	(3,804)	-	8,830	(8,830)	-
Deferred acquisition costs		33,907	-	-	33,907	(33,907)	-
Deferred tax assets		2,557	(808)	-	1,749	(381)	1,368
Pension benefit surplus		16,131	-	-	16,131	-	16,131
Property, plant & equipment held for own use		9,261	(1,420)	-	7,841	-	7,841
Investments	Participations	-	31,597	5,437	37,034	(11,838)	25,196
	Other	958,467	(1)	5,956	964,422	(8)	964,414
Loans & mortgages		17	(1)	-	16	(14)	2
Reinsurance recoverables	Non-life	140,346	-	(11,604)	128,742	(44,849)	83,893
	Life	157,475	(157,475)	-	-	-	-
Insurance & intermediaries receivables		83,620	115	(79,972)	3,763	-	3,763
Reinsurance receivables		11,612	-	(11,559)	53	-	53
Receivables (trade, not insurance)		37,231	(21,429)	(6,735)	9,067	(5,543)	3,524
Cash and cash equivalents		134,117	(37,399)	(1,922)	94,796	-	94,796
Any other assets, not elsewhere shown		138	1,437	(1,437)	138	-	138
Total assets		1,644,727	(196,675)	(101,836)	1,346,216	(145,097)	1,201,119

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 17%, being the rate that becomes effective from April 2020.

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	2018 £'000	2017 £'000
Government bonds	3,861	1,823
Corporate Bonds	74,577	81,412
Listed Equity	138,455	140,390
Unlisted Equity	925	1,031
Investment funds	59,526	75,817
Collateralised securities	562	613
Cash and cash equivalents	20,387	15,386
Investment Property	44,702	44,902
Derivatives	(1,981)	790
Other	855	1,015
	341,869	**363,179**

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	2018	2017
	£'000	£'000
Property improvements, fixtures and fittings & computer equipment	4,060	4,493
Owner occupied property	2,445	2,255
Motor vehicles	1,336	1,569
	7,841	**8,317**

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 (£11,383k) 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 £4,035k 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 £5,543k 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; and
- risk margins.

The 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 (DFM) 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 (BF) 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

Claims provisions, premium provisions and risk margin by class are reported on 'QRT S.17.01.02 – Non-life technical provisions'.

The two major contributors to the TPs are the 'general liability' (64% of TPs) and 'fire and other property damage' (33% 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 increased over 2018 which resulted in an decrease in the discounted latent provisions.

Motor vehicle classes

The majority of motor business has been in run-off since 2013. The motor TPs are calculated at an aggregated level for 'motor third party liability' and 'other motor', with substantially all of the remaining reserve relating to liability claims. The line of business continues to reduce in significance over time.

Non-proportional reinsurances

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

Risk margin (unaudited)

The SII risk margin is the present value cost of capital for a reference undertaking subject to a Solvency Capital Requirement ('SCR') over the period of fulfilling the obligated business cash flows. The SCR for each year of run off reflects a 1-year view of risk for the relevant Insurance, Counterparty, Operational and Unavoidable Market risks in that period. From 2018 the risk margin has adopted the internal model calculation, at individual model class level, using the modelled SCR for each class and the diversification available between these classes. The internal model class diversified risk margin outputs are then aggregated to the Solvency II reporting classes.

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, and the term over which these risks run off. Under SII principles this margin is not allocated as gross and ceded, but is a single value based on the risk net of reinsurance.

Life technical provisions

The Group has only one material line of life business; whole of life policies backing funeral plans. The value of technical provisions at 31 December 2018 was:

Life net technical provisions	2018	2017
	£'000	£'000
Best estimate liabilities	79,666	86,919
Premium debtors	(339)	(262)
Risk margin (unaudited)	2,046	2,525
SII Net technical provisions	81,373	89,182

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

The main assumptions made for this are:

- mortality – 97% 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 2018); and
- future renewal expenses - £12.10 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 or latent claims where aggregation of claimants and exposure over time are issues; and
- whether all such reinsurances will remain in force over the long term.

While the best estimate TPs calculation targets reserving for the average or expected future cost within a range of possible outcomes, due to the uncertainties it is likely that the actual costs will differ from the reserved amount. In order to better understand the underlying uncertainty a range of possible outcomes are tested and analysed by running a series of sensitivities. Sensitivity Analysis is a technique used to understand the variability of possible outcomes. This is done by analysing the change in TPs as a result of adjusting a single input parameter.

The sensitivity analysis of TPs is a useful risk management tool that helps the business identify which internal factors are key drivers of the total provision. The ability to identify the key risk drivers of the TPs allows management to identify lead indicators to monitor these drivers, so as to better predict their effect and manage the risks associated with uncertainty.

The effectiveness of a sensitivity testing process depends on being able to identify and isolate the full effects attributable to each material input factor affecting the final TPs. Following the 'impact-value chain' creates more realistic and accurate sensitivity scenarios.

Life technical provisions

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

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

The assumption of future levels of mortality will have a relatively minor impact on the value of technical provisions. Experience of this portfolio of business has been sufficiently credible to give comfort that the level of mortality in 2019 will not deviate materially from the base level assumption. For the future improvements in mortality, the uncertainty that would lead to an increase in value of liabilities is related to greater annual rates of improvement than assumed.

The expenses incurred in running off the in-force business could differ from assumed levels, though the expense base for the life business 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, whereas the discount rate used in the IFRS accounts currently includes an input for liquidity premium based on actual assets held, and discounts only the latent classes of claims.

The adjustment for Risk Margin reflects the difference between the Board's appetite for sufficiency of reserves 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	2018	2017
	£'000	£'000
IFRS Technical Provisions net of deferred acquisition costs, debtors and creditors	414,612	438,229
Adjustment for risk margin (unaudited)	(10,536)	(11,517)
Adjustment for discounting	14,834	10,883
Other adjustments	(9,845)	(8,248)
SII Net technical provisions	409,065	429,347

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 (27 basis points at 31 December 2018), whilst the valuation for the financial statements uses a flat discount rate based on the risk-adjusted yield of the assets backing the insurance liabilities.

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

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

Life net technical provisions	2018	2017
	£'000	£'000
IFRS reserves	81,964	88,142
Expenses assumed	(3,032)	(3,742)
Real interest rate	1,998	3,820
Investment expenses	(180)	(144)
Mortality	(1,084)	(1,157)
Premium debtors	(339)	(262)
Explicit Risk Margin (unaudited)	2,046	2,525
SII Net technical provisions	81,373	89,182

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 technical provisions for the single premium funeral plan business.

If the volatility adjustment was changed to zero, the impact would be an increase in technical provisions of £2,562k, an increase in the SCR of £66k and a decrease of £2,562k in both basic own funds and amount of own funds eligible to cover the SCR and the minimum group SCR.

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

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

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

Life technical provisions

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

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

Non-life technical provisions

There have been no significant changes to previously used assumptions for the technical provisions.

Life technical provisions

The most material changes in the relevant assumptions made in the calculation of life technical provisions compared to the previous reporting period are those reflecting economic conditions and outlook at the reference dates of the respective calculations. An increase in real interest rates has reduced the value of technical provisions.

The only other material change relates to the unit expense assumption. Following a change to regulatory rules that removed the audit requirements for small companies, the expense base of the life business has been reduced and reflected in the assumed level of future expenses incurred, so reducing the value of technical provisions.

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		2018 As reported IFRS Basis	Unconsolidate non-insurance undertakings	Reclassify to aid comparison	2018 Reclassified IFRS	Net valuation difference	2018 Solvency II Valuation
		£'000	£'000	£'000	£'000	£'000	£'000
Total Assets		1,644,727	(196,675)	(101,836)	1,346,216	(145,097)	1,201,119
Total liabilities		1,039,671	(196,675)	(101,836)	741,160	(85,578)	655,582
Net assets		605,056	-	-	605,056	(59,519)	545,537
Breakdown of liability valuation							
Technical provisions	Non-life	638,085	-	(80,549)	557,536	(64,578)	492,958
	Life	239,440	(157,475)	(339)	81,626	(252)	81,374
Provisions other than technical provisions		5,978	(850)	-	5,128	-	5,128
Pension benefit obligations		9,810	(3,997)	-	5,813	-	5,813
Deferred tax liabilities		32,323	56	-	32,379	(1,241)	31,138
Derivatives		2,306	-	-	2,306	-	2,306
Debts owed to credit institutions		1,379	-	-	1,379	-	1,379
Insurance & intermediaries payables		1,183	-	(1,183)	-	-	-
Reinsurance payables		23,765	-	(23,765)	-	-	-
Payables (trade, not insurance)		65,337	(33,782)	4,000	35,555	(70)	35,485
Any other liabilities, not elsewhere shown		1	-	-	1	-	1
Deferred income		20,064	(627)	-	19,437	(19,437)	-
Total liabilities		1,039,671	(196,675)	(101,836)	741,160	(85,578)	655,582

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	2018	2017
	£'000	£'000
Solvency II valuation of assets	1,201,119	1,269,603
Solvency II valuation of liabilities	(655,582)	(714,725)
Excess of assets over liabilities	545,537	554,878
Qualifying subordinated debt	-	-
Foreseeable distributions	(4,445)	(4,476)
Non-available own funds at group level	(17,102)	(19,609)
Total eligible own funds	**523,990**	**530,793**

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; and
- 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; and
- 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; and

- 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; and
- 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. The policy was last reviewed in November 2018. Reports detailing performance against this policy or any business critical changes will be reviewed periodically, but at least annually, by the GRC.

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*). 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		
2018	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Ordinary share capital	20,000	20,000	-	-	-
Minority interests	100,218	-	100,218	-	-
Amount equal to deferred tax asset	1,331	-	-	-	1,331
Reconciliation reserve	402,441	402,441	-	-	-
(Net of non-available items)	**523,990**	**422,441**	**100,218**	**-**	**1,331**
2017					
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**
Movement in own funds					
Ordinary share capital	-	-	-	-	-
Minority interests	3,453	-	3,453	-	-
Amount equal to deferred tax asset	433	-	-	-	433
Reconciliation reserve	(10,689)	(10,689)	-	-	-
(Net of non-available items)	**(6,803)**	**(10,689)**	**3,453**	**-**	**433**

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 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 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	**530,793**	**433,130**	**96,765**	**-**	**898**
IFRS total comprehensive income	17,515	17,487	-	-	28
Preference dividends paid to minority interest	(8,922)	(8,922)	-	-	-
Acquisition of minority interest	(1,035)	(325)	(710)	-	-
Charitable grant paid net of tax relief	(13,770)	(13,770)	-	-	-
Movement in SII valuation of non-life technical provisions *	(2,846)	(2,846)	-	-	-
Movement in SII valuation of life technical provisions *	1,555	1,555	-	-	-
Movement in SII revaluation of participations	(251)	(251)	-	-	-
Movement in other SII deductions & revaluations	(2,190)	(2,190)	-	-	-
Movement in SII calculation of deferred tax	1,023	581	-	-	442
Movement in sectoral revaluation of investment firm (unaudited)	(420)	(420)	-	-	-
Movement in foreseeable distributions	31	31	-	-	-
Movement in non-availability of Own Funds at group level	2,507	(1,619)	4,163	-	(37)
Total movement for year	**(6,803)**	**(10,689)**	**3,453**	**-**	**433**
Current year balance	**523,990**	**422,441**	**100,218**	**-**	**1,331**

**** - Risk margin thereof unaudited***

The £17,515k IFRS total comprehensive income is reported in the Group's financial statements and includes profit after tax of £15,232k, actuarial gains of £3,773k in respect of the Group's retirement benefit obligations and losses on currency translation of £1,577k.

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 movement in discount rates, and for life TP's changes in the real interest rates as covered in section D.2.

The movement in other SII deductions includes adjustments for items that are inadmissible for SII such as prepayments, goodwill and intangible assets, which increased compared to last year.

The movement in SII adjustment for deferred tax reflects the movement in adjustment for TPs and other SII adjustments.

The movement in non-availability of Own funds is primarily due to the adoption of the Group's Partial Internal Model, which necessitates a different calculation methodology.

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

Analysis of eligible own funds available to cover Group SCR	2018 £'000	2017 £'000
Unrestricted tier 1 capital	422,441	433,130
Restricted tier 1 capital	100,218	96,765
Total eligible tier 1 capital	**522,659**	**529,895**
Restricted tier 1 relegated to tier 2	-	-
Other tier 2 capital	-	-
Total eligible tier 2 capital	**-**	**-**
Eligible tier 3 capital	**1,331**	**898**
Total eligible own funds*	**523,990**	**530,793**
Ineligible own funds	**-**	**-**
Total own funds*	**523,990**	**530,793**

** - Including own funds of investment firm (unaudited)*

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	2018 £'000	2017 £'000
Unrestricted tier 1 capital*	422,441	423,910
Restricted tier 1 capital	100,218	96,765
Total eligible tier 1 capital	**522,659**	**520,675**
Restricted tier 1 relegated to tier 2	-	-
Tier 2 capital	-	-
Total eligible tier 2 capital	**-**	**-**
Total eligible own funds*	**522,659**	**520,675**
Ineligible own funds	**1,331**	**898**
Total basic own funds after deductions	**523,990**	**521,573**

** - Excluding own funds of investment firm (unaudited)*

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	2018 £'000	2017 £'000
Equity as reported in IFRS Financial Statements	605,056	611,268
Revalue participations	(10,715)	(10,464)
Revalue life technical provisions *	252	(1,303)
Revalue non-life technical provisions *	19,729	22,575
Remove deferred commission income and deferred acquisition costs	(14,470)	(13,901)
Remove goodwill and intangible assets	(48,557)	(48,275)
Remove prepayments and other items with no fair value	(5,495)	(4,156)
Impact of revaluation on deferred tax	860	(163)
Impact of valuing investment firm using sectoral rules (unaudited)	(1,123)	(703)
Solvency II valuation of excess of assets over liabilities	545,537	554,878
Foreseeable dividends & distributions	(4,445)	(4,476)
Group availability restriction	(17,102)	(19,609)
Solvency II Valuation of own funds	523,990	530,793

- Risk margin thereof unaudited

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, and the 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'.

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								**545,537**
Foreseeable distributions								(4,445)
Restriction due to solo SII requirements								
Notional solo SCR based on group data	**(a)**	24,142	228,587	252,729	15,879	28,592	3,963	
Notional share of Group SCR	**(b)**	12,754	222,218	234,972	14,959	16,508	2,782	
Contribution ratio to Group SCR	**(b/a)**	52.8%	97.2%	93.0%	94.2%	57.7%	70.2%	
Stand-alone solo SCR	**(c)**	24,142	232,756	256,898	15,879	28,592	3,963	
Contribution of Solo to Group SCR	**(c x b/a = d)**	**12,754**	**226,271**	**238,848**	**14,959**	**16,508**	**2,782**	
Fungibility restrictions:								
Due to local capital requirement								
Own Funds		21,988	129,666		15,879	15,603		
Minority interest			103,090					
Due to deferred tax asset						1,368		
	(e)	21,988	232,756		15,879	16,971	-	
Unavailable at group level	**(If e>d)**	(9,234)	(6,485)		(920)	(463)	-	**(17,102)**
(Amount in excess of contribution to Group SCR)								
Available Group Own Funds								**523,990**
Unavailability split by tier:								
Tier 1								(14,193)
Restricted Tier 1 (Minority interest)								(2,872)
Tier 3								(37)
								(17,102)

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

Consolidated group SCR (unaudited)

The SCR is the amount of capital that the Group is required to hold as required by the Directive. The Group uses a Partial Internal Model (the Model), which has been approved for use by the PRA, to calculate the SCR. The consolidated group SCR adds to this the capital requirement of EdenTree, which is calculated in accordance with its own sectoral rules (unaudited), in line with Articles 329 and 336 of the SII Delegated Act.

The Model is described in section E.4. A breakdown of the SCR elements applicable to the Group is given in the following section. As at 31 December 2018 the SCR for the Group was £274,021k, and is still subject to supervisory assessment.

A copy of the QRT 'S.25.02.22 – Solvency Capital Requirement' is reproduced in Appendix 8.

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 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	2018 £'000	2017 £'000
MCR of Ecclesiastical Insurance Office plc	64,225	73,088
MCR of Ecclesiastical Life Limited	3,970	4,565
Local regulatory requirement of Ansvar Insurance ltd	15,603	16,433
Minimum group solvency capital requirement	**83,798**	**94,086**

SCR by risk module and Changes to the SCR and minimum group SCR compared to the prior period (unaudited)

Solvency Capital Requirement	2018 £'000	2017 £'000	Change £'000
Market risk	219,877	210,837	9,040
Counterparty default risk	13,528	34,367	(20,839)
Non-life underwriting risk	148,357	181,342	(32,985)
Life underwriting risk	2,724	3,320	(596)
Operational risk	31,105	14,825	16,280
Other risks	22,042	-	22,042
Diversification	(148,606)	(101,372)	(47,234)
Basic SCR	289,027	343,319	(54,292)
Loss absorbing capacity of deferred tax	(19,000)	(39,584)	20,584
Other adjustments	(806)	-	(806)
Consolidated SCR	269,221	303,735	(34,514)
Sectoral capital requirement of investment firm	4,800	4,800	-
Group SCR	**274,021**	**308,535**	**(34,514)**
Minimum group SCR	**83,798**	**94,086**	**(10,288)**

The SCR has decreased in 2018 mainly due to the adoption of the Model. A summary of the key differences in basis, together with a description of any significant changes in exposure and risk profile over the period is provided below.

A more detailed description of the differences between the Model and Standard Formula bases is provided in section E.4.

Market risk has increased over the year due to the scope of the Model being more comprehensive than the previous Standard Formula approach, in particular capturing all risks relating to the pension fund (including inflation and credit spread impacts on pension liabilities). While gross equity exposure, a key driver of market risk, has fallen over the year following a market downturn in late 2018, this has been offset by a reduction in the derivative protection assumed in the Model, which is based on a rolling programme.

Counterparty default risk has fallen largely due to greater diversification between components within the Model. The scope of counterparty default risk is similar to the Standard Formula and there have been no material changes in exposure over the period.

Non-life underwriting risk has fallen largely due to better allowance for the relationships between the component risks within the Model, which leads to a higher diversification benefit than under the Standard Formula. Within non-life underwriting risk, there has been a reduction in exposure to prior year risks as liability reserves continued to run off favourably, which has reduced the level of reserving risk. This is partly offset by increases in natural catastrophe risk due to exposure growth across all territories.

The 2018 operational risk figure represents bespoke undiversified operational risk scenarios. In contrast, the prior year figure represents the diversified factor-based charge under the Standard Formula.

Other risks mostly relates to pension fund longevity risk that was out of scope in the prior year under the Standard Formula basis.

Diversification benefit is significantly higher in 2018, again owing to the ability of the Model to better reflect the Group's unique risk profile and relationships between the various risk types.

The 2018 LACDT includes an adjustment to remove deferred tax asset balances within the overall closing net deferred tax liability. It is planned to remove this conservative adjustment subject to PRA approval of a Model change application.

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

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

No simplifications, undertaking-specific parameters or the duration-based equity sub-module have been used in calculating the SCR for the Standard Formula element of the Group's Partial Internal Model.

Group diversification (unaudited)

As shown above there is significant diversification benefit between risk types within the Group SCR.

This is mainly driven by diversification between market risk and non-life underwriting risk which are the two biggest risks, but are largely unrelated to each other. This is because non-life underwriting risk includes material natural catastrophe and latent reserving risks which have limited link to the economy, resulting in significant diversification benefit with market risks.

Within market risk, the pension fund is another key source of diversification for the Group. This is because market risk is largely driven by an equity led economic downturn, however the risk relating to pension liabilities creates a benefit in an economic downturn (through higher discount rates).

Within non-life underwriting risk there is also material diversification due to the geographical diversification between the territories insured, namely between Canada, Australia and the core UK insurance businesses.

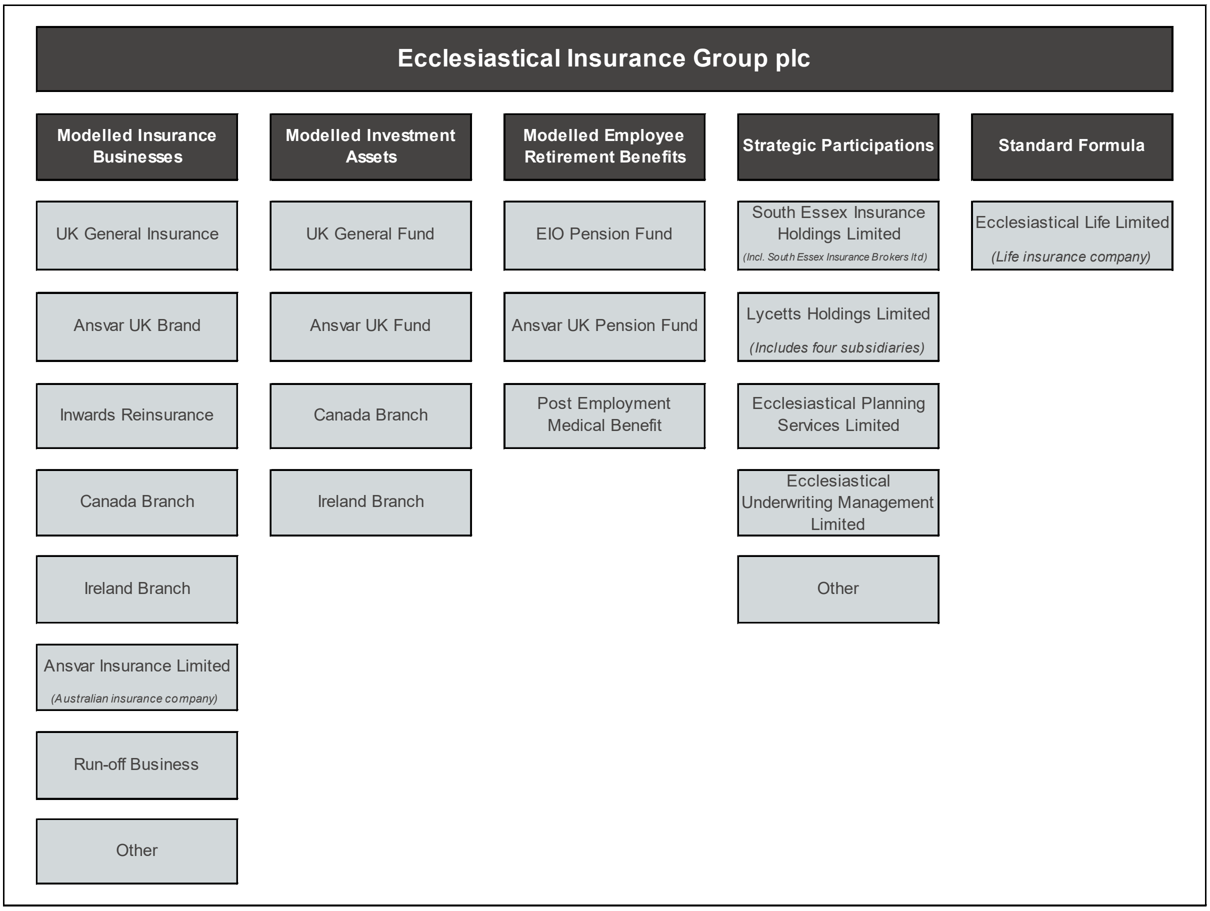
E.3 Use of the duration-based equity risk sub-module in the calculation of the SCR

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

E.4 Differences between the standard formula and the internal model (unaudited)

For the purposes of calculating its SCR, the Group uses a Partial Internal Model, as approved by the PRA. The following sections describe various aspects of this Model.

Scope of the Partial Internal Model



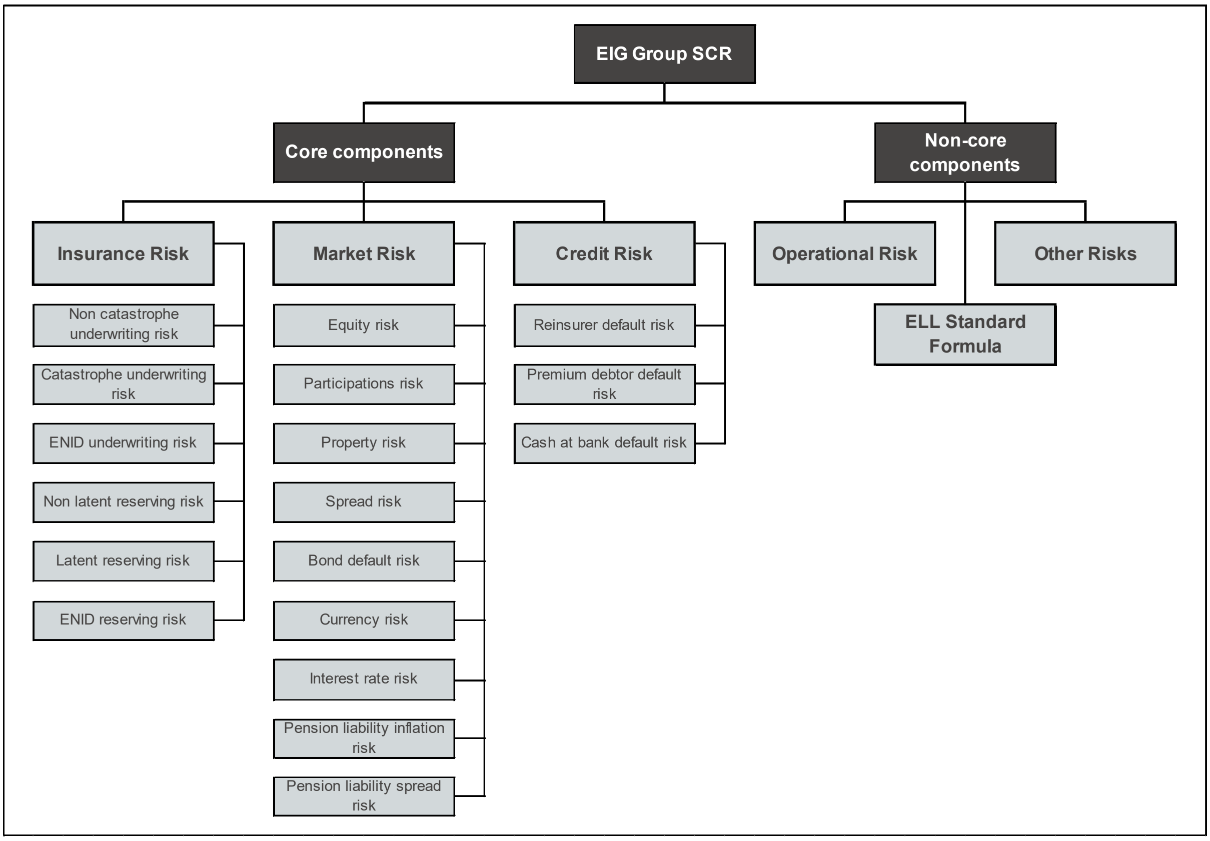
For the purposes of calculating the SCR, the Model is defined as a 'Partial Internal Model' under SII. This is because the model includes a subsidiary, ELL, whose capital requirement is calculated using the Standard Formula.

The Model is intended to capture all the material financial risks within the Group. The most material risks relating to the General Insurance business and Market Risk are captured within a Core Stochastic Model.

A number of additional 'Non-Core' risks are then aggregated with the stochastically modelled requirement at the final stage. These risks use a combination of stochastic and scenario based approaches. This also includes the SCR for ELL which is calculated separately using the Standard Formula.

Finally, Model Adjustments are applied in order to derive the final capital requirement.

The diagram below illustrates the component risks within the Internal Model:



Methods used in the Partial Internal Model

Within the core stochastic model the quantitative impact of key drivers of risk are allowed to vary (e.g. gross claims and investment returns) according to a set of calibrated input parameters. Correlations are applied so that the relationships between inputs are captured (e.g. claims in one insurance niche are likely to occur at the same time as claims in a related niche). The Model then randomly varies all of these drivers of risk to produce a probability distribution forecast for the Group's complete profit or loss over a one year period.

The Model is run a large number of times (100,000 simulations) in order to determine many potential outcomes.

The SCR is defined to be the 99.5th value at risk of own funds over a one year time period. This is commonly referred to as the '1 in 200 Value at Risk (VaR)' and effectively represents the '1 in 200' worst loss generated from the simulated results, which would be expected to be exceeded only once in 200 years. The risk measure (1 in 200 or 99.5th VaR) and one year time period used within the Model have been selected to agree to that set out in Article 101(3) of the Directive.

Operational risk and other risks are modelled independently then aggregated with the core component capital requirement to produce the total SCR. This method is valid due to these risks being largely independent of the other high-level risk types.

The technique for integrating the ELL Standard Formula result is consistent with Integration Technique 2 in Annex XVIII of the Delegated Regulation. This method involves aggregation of units from the Model with modules of the Standard Formula. Correlations between modules and sub-modules calculated in the Standard Formula are set equal to those dictated within the Standard Formula. Other correlations required are subject to specific criteria (e.g. between -1 and 1) and set in such a way that the overall SCR could not be higher.

Use of the Partial Internal Model

The Model is a key tool within the risk management system. It plays a central role in the management of risks. In addition to its primary role of calculating the regulatory and internal capital requirements, the Model provides support and justification for a variety of key business processes, including:

- setting of and monitoring the Risk Appetite;
- informing decisions relating to business strategy;
- output for the ORSA and other risk management analysis;
- setting of business plan assumptions;
- setting of investment strategy; and
- reinsurance programme design and strategy.

Differences in methodologies between the IM and SF

This section compares the methodologies and assumptions underlying each of the risk modules within the Model and the Standard Formula. The key difference is that the Model methodology and parameterisation is more tailored to EIG's own risk profile than the Standard Formula.

Model Risk Category	Standard Formula Sub-component(s)	Standard Formula approach	Partial Internal Model
Non-Life Underwriting Risk	Premium & Reserve, Catastrophe and Lapse	▪ For premium & reserve risk, market average volatility factors are applied to a relevant volume metric, by line of business. ▪ Net earned premiums provide the volume metric for premium risk, with net best estimate claims reserves providing the volume metric for reserve risk. ▪ No account is taken of the relative scale or nature of business within each line, but geographical diversification is included. ▪ Catastrophe losses are largely based on shocks applied to Sums Insured and Gross Premiums within different geographical zones. The reinsurance mitigation effect is calculated based on consideration of single events. ▪ Lapse risk is modelled based on lapsing a proportion of business where this is contributing profit to the opening reserves.	▪ Model classes are split to a lower level of granularity than the SII lines of business (e.g. to insurance niche), to better reflect the risk profile of particular territories, and where relevant, customer groupings. ▪ For premium risk, for each class the model simulates uncertainty in premium rates, gross claims and expenses. Reinsurance contracts are applied to generate reinsurance recoveries in relation to the simulated claims. ▪ Reserve risk is calibrated separately for non-latent and latent reserve risk within a class, where relevant. Non latent reserve risk calibrates future modelled claims in respect of exposure before the base date using past claims experience. Latent reserve risk uses frequency and severity modelling for abuse and asbestos related claims. ▪ Gross catastrophe underwriting loss experience is calculated by applying simulated events from external vendor models to the Company's own exposure, taking into account the range of specific events and both single or accumulating losses. Reinsurance recoveries are calculated and the impact of reinstatement premiums included. ▪ Additional scenarios relating to potential events not in data (ENID) are modelled, for example terrorism events and new latent claims. ▪ Claims inflation is projected using relevant Economic Scenario Generator (ESG) market indices together with a superimposed inflation to allow for additional volatility in claim payments due to other inflationary factors, and step changes. ▪ All risk is modelled to ultimate, with an adjustment applied to reflect the amount of risk that would emerge over the one year period. ▪ The expected profitability of the business explicitly impacts the level of capital requirement. ▪ The model captures the change in technical provisions on the closing balance sheet, including the assumed profitability of unearned and bound business following a shock underwriting event, and movements in risk margin. ▪ Due to low materiality, lapse risk is not included within the model scope.

Model Risk Category	Standard Formula Sub-component(s)	Standard Formula approach	Partial Internal Model
Life Underwriting Risk	Longevity, Life Expense	▪ A shock is applied representing an immediate and permanent decrease in mortality, irrespective of policyholder age or duration. ▪ A shock is applied to the opening best estimate expense reserves, in addition to a shock to the future expense inflation rate. ▪ These factors do not distinguish between the scale of a portfolio, and make no allowance for change in life business risk margin.	▪ The Standard Formula risk charge for ELL, the Group's life business, is integrated with the Partial Internal Model (along with the market and counterparty risk charges of the life company) using a linear correlation matrix. ▪ Note the Standard Formula operational risk charge for ELL is simply added with no allowance for diversification.
Market Risk: (excluding Pension Risk)	Equity	▪ Equity shocks vary based on classification as Type 1 (listed in EEA or OECD countries) and Type 2 (other) equities. ▪ A symmetric adjustment is applied to the base shocks to reduce pro-cyclicality. ▪ A transitional arrangement is unwinding over time such that the applied stress is currently increasing year on year. ▪ The shock is assumed to be instantaneous at the balance sheet, reflecting derivative protection held at that date.	▪ Market returns on equity indices for relevant global economies over a one year time horizon are simulated using the externally provided ESG (this enables correlations between economies to be explicitly captured and between each different market risk type) ▪ The Group's equity holdings are each mapped to a relevant economy and the ESG parameters applied, together with Capital Asset Pricing Model (CAPM) assumptions, to project returns for the portfolio. ▪ No symmetric adjustment is applied however the ESG is updated at least annually and is designed to reflect current market conditions ▪ Derivatives held to mitigate this risk are modelled based on assumed levels of protection that are supported by management actions.
	Participations	▪ Strategic Participations are modelled similarly to equities, with a lower shock.	▪ A beta parameter is calibrated and applied to the relevant economy's equity index to reflect relatively low volatility of participation returns. ▪ In both the Internal Model and Standard Formula, the following business units are modelled as strategic participations: SEIH (broker), Lycetts (broker), EPSL (funeral planning) and EFAS (financial advisory).
	Property	▪ A single instantaneous shock factor is applied to the value of all properties at the balance Sheet date.	▪ The ESG simulates property returns for each economy. A beta parameter is calibrated and applied to adjust the level of risk, which broadly aligns the resulting charge to the Standard Formula.
	Spread	▪ A stress is applied based upon both the bond credit quality and duration to maturity. This stress accounts for both the bond spread risk and the bond default risk. ▪ The stress for this risk is not applied to Government bonds.	▪ Corporate bond returns are based on a discounted cashflow model, using market risk-free rates with an additional credit spread to account for risk, by term. The ESG simulates the credit spread applicable to corporate bonds, distinguishing by economy, credit rating and duration. ▪ The model distinguishes bond default risk separately from spread risk by simulating losses from defaults which occur during the year, allowing for recoveries. The ESG provides a transition matrix which is applied to determine how bonds change credit rating and/or default during the year, with migration risk being captured within spread risk.
	Currency	▪ A single instantaneous shock is applied to the currency rates used to value the opening net asset value position for each foreign currency exposure (net of derivative protection at the opening date)	▪ This risk is quantified by applying the ESG's simulated exchange rate movements to opening net assets by currency, and therefore includes diversification between currencies. ▪ Profits and/or losses from currency hedging contracts are also included

Model Risk Category	Standard Formula Sub-component(s)	Standard Formula approach	Partial Internal Model
	Interest Rate	▪ A prescribed upward and downward stress, by duration of cashflow, is applied to the EIOPA risk free yield curve. These stressed yield curves are then applied to aggregate net fixed interest opening cashflows with the Interest Rate risk defined as the larger decrease in net asset value resulting from the two calculations.	▪ The ESG simulates risk-free yield curves for each relevant economy. The opening and closing fixed interest asset and liability cashflows are valued by applying the appropriate yield curves to determine a change in net asset value. For insurance liabilities, the yield curve is aligned to the EIOPA curve. ▪ The use of the closing cashflows therefore takes into account change in liabilities profile from insurance risk over the year, which is not captured by the Standard Formula module.
	Concentrations	▪ A formula based charge is derived from exposures, rating and total assets held.	▪ No separate risk type is required as the risks within each individual asset holding are captured via Counterparty risk and the diversification available between asset risks.
Market Risk: (Pension Risk)	N/A (combined with market risks above)	▪ The assets and liabilities relating to retirement benefit schemes are included in the relevant market risk modules.	▪ In addition to including Pension Fund assets and liabilities in the market risk modelling, Pension liabilities inflation risk is explicitly modelled using ESG inflation curves over the 1 year horizon ▪ Risks associated with the allowable spread within pension liabilities discount rate are captured via an explicit adjustment to the ESG simulated spreads where appropriate. ▪ The level of pension surplus recognised is restricted
Counterparty Default Risk	Type 1 and Type 2 exposures	▪ Type 1 (rated) exposures are calculated from probability of default and loss given default ▪ Type 2 (unrated) exposures are given a % charge, distinguishing an increased charge for those which relate to balances > 3 months overdue.	▪ Three modules are used to capture different default risk characteristics relating to reinsurers, intermediaries and banks. ▪ Reinsurer defaults consider the term to payment in addition to the simulated reinsurer balances, credit rating and loss given default. As a simplification this risk is all assumed to emerge in the first year. ▪ Premium Debtor Default Risk is aligned with the Standard Formula Type 2 calculation, given the small magnitude of the underlying exposure and the low materiality of this risk. ▪ Bank default is modelled similarly to reinsurers, but calibrated to the risk of default occurring within the first year.
Operational Risk	N/A	▪ The higher of the charge derived from factors applied to premiums and reserves is added to the base SCR. ▪ This represents the diversified Operational risk charge, with no separate quantification of an undiversified charge.	▪ Bespoke scenarios, covering the key operational risk exposures of the Company, such as data loss or systems failure, are constructed and quantified in consultation with business risk experts. ▪ These are combined using correlations between the scenarios to produce on overall Operational risk distribution.
Other Risks	N/A	▪ N/A	▪ This category typically relates to smaller risks which are not integrated into the stochastic modelling or attributable to other categories. ▪ This includes a deterministic scenario for longevity risk in the pension scheme, applied as a stress to current and future mortality rates.

Model Risk Category	Standard Formula Sub-component(s)	Standard Formula approach	Partial Internal Model
Loss Absorbing Capacity of Deferred Tax	LACDT	▪ The tax adjustment is calculated based on an instantaneous loss represented by the diversified components making up the standard formula SCR.	▪ The movement in tax balances is calculated across the distribution to identify the after-tax SCR. ▪ The LACDT is capped within each entity at the level of available net deferred tax liabilities and loss carryback. ▪ An additional adjustment has currently been applied to remove deferred tax asset component balances within the overall closing net deferred tax liabilities. It is planned to remove this conservative adjustment, subject to a model change application.
Other Adjustments	N/A	▪ N/A	▪ This category relates to income and expenses that are not within the other risk components. These are calibrated based on the business plan, adjusted where appropriate to reflect the values that would be expected to occur during the disaster year, where supported by management actions. ▪ The result is adjusted directly against the SCR.
Aggregation	N/A	▪ A linear correlation matrix is applied between the risk modules.	▪ Sub-risks within the core risks (Insurance Risk, Market Risk and Credit Risk) are aggregated to form a multivariate distribution. This uses a sophisticated copula based correlation approach to produce an aggregate distribution from which the SCR is calculated. ▪ Operational risk, Other risks and Other adjustments are aggregated with the core model using linear correlation approaches.

Data used in the Partial Internal Model

Calibration of the Model relies on a wide range of data sources, both internal and external, including:

- historic claims data;
- current and historic policy data;
- exposure information;
- financial market data; and
- asset valuation data

In most cases historical data is used in the calibration of risk distributions. However, where necessary, historic data is supplemented with expert judgement to ensure data limitations are appropriately allowed for.

In calculating both market risk and catastrophe risk the Group relies on the appropriateness of market-standard external models.

The Group has implemented a data governance framework to ensure that robust and consistent controls of the quality and reliability of both internal and external data used for reporting, capital management, risk management and other decision making exist and meet the requirements of the regulators and the Group's stated risk appetite.

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	0
R0040	Deferred tax assets	1,368
R0050	Pension benefit surplus	16,131
R0060	Property, plant & equipment held for own use	7,841
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	989,611
R0080	*Property (other than for own use)*	152,183
R0090	*Holdings in related undertakings, including participations*	25,196
R0100	*Equities*	96,062
R0110	*Equities - listed*	43,093
R0120	*Equities - unlisted*	52,969
R0130	*Bonds*	497,655
R0140	*Government Bonds*	192,992
R0150	*Corporate Bonds*	303,735
R0160	*Structured notes*	0
R0170	*Collateralised securities*	928
R0180	*Collective Investments Undertakings*	200,712
R0190	*Derivatives*	5,968
R0200	*Deposits other than cash equivalents*	11,835
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	2
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	2
R0270	Reinsurance recoverables from:	83,893
R0280	*Non-life and health similar to non-life*	83,893
R0290	*Non-life excluding health*	83,893
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,763
R0370	Reinsurance receivables	53
R0380	Receivables (trade, not insurance)	3,524
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	94,796
R0420	Any other assets, not elsewhere shown	138
R0500	**Total assets**	1,201,119

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	492,959
R0520	*Technical provisions - non-life (excluding health)*	492,959
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	437,028
R0550	*Risk margin*	55,931
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	81,373
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	81,373
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	79,327
R0680	*Risk margin*	2,046
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	5,128
R0760	Pension benefit obligations	5,813
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	31,137
R0790	Derivatives	2,306
R0800	Debts owed to credit institutions	1,379
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)	35,485
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1
R0900	**Total liabilities**	655,582
R1000	**Excess of assets over liabilities**	545,537

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				1,009	0		230,432	89,208		2,242	172	17,114					340,175
R0120	Gross - Proportional reinsurance accepted				140	130		13,001	2,480		99	0	924					16,774
R0130	Gross - Non-proportional reinsurance accepted														0		0	0
R0140	Reinsurers' share				839	0		121,693	6,663		1,985	153	6,307		0		0	137,640
R0200	Net				310	130		121,739	85,025		357	18	11,730		0		0	219,309
	Premiums earned																	
R0210	Gross - Direct Business				989	0		222,768	86,915		2,129	153	16,293					329,246
R0220	Gross - Proportional reinsurance accepted				118	109		12,986	2,447		110	0	929					16,698
R0230	Gross - Non-proportional reinsurance accepted														0		0	0
R0240	Reinsurers' share				409	0		116,812	6,545		1,922	143	6,046		0		0	131,877
R0300	Net				698	109		118,942	82,817		317	10	11,176		0		0	214,068
	Claims incurred																	
R0310	Gross - Direct Business				484	-8,827		83,465	13,817		189	33	4,260					93,422
R0320	Gross - Proportional reinsurance accepted				-317	-293		6,890	-219		0	0	13					6,075
R0330	Gross - Non-proportional reinsurance accepted														-200		0	-200
R0340	Reinsurers' share				324	-6,754		32,586	-1,620		209	30	1,412		0		0	26,188
R0400	Net				-157	-2,367		57,769	15,218		-20	3	2,862		-200		0	73,109
	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**				375	144		63,721	43,271		763	50	6,454		1		33	114,812
R1200	**Other expenses**																	16,604
R1300	**Total expenses**																	131,416

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				21					21
R1420	Reinsurers' share									0
R1500	Net				21					21
	Premiums earned									
R1510	Gross				21					21
R1520	Reinsurers' share									0
R1600	Net				21					21
	Claims incurred									
R1610	Gross				-66					-66
R1620	Reinsurers' share									0
R1700	Net				-66					-66
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net				0					0
R1900	**Expenses incurred**				421					421
R2500	**Other expenses**									
R2600	**Total expenses**									421

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	216,193	56,946	54,158	12,879			340,175
R0120	Gross - Proportional reinsurance accepted	16,386	0	0	388			16,774
R0130	Gross - Non-proportional reinsurance accepted	0	0					0
R0140	Reinsurers' share	86,828	34,864	12,059	3,888			137,640
R0200	Net	145,750	22,082	42,098	9,379	0	0	219,309
	Premiums earned							
R0210	Gross - Direct Business	210,655	54,713	51,608	12,270			329,246
R0220	Gross - Proportional reinsurance accepted	16,307	0	0	391			16,698
R0230	Gross - Non-proportional reinsurance accepted	0	0					0
R0240	Reinsurers' share	83,789	32,526	11,841	3,721			131,877
R0300	Net	143,173	22,187	39,767	8,940	0	0	214,068
	Claims incurred							
R0310	Gross - Direct Business	51,551	17,483	20,535	3,852			93,422
R0320	Gross - Proportional reinsurance accepted	5,733	0	0	342			6,075
R0330	Gross - Non-proportional reinsurance accepted	-200	0					-200
R0340	Reinsurers' share	16,336	9,594	-448	620			26,102
R0400	Net	40,748	7,889	20,984	3,574	0	0	73,195
	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**	75,380	13,038	21,409	4,986			114,812
R1200	**Other expenses**							16,604
R1300	**Total expenses**							131,416

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

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	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
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	21						21
R1420	Reinsurers' share							0
R1500	Net	21	0	0	0	0	0	21
	Premiums earned							
R1510	Gross	21						21
R1520	Reinsurers' share							0
R1600	Net	21	0	0	0	0	0	21
	Claims incurred							
R1610	Gross	-66						-66
R1620	Reinsurers' share							0
R1700	Net	-66	0	0	0	0	0	-66
	Changes in other technical provisions							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0	0	0	0	0	0	0
R1900	**Expenses incurred**	421						421
R2500	**Other expenses**							
R2600	**Total expenses**							421

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	574,332	0	0	2,562	0
R0020	Basic own funds	514,697	0	0	-2,562	0
R0050	Eligible own funds to meet Solvency Capital Requirement	523,989	0	0	-2,562	0
R0090	Solvency Capital Requirement	274,021	0	0	66	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	402,440	402,440			
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	1,368				1,368
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*	37				37
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)	103,090		103,090		
R0210	*Non-available minority interests at group level*	2,872		2,872		
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**	9,292	9,292			
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**	2,910	0	2,872	0	37
R0280	**Total deductions**	12,202	9,292	2,872	0	37
R0290	**Total basic own funds after deductions**	514,697	413,148	100,218	0	1,331
	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	9,292	9,292			
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	9,292	9,292	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)	514,697	413,148	100,218	0	1,331
R0530	Total available own funds to meet the minimum consolidated group SCR	513,366	413,148	100,218	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)	514,697	413,148	100,218	0	1,331
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	513,366	413,148	100,218	0	
R0610	**Minimum consolidated Group SCR**	83,798				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	612.63%				
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)**	523,989	422,440	100,218	0	1,331
R0680	**Group SCR**	274,021				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	191.22%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	545,537
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	4,446
R0730	Other basic own fund items	124,458
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0750	Other non available own funds	14,193
R0760	**Reconciliation reserve**	402,440
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	7
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	5,333
R0790	**Total Expected profits included in future premiums (EPIFP)**	5,340

Appendix 8 – QRT S.25.02.22 Solvency Capital Requirement – for groups using a partial internal model (unaudited)

S.25.02.22

Solvency Capital Requirement -
for groups using the standard formula and partial internal model

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
	C0010	C0020	C0030	C0070	C0090	C0120
1	50100I	Non-life underwriting risk: Premium risk	126,230	126,230	None	
2	50200I	Non-life underwriting risk: Reserving risk	77,788	77,788	None	
3	59900I	Diversification within non-life underwriting risk	-55,660	-55,660	None	
4	10000I	Market risk: excluding Pension risk	153,897	138,683	None	
5	10000P	Market risk: Pension risk	74,382	74,382	None	
6	19900	Diversification within market risk	-8,402	-8,402	None	
7	30000I	Life underwriting risk	2,724	0	None	
8	20000I	Counterparty default risk	13,528	13,112	None	
9	70100I	Operational risk	31,105	30,748	None	
10	80100	Other risks and adjustments: Other risks	22,043	22,043	None	
11	80300	Other risks and adjustments: Loss-absorbing capacity of deferred tax	-19,000	-19,000	None	
12	80400	Other risks and adjustments: Other adjustments	-806	-806	None	

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	417,828
R0060	Diversification	-148,607
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**	269,221
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement for undertakings under consolidated method**	274,021
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	0
R0310	Amount/estimate of the overall loss-absorbing capacity ot deferred taxes	-19,000
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 Requirement for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0470	Minimum consolidated group solvency capital requirement	0
	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*	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 and A	0
R0570	**Solvency capital requirement**	274,021

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

									Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	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	% 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
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
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	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
2	GB	213800I6N42TMC2CCC49	LEI	Ecclesiastical Life Limited	Life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
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 Autho	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
4	AU	213800E5HL2O1FU4I690AU623695054	Specific code	Ansvar Risk Management Services Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
5	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	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral Rules
6	GB	213800E5HL2O1FU4I690GB46087	Specific code	Ecclesiastical Financial Advisory Services	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
7	GB	213800E5HL2O1FU4I690GB17313	Specific code	South Essex Insurance Holdings Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
8	GB	213800O4B9KNVTLIVR02GB66203	Specific code	Lycetts Holdings Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
9	GB	213800O4B9KNVTLIVR02GB11698	Specific code	Ecclesiastical Investment Management Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
10	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					Dominant		Included in the scope		Method 1: Full consolidation
11	GB	213800O4B9KNVTLIVR02GB44860	Specific code	Ecclesiastical Planning Services Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
12	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		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
13	GB	213800E5HL2O1FU4I690GB41199	Specific code	EIO Trustees	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
14	GB	213800E5HL2O1FU4I690GB10988127	Specific code	Ecclesiastical Group Healthcare Trustees Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
15	GB	213800E5HL2O1FU4I690GB17314	Specific code	South Essex Insurance Brokers Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
16	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	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
17	GB	213800O4B9KNVTLIVR02GB10906990	Specific code	Lycetts Risk Management Services Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
18	GB	213800O4B9KNVTLIVR02GB57974	Specific code	Lycetts Financial Services Ltd	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
19	GB	213800O4B9KNVTLIVR02GB42714	Specific code	Farmers and Mercantile Insurance Brokers Ltc	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	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