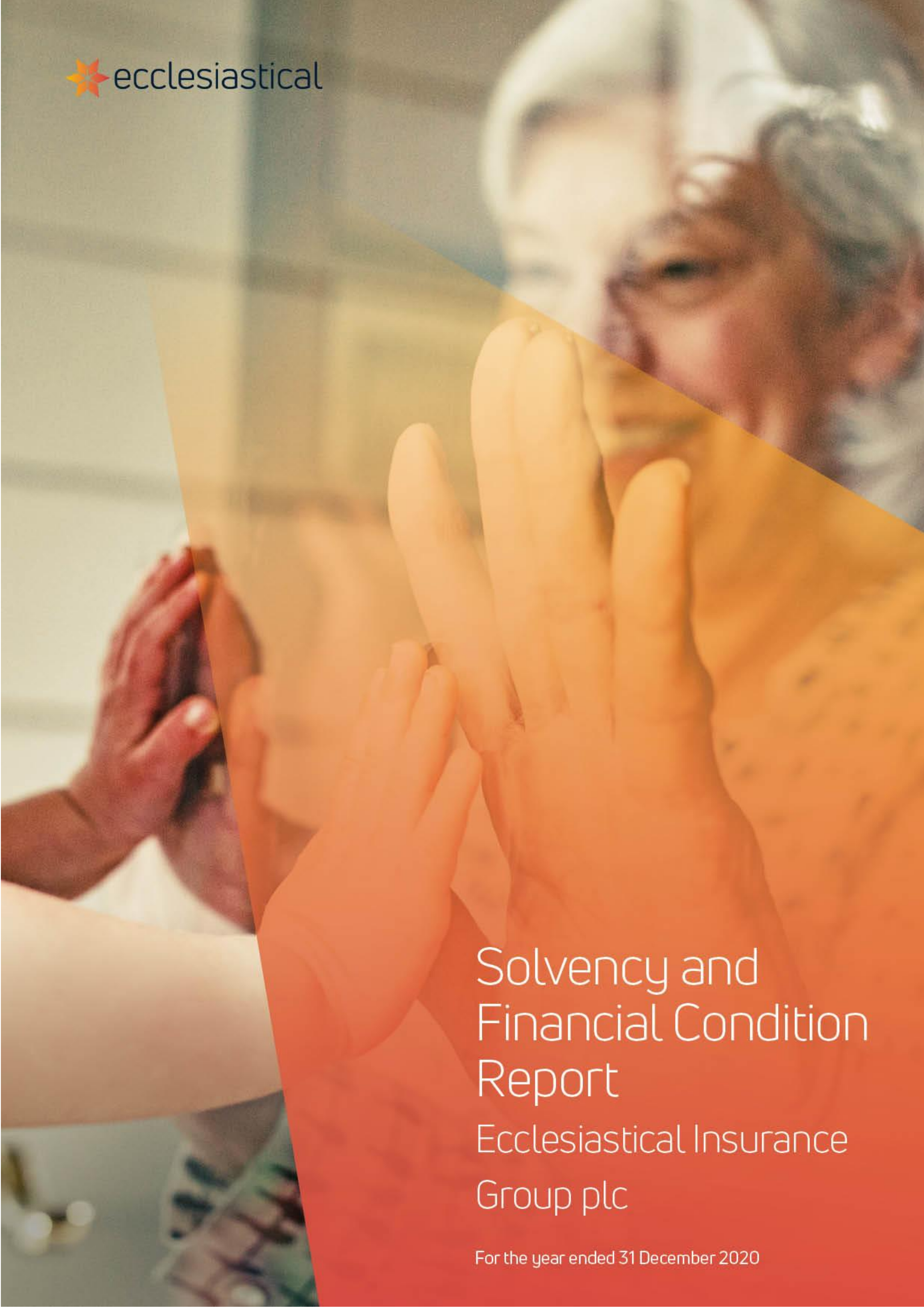


ecclesiastical

# Solvency and Financial Condition Report

## Ecclesiastical Insurance Group plc

For the year ended 31 December 2020

# Contents

# 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 with a charitable owner and purpose and 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, broking and advisory services and investment management. We provide products and services to businesses, 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 Group structure and the business we write can be found in section A below.

## Business performance

Following a strong financial performance in 2019, the Group delivered a 2020 pre-tax loss of £17.8m (2019: £69.9m profit) principally due to investment losses experienced after significant market falls in March, partly offset by steady gains later in the year.

The Group's underwriting businesses reported profit of £12.1m (2019: £20.0m), after reflecting £18.7m of Covid-19 related claims where there is confirmed cover, demonstrating continued progress in our underlying performance. We continue to be a trusted partner to our customers and brokers, and this is reflected in our strong retention and satisfaction levels, which have supported growth in gross written premiums (GWP) of 11%. Despite the unexpected move to a remote working model and testament to the success of that change, customer satisfaction levels were recorded in the UK at a remarkable 98% overall satisfaction with 97% of brokers that place business with Ecclesiastical UK satisfied with the service they are receiving.

Our broking and advisory businesses reported modest growth in income and profit, with profit before tax of £1.0m (2019: £2.2m loss).

The Group's investment management business, EdenTree, incurred a loss before tax for the year of £1.1m (2019: loss before tax £0.4m) as it continues to invest in infrastructure. The Covid-19 pandemic resulted in a challenging year, limiting the assets clients had available to invest, in particular charities.

Our business is managed with a long-term view of risk and as a result, we have maintained a robust capital position that can withstand short-term volatility. Our strong credit ratings with S&P and AM Best were both reaffirmed during the second quarter of 2020. The Group's Solvency II regulatory capital position remains above regulatory requirements and risk appetite and was further supported with the issuance of €30m subordinated debt in February 2021, as the Group seeks to take advantage of profitable growth opportunities.

Despite the impact of Covid-19, the Group has continued to give to charity and donated £2.7m during 2020. The Group has now given over £99m to charity, and are about to meet the £100m target we set ourselves back in 2017, a rolling average of over £20m over the last five years.

We continue to invest in the future of our business, including development of our new insurance underwriting platform and our new head office in early 2021.

## Solvency and financial condition

A summary of the Group's solvency position at the end of 2020 and the change over the year is shown below:

| Summary Solvency position | 2020 | 2019 | Change |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| **Available Own Funds** | **479,474** | **534,651** | **(55,177)** |
| **Solvency Capital Requirement** | | | |
| Market risk | 231,672 | 248,813 | (17,141) |
| Counterparty default risk | 13,749 | 13,482 | 267 |
| Non-life underwriting risk | 146,572 | 137,491 | 9,081 |
| Life underwriting risk | 3,541 | 2,977 | 564 |
| Operational risk | 33,094 | 33,369 | (275) |
| Other risks | 29,392 | 26,242 | 3,150 |
| Diversification | (162,139) | (154,488) | (7,651) |
| Loss absorbing capacity of deferred tax | (25,500) | (32,300) | 6,800 |
| Other adjustments | 5,178 | 2,393 | 2,785 |
| Consolidated SCR | 275,559 | 277,979 | (2,420) |
| Sectoral capital requirement of investment firm | 4,844 | 4,844 | - |
| **Group SCR** | **280,403** | **282,823** | **(2,420)** |
| **Coverage ratio** | **171%** | **189%** | **(18%)** |

The Group's regulatory solvency position has reduced during the year, however still remains significantly above risk appetite. Own funds decreased by £55.2m mainly due to the negative operating performance, impacted by the turbulence in the markets following the pandemic.

The Group's Solvency Capital Requirement (SCR) decreased in the year by £2.4m, predominantly the result of decreased equity exposure following the fall in equity markets over 2020.

The movement in available own funds is explained in more detail in section E.1 and more detail on the changes in SCR during the year are given in section E.2.

### Outlook for 2021

The Group continues to takes a long-term view to managing and investing in the business aiming to deliver sustainable profitability, to be the most trusted and ethical financial services group, and to evolve our business for the greater good of society and to make a positive impact on people's lives.

A new head office near Gloucester was opened in early 2021 and is now fully operational and ready to welcome employees with new flexible ways of working once lockdown restrictions are lifted.

Investment continues to be made in systems and technology in our broker and advisory, investment and General Insurance business. A new strategic UK General Insurance system is scheduled to come into operation in 2021 as part of a phased roll-out and will provide enhanced customer experience and more efficient processes and capacity. Serving our customers and the health, safety and well-being of our employees will continue to be our priority throughout the duration of the outbreak.

Solvency levels remain resilient and are projected to remain strong over the plan period, with no instances of a breach to its Minimum Capital Requirement (MCR), Solvency Capital Requirement (SCR) or the Board's risk appetite having occurred up to the date of this report being published. Solvency levels are further supported through the issuance of €30m subordinated debt in February 2021, as the Group seeks to take advantage of profitable growth opportunities.

Whilst the conclusion of Brexit and the US election towards the end of 2020 provided some market stability, we are still living with Covid-19 and the economic consequences are expected to continue. However, the Group's long-term view to managing and investing in the business has underpinned its financial resilience and strong capital position and we are well positioned for the future.

## Statement of Directors' responsibilities

**Ecclesiastical Insurance Group Plc**

Financial year ended 31 December 2020

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulatory Authority (PRA) 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: 19 May 2021**

## Audit report

**Report of the external independent auditors to the Directors of Ecclesiastical Insurance Group plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part 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**

**Opinion**

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2020:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 31 December 2020, (**'the Narrative Disclosures subject to audit'**); and

- Group templates S.02.01.02, S.22.01.22, S.23.01.22 and S.32.01.22 (**'the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the **'relevant elements of the Group Solvency and Financial Condition Report'**.

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 Solvency and Financial Condition Report set out above which is, or derives from the Solvency Capital Requirement, as identified in the Appendix to this report;
- The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group Solvency and Financial Condition Report;
- Group templates S.05.01.02, S.05.02.01 and S.25.02.22;
- The written acknowledgement by management of their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report (**'the Responsibility Statement'**);
- Information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations (**'the sectoral information'**) as identified in the Appendix to this report.

To the extent the information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report 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 Solvency and Financial Condition Report of the Company as at 31 December 2020 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 Auditors' 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 Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Conclusions relating to going concern**

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtained and reviewed management's updated going concern assessment which included the board approved income statement, balance sheet, cash flow and solvency forecasts;
- Considered the forward looking assumptions and assessed the reasonableness of this based on recent historic performance;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of the ongoing impact of COVID-19; and
- Considered our own independent alternative downside scenarios and whether these could impact the going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from the date on which the Group Solvency and Financial Condition Report is authorised for issue.

In auditing the Group Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Group Solvency and Financial Condition Report is appropriate.

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

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

**Emphasis of Matter – Basis of Accounting**

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group Solvency and Financial Condition Report 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 Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Group Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

**Other Information**

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Group Solvency and Financial Condition Report 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 Solvency and Financial Condition Report, 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 Solvency and Financial Condition Report, 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 Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Directors for the Group Solvency and Financial Condition Report**

The Directors are responsible for the preparation of the Group Solvency and Financial Condition Report 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, as detailed below:

**Approvals**

- Approval to use a full or partial internal model
- Approval to apply a volatility adjustment

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group Solvency and Financial Condition Report 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 information subject to audit in the relevant elements of the Group Solvency and Financial Condition Report is prepared, in all material respects, in accordance 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 Solvency and Financial Condition Report are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but 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 deci sion making or the judgement of the users taken on the basis of the Group Solvency and Financial Condition Report.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the Group Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Group Solvency and Financial Condition Report such as Prudential Regulatory Authority (PRA) rules and Solvency II Regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the Group Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to revenue or expenditure and management bias in accounting estimates specifically investments with a judgemental valuation, being investment property and unlisted equity investments, and the valuation of specific general insurance reserves such as UK loss of profits, asbestos and PSA reserves. Audit procedures performed included:

- Enquiries of compliance, risk, internal audit, and the Group's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Group Board, Group Audit Committee and Group Risk Committee;
- Procedures relating to the valuation of investment property and unlisted equity investments, and the valuation of specific general insurance reserves such as UK loss of profits, asbestos and PSA reserves;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations in revenue or expenditure; and.
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the Group Solvency and Financial Condition Report. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

**Use of this Report**

This report, including the opinion, has been prepared for the Board of Directors of the Company in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

**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 Part 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 Part 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 the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The engagement partner on the audit resulting in this independent auditors' report is Sue Morling.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants
Bristol
19 May 2021

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

The relevant elements of the Group Solvency and Financial Condition Report 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
    - 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 is a public limited company incorporated and domiciled in England. The address of the registered office is:

Benefact House
2000 Pioneer Avenue
Gloucester Business Park
Gloucester
GL3 4AW

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

PricewaterhouseCoopers LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0FR

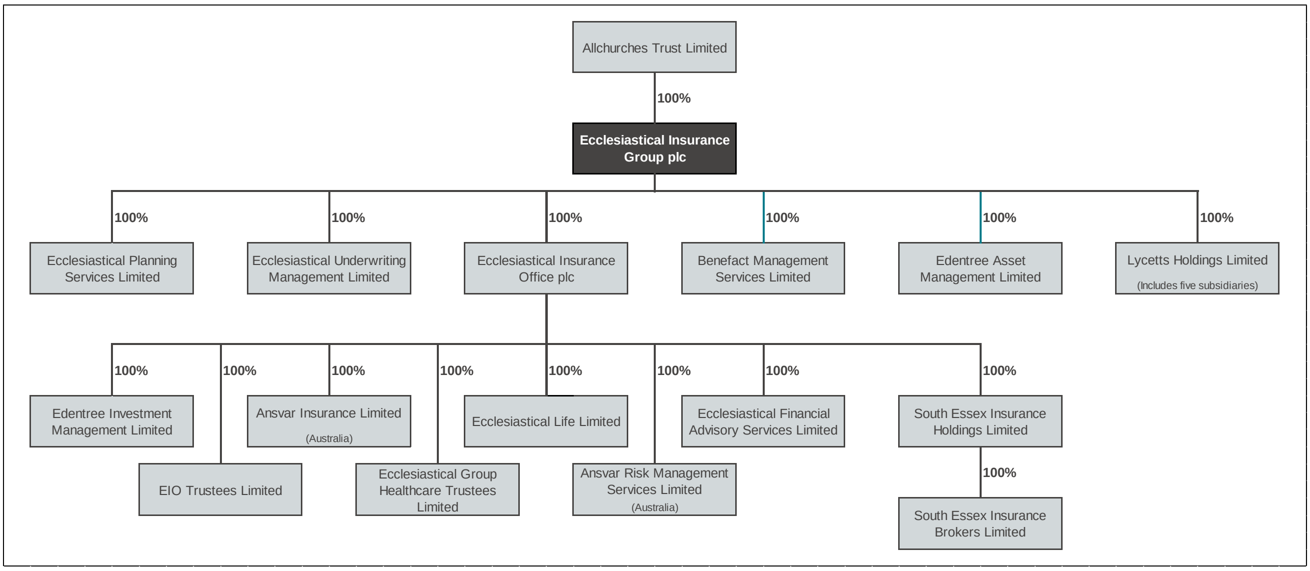
### Qualifying holdings

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:




### 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 IM)* 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.
- *EdenTree Asset Management Limited (EdenTree AM)* is an investment firm that manages the investments of third parties.

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

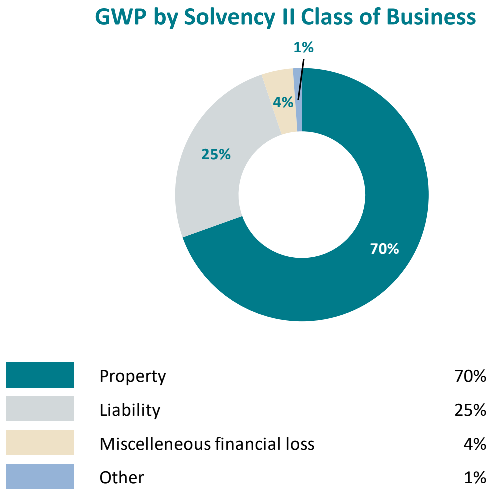
## Lines of business

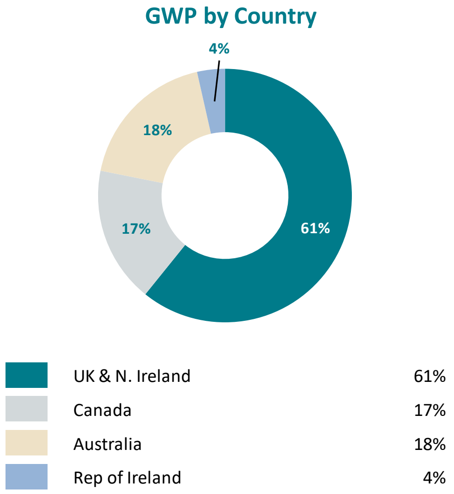
### *General Insurance business*

The Group currently operates in the United Kingdom, Republic of Ireland, Canada and Australia. The material lines of business are:

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

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




### *Life insurance business*

The Group'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

In early 2020, the existence of a new coronavirus, now known as Covid-19, was confirmed and since this time it has spread across the globe and is characterised by the World Health Organisation as a pandemic.

The Group's operational risk is heightened with a significant and rapid migration to a remote working environment and additional risk associated with key suppliers. Market risk has been impacted in the form of reduced asset valuations in certain investment classes and uncertainty around valuation. The Group has experienced an increase in business interruption claims notified as a result of Covid-19.

These risks are being continually monitored and the Group is managing the ongoing impact of Covid-19, utilising business continuity and risk management processes where appropriate. Whilst there has been an impact on day to day operations, plans have been implemented to ensure that the Group can continue to provide services to its customers, meet its obligations as they arise, and maintain dialogue with regulators as required.

The Group's UK based general insurance business was one of the eight insurers involved in a test case brought by the Financial Conduct Authority (FCA) to seek clarity on the eligibility of business interruption claims linked to Covid-19. The judgement confirmed that losses arising from the Covid-19 pandemic were not covered by the Group's Business Interruption policies considered in the case. However, there are a small number of policies that do provide cover and appropriate provisions are in place.

The Group has a robust and regular solvency monitoring process in place together with a strong risk management framework. Since February 2020 the Group has been monitoring the impact of the pandemic on solvency levels, and up to the date of this report being published no instances of a breach of its MCR, SCR or the Board's risk appetite have been identified.

The Group will continue to monitor the situation and the advice from Governments, relevant health authorities and regulators in the countries operated in as the outbreak continues to evolve, and will take appropriate actions if required.

Brexit negotiations continued during 2020. The main risk identified for the Group as a result of Brexit was the loss of ability to carry out business in the Republic of Ireland using the freedom of services previously afforded by the United Kingdom's membership of the EU. To mitigate this risk the Ireland branch has been granted authorisation by the Central Bank of Ireland to operate as a Third Country Branch ensuring continuity of operations for the Group's customers.

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 underwriting performance for the year was a profit of £12.1m (2019: £20.0m profit). This represents another strong performance with positive results on both the property and liability accounts. As expected, the level of prior year releases during 2020 was significantly lower than in 2019.

The Group's life business made a net underwriting profit of £0.5m (2019: £0.3m), driven by the return on the investment portfolio, consistent with 2019.

## 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 | | Other | | Life Business | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 £'000 | 2019 £'000 | 2020 £'000 | 2019 £'000 | 2020 £'000 | 2019 £'000 | 2020 £'000 | 2019 £'000 | 2020 £'000 | 2019 £'000 |
| Net Earned Premium | 95,391 | 88,187 | 140,590 | 126,435 | 10,159 | 10,833 | 1,511 | 544 | 12 | (13) |
| Net Claims Incurred | (30,774) | (27,764) | (63,005) | (59,197) | (14,543) | (3,580) | (5,748) | (322) | (3,653) | (2,811) |
| Operating Expenses | (44,989) | (43,895) | (70,792) | (65,423) | (4,900) | (4,915) | (846) | (884) | (351) | (270) |
| **Underwriting Performance** | **19,628** | **16,529** | **6,793** | **1,815** | **(9,284)** | **2,338** | **(5,084)** | **(662)** | **(3,992)** | **(3,093)** |
| Net investment return of assets backing liabilities | | | | | | | | | **4,456** | **3,424** |
| **Net underwriting result** | | | | | | | | | **464** | **332** |

### *General Liability*

The underwriting result from the liability account continued to perform favourably. Current year claims performance was again better than expected and benefited from reserve releases in the UK and Ireland as historical claims were settled at lower amounts than expected. However, as anticipated, the benefit of the reserve release was lower than in 2019.

### *Fire and other damage to property*

The property account performed favourably compared with prior year despite a significant church fire in the UK. This is the result of favourable underlying claims performance and fewer weather events in the UK and Ireland, together with fewer large losses and a favourable development on prior year claims in Canada, partially offset by the Australian property account which was impacted by early 2020 weather events.

### *Miscellaneous financial loss*

The underwriting result on the miscellaneous financial loss account was impacted by the Covid-19 related business interruption claims where there is confirmed cover.

### *Other*

For 2020, the other segment includes reinsurance accepted by Ecclesiastical covering development on historic liabilities of the Australia subsidiary. Increased physical and sexual abuse (PSA) claims volumes, consistent with trends for the wider Australian market, have resulted in a loss for the year.

### *Life business*

During the reporting period claims of £6.0m (2019: £5.6m) were paid, offset by a decrease in reserves of £2.4m (2019: £2.8m) giving a net incurred claims cost of £3.6m (2019: £2.8m). Due to the close matching of investments held to cover the life business liabilities, movements in liabilities are offset by corresponding movements in the matched investments. Consequently, the main driver of the net profit of £0.5m (2019: £0.3 profit) was the return on the investment portfolio representing the life business surplus assets.

## Performance by geographical region

The table below only covers general insurance business. All life business is undertaken in the UK.

| Underwriting performance by Geographical Region | UK & Ireland | | Canada | | Australia | |
|---|---|---|---|---|---|---|
| | 2020 £'000 | 2019 £'000 | 2020 £'000 | 2019 £'000 | 2020 £'000 | 2019 £'000 |
| Net Earned Premium | 167,488 | 157,853 | 51,226 | 45,185 | 28,937 | 22,960 |
| Net Claims Incurred | (72,930) | (58,249) | (19,888) | (18,742) | (21,423) | (13,869) |
| Operating Expenses | (82,096) | (78,778) | (26,817) | (24,225) | (12,839) | (12,338) |
| **Underwriting Performance** | **12,462** | **20,826** | **4,521** | **2,218** | **(5,326)** | **(3,246)** |

### *UK & Ireland[1]*

In the UK and Ireland, financial year underwriting profits decreased to £12.5m (2019: £20.8m). This represents another strong performance with positive results on both the property and liability accounts. As expected, the level of prior year releases during 2020 was significantly lower than in 2019. The run-off of unprofitable business exited in 2012 and 2013, combined with our prudent approach to reserving has positively impacted the overall result over the last four years. We would expect to continue to see a modest level of prior year releases, but with a greater contribution coming from our current year underwriting performance.

Both property and casualty classes generated net underwriting profits on a current year basis, despite the impacts of Covid-19 and a significant church fire. Current year loss ratios are in line with expectations, reflecting favourable underlying claims performance and fewer weather events. We have also seen the benefit of rate increases in a number of portfolios.

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

### *Canada*

Canada reported an underwriting profit of £4.5m (2019: £2.2m) resulting in a COR of 91.2% (2019: 95.1%). Despite the impact from Covid-19 and two weather events, the property book performed well, driven by fewer large losses and a favourable development on prior year claims. The liability account performed well delivering an underwriting profit despite some adverse development on prior year claims.

### *Australia*

The Australian business reported an underwriting loss of £5.3m (2019: £3.2m loss). The liability account was adversely impacted by the strengthening of PSA reserves reflecting a higher actual number of claims reported in 2020 and related increases in future expectations. The property account was adversely impacted by early 2020 weather events.

The Australian result also reflects reinsurance accepted by Ecclesiastical covering development on historic liabilities of the Australia subsidiary. Increased PSA claims volumes, consistent with trends for the wider Australian market, have resulted in a loss for the year.

## A.3 Performance from investment activities

### Investment performance by asset class

With the conclusion of a Brexit deal and the US election, the year ended with far less uncertainty and volatility compared to what was experienced from March 2020 as markets reacted to the onset of the Global Pandemic. The Group's net investment loss of £5.5m, as compared to the 2019 net investment profit of £74.8m, can be largely attributed to overall weakness in UK and European equities. The Group's fund nevertheless produced a total return ahead of its asset benchmark over the year.

Lower than expected income from financial assets reflects market conditions and reactions to the pandemic during 2020. The impact from Covid-19 was also reflected in fair value losses on financial instruments which contrasted with gains in 2019.

Within our UK equity portfolio, small and mid-cap bias proved beneficial as the FTSE Small-Cap and FTSE 250 indices outperformed the FTSE All-Share.

Our directly held sterling bond portfolio underperformed the FTSE Gilts benchmark by 5.4%, as the longer dated index outperformed on falling yields and our portfolio has a higher proportion of short dated bonds.

The continued downward movement in bond yields led to a decrease in the discount rate applied to long-tail general insurance liabilities, consistent with prior year.

| | Investment income | | | Fair value gains/(losses) | | | Total return | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 £'000 | 2019 £'000 | Change £'000 | 2020 £'000 | 2019 £'000 | Change £'000 | 2020 £'000 | 2019 £'000 | Change £'000 |
| Debt | 12,631 | 14,220 | (1,589) | 5,048 | 4,601 | 447 | 17,679 | 18,821 | (1,142) |
| Equities | 6,255 | 9,947 | (3,692) | (17,418) | 52,461 | (69,879) | (11,163) | 62,408 | (73,571) |
| Property | 8,806 | 8,538 | 268 | (4,975) | (3,900) | (1,075) | 3,831 | 4,638 | (807) |
| Cash | 149 | 661 | (512) | - | - | - | 149 | 661 | (512) |
| Derivatives | - | - | - | (2,396) | 162 | (2,558) | (2,396) | 162 | (2,558) |
| Exchange | 530 | 32 | 498 | - | - | - | 530 | 32 | 498 |
| Discount rate | - | - | - | (15,899) | (12,433) | (3,466) | (15,899) | (12,433) | (3,466) |
| Other | 2,435 | 1,421 | 1,014 | - | - | - | 2,435 | 1,421 | 1,014 |
| | **30,805** | **34,819** | **(4,013)** | **(35,640)** | **40,891** | **(76,531)** | **(4,835)** | **75,710** | **(80,544)** |
| Investment expenses | (621) | (941) | 319 | - | - | - | (621) | (941) | 319 |
| Total investments | **30,184** | **33,878** | **(3,694)** | **(35,640)** | **40,891** | **(76,531)** | **(5,456)** | **74,769** | **(80,225)** |

### Gains and losses recognised directly in equity

During the year the Group designated certain derivatives as a hedge of its net investments in foreign subsidiaries and branches. These generated a loss of £2.3m in the current year (2019: £0.6m gain) 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 in the current or prior period.

## A.4 Performance from other activities

| Other activities | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Return from non-insurance operations | (4,513) | (5,723) |
| Corporate costs | (21,591) | (18,460) |
| Actuarial gains on retirement plans | (15,162) | (6,567) |
| Gains/(losses) on currency translation differences | (94) | (748) |

The return on non-insurance operations has remained negative due to continued challenging market conditions in both the investment management division, and the broking and advisory division.

Corporate costs are costs incurred in managing the Company and its subsidiaries and certain company-wide strategic investments. The increase in the year is primarily due to increased strategic development costs as the Company continues to invest for the future.

Actuarial gains or losses on retirement plans primarily relate to the Company's valuation of retirement benefits which includes the defined benefit pension scheme and post-retirement medical benefit scheme. The £15.2m loss on retirement plans is mainly driven by the investment losses experienced in the year as the market reacted to the Covid-19 pandemic.

## 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)*

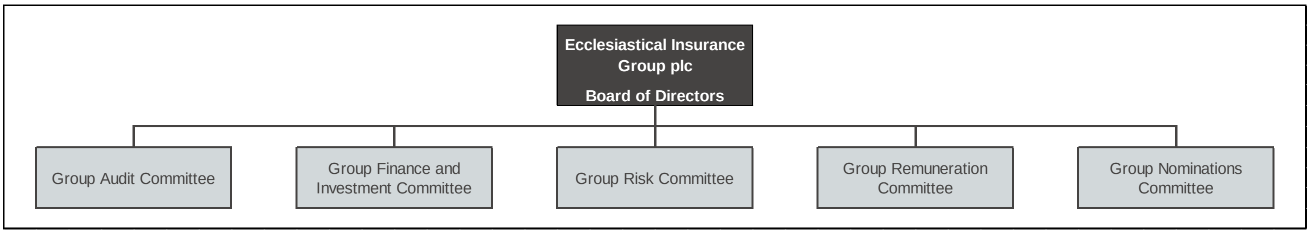
The NEDs have a responsibility to uphold high standards of integrity and probity, including acting as both internal and external ambassadors of the Group. As part of their role, the NEDs should constructively challenge and help develop proposals on strategy.

*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.

### 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 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 two independent NEDs and the Chairman, 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 five independent NEDs, its responsibilities include:

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

*Group Remuneration Committee*

Comprising four independent NEDs and the Chairman, the Committee assists the Board in ensuring that:

- remuneration policy and practices of the Group are designed to support strategy and promote long-term sustainable success, reward fairly and responsibly, with a clear link to corporate and individual performance, having regard to statutory and regulatory requirements; and
- executive remuneration is aligned to group purpose and values and linked to delivery of the Group's long-term strategy.

This includes considering:

- remuneration policies, including base pay, long and short-term incentives and the use of the Committee's discretion;
- remuneration practice and its cost to the Group;
- recruitment, service contracts and severance policies;
- pension arrangements and other benefits;
- the engagement and independence of external remuneration advisers; and
- a review of workforce remuneration and related policies and the alignment of incentives and rewards with culture.

*Group Nominations Committee*

Comprising the Chairman and two 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 Internal Audit (GIA)*

Group Internal Audit 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 Group Chief Internal Auditor is accountable to the Chair of the GAC.

*Group Risk and Compliance*

Group Risk and Compliance 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 and Compliance Officer (CRO) reports to the Group Chief Financial Officer (CFO) who is accountable to the CEO.

In addition, Regulatory Risk (formerly Group Compliance) provides assurance to the Board that the Group 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.

*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 CFO who is accountable to the CEO.

### Material changes in the system of governance

During the year the Group Risk and Group Compliance functions were merged under the leadership of the Chief Risk and Compliance Officer (a newly created role).

### 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 appropriate and effective based on the nature, scale and complexity of the risks inherent in the business.

In reviewing the effectiveness, the following was considered:

- outcomes from the Control Risk and Self-Assessment process (CRSA);
- outcomes from the Own Risk and Solvency Assessment (ORSA) process;
- findings from relevant internal audits;
- reports from management;
- attestations from Strategic Business Units (SBUs) that they are materially compliant with the governance framework; and
- changes in regulation and legislation.

The Governance Framework is formally reviewed and approved by the Board through the GRC every two years, and was last approved in November 2020.

In addition, the performance of the Board and its committees is regularly reviewed and it is the Board's policy for its evaluations to be externally facilitated every two to three years. In early 2020, the Group Nominations Committee led an external evaluation of the Board and Committees, assisted by the Company Secretariat. An external board evaluation provider conducted this evaluation and all Board and Committee members were required to complete a bespoke assessment. The outcome of the evaluation was considered by the Board at their meeting on 17 March 2020. A progress update is provided in the 2020 Annual Report and Accounts.

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, reflect 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;
- reward structures will be straightforward and simple for everyone to understand;
- 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. 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 that all employees have a fair and equal pay opportunity appropriate to their role.

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

### 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 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.

Early retirement is permitted within the UK Defined Contribution scheme based on the employee's GPP fund value at the date of early retirement.

Where an employee has accrued benefits in the legacy defined benefit pension scheme and 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.

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

The company is committed to ensuring that all fit and proper regulatory requirements are met for its senior leaders within the Senior Managers and Certification Regime (SM&CR).

The PRA and FCA consider that the most important factors in assessing an individual's fitness and propriety are:

- Honesty, integrity and reputation;
- Competence and capability;
- Financial soundness;

In order to initially determine fitness and propriety all prospective senior role holders take part in a multi-stage interview process, supported by psychometric testing, involving relevant stakeholders. The candidates' knowledge, experience and qualifications in such areas as market knowledge, business strategy, financial analysis, working within regulated frameworks, and governance/ risk management are fully explored. Due diligence is fulfilled through pre-employment checks and referencing that are carried out upon an offer being accepted.

Ongoing adherence to these standards is assessed through performance review cycles and is subject to further confirmation through an annual fit and proper process, carried out for all individuals caught within the SM&CR, covering:

- competence and performance in carrying out the documented responsibilities of the role;
- continuing professional development (CPD) and training to maintain knowledge and skills;
- completion of regular mandatory company training;
- disclosure and barring criminal records and credit checks;
- self-assessment against fitness and proprietary questions.

Where the company becomes aware of concerns regarding the fitness and propriety of a person in a relevant role it will investigate and take appropriate action without delay in line with the Fitness and Propriety policy. The regulator will be notified of any action where necessary.

## 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 facilitation of the implementation and oversight delegated to the Group Risk Function, led by the CRO.

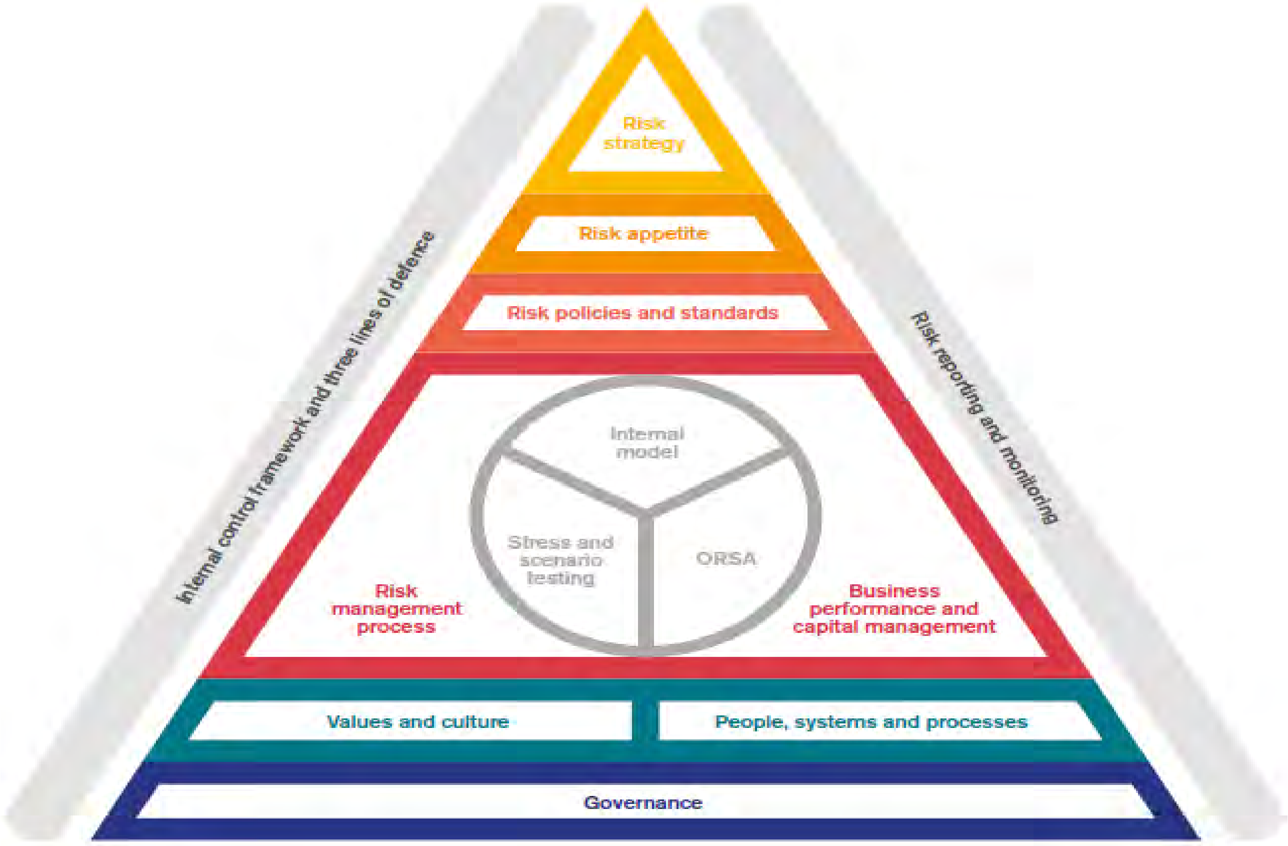
Regulatory requirements for risk management are complied with at all times and are regarded as the minimum standards for the Group's enterprise risk management system. The Group recognises that there are a number of risks that it faces which could impact on the achievement of its strategy and is therefore 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.

Pictorially, the risk framework is presented as follows:




### 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. SBUs develop and 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 the Group Risk function 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 to ensure consistency in approach across all business units.

*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 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. The outputs from this analysis are regularly reviewed and used to drive improvements in the internal controls. Reporting of such items is provided to the Group Operational, Regulatory and Conduct Risk Committee and escalated further as appropriate.

*Risk Reporting to Group Executive Risk Committees and Board Risk Committees*

A business unit reports to the relevant Group Executive Risk Committee where a current risk exposure has the potential to affect 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 destabilise the business unit or to harm the Group's ability to achieve its objectives. The Group Risk function assesses common risks across different business units and report to the GRC where it is believed that any of those risks in aggregate, could have an adverse impact on 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 by all risk oversight committees. The assessment made at risk review meetings helps to 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 have a material impact on the Group are highlighted to the GRC as part of the regular reports.

*Risk Framework Reviews*

The adequacy and effectiveness 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 GIA function's risk-based audit programme. This may be supplemented by focused reviews by the Group Risk function or by external parties when deemed appropriate by management or the Board.

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)* led by the CRO, is responsible for assisting the Board in formulation of risk appetite, establishment of minimum standards, developing appropriate risk management tools, providing oversight and challenge of risk profiles and risk management activities within each of the business units and providing risk reporting to executive management and the Board; and the
- *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, the 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, 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 the local management of risks which is evidenced by maintaining their own risk registers, 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. |

| Role | Responsibilities |
|---|---|
| Group Risk Function (Second Line of Defence) | Provide oversight, challenge, expert advice, and propose standards and guidance to ensure a consistent and robust approach to risk management across the organisation. Facilitates the consistent implementation and application 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 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 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 material change in the SBU's staffing or resourcing of its risk management framework, compliance function or both;
- any internal or external fraud, suspected fraud or financial crime;
- any actual or potential breaches of risk appetite or matters giving rise to reputational risk;
- any unplanned regulatory interventions, sanctions, breaches or failure to meet local regulatory requirements;
- any planned regulatory visits or any significant or material correspondence from any regulator;
- any breaches of capital requirements;
- any loss/near miss events; and
- progress on action plans to remedy the above

### 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 Solvency II 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 and standards & 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 2020.

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 that is used as a context for business planning;
- assessment of the current risk profile of the business and ensuring adherence to risk appetite;
- 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 requires the establishment of controls to meet the following key objectives:

- delivery of business strategy and objectives: supporting the effectiveness and efficiency of operations and core processes;
- reliability of financial reporting: to ensure the reliability, accuracy and quality of financial information, and to mitigate the risk that inaccurate management information is used to make business decisions or is reported externally;
- internal model: to ensure the overall accuracy of the SCR calculation and 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;
- 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; and
- customer: to ensure that the Group provides the products and services that customers value and trust while delivering fair customer outcomes.

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;
- *objective setting:* management has in place a process to set objectives and the chosen objectives support and align with the Group's mission and are consistent with risk appetite;

- *risk assessment:* Internal and external events that affect the achievement of business objectives are identified, distinguishing between risks and opportunities. Risks are analysed, with appropriate risk responses selected by the Board and GMB. Where appropriate, actions are developed to align risks with the Group's risk tolerance and appetite;
- *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 in 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; 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 Regulatory Risk function (formerly known as 'Group Compliance') 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 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 Regulatory Risk 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 Regulatory Risk function are summarised 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 Regulatory Risk. 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 training, completion of compliance themed e-learning modules, and thematic training for all levels of staff including the Board;
- identifying emerging regulatory obligations and keeping up to date the legal & regulatory library;
- production and performance of thematic reviews;
- delivery of periodic reporting and management information (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 Regulatory Risk gains its authority from the GRC and the Head of Group Regulatory Risk is accountable to the Chair of that committee.

## B.5 Internal audit function

### Implementation of the internal audit function

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

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

GIA maintains a professional audit team with sufficient knowledge, skills, experience and professional qualifications. Where specialist, technical support is necessary to supplement GIA resource, this is available through a co-sourcing contract with an external 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 Group's Three Lines of Defence model. In order to operate an effective framework GIA maintains regular and ongoing dialogue with the first and second line functions to maintain a current and timely perspective of business direction and issues.

Demarcation between the third line of defence and the first two lines must be preserved to enable GIA to provide an independent overview to GAC and the Board on the effectiveness of all risk management and assurance processes within the organisation. Any blurring of the roles of the three lines of defence should be exceptional and any such blurring must be 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 their 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 is 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 organisation 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 of the organisation, including the activities of branches and 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.

## B.6 Actuarial function

### Implementation of Actuarial Function

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

- the deliveries of the Group Reserving team including the co-ordination and production of technical provisions (TPs) and International Financial Reporting Standards (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 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 outsource providers operate from within 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.

## 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- Underwriting risk | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Premium risk | 119,496 | 108,021 |
| Reserving risk | 86,447 | 81,069 |
| Diversification | (59,371) | (51,599) |
| **Non-life underwriting risk** | **146,572** | **137,491** |
| **Life underwriting risk** | **3,541** | **2,977** |

### *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; and
- *Reserving risk* – the risk of adverse change in the value of underwriting 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 including 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. In other territories, earthquake is the main peril for catastrophe underwriting risk (as detailed below for Canada and Australia).

Aside from non-catastrophe events, the potential for an underwriting risk scenario is relatively low, particularly taking into account the Group's reinsurance structure. Nevertheless, the non-catastrophe underwriting result can cause significant volatility arising from substantial levels of attritional or large claims. This can materially worsen the Group's result in less extreme outcomes, particularly due to the effect of certain risks that benefit less from reinsurance cover. Other key underwriting risks include poor premium rates, poor weather experience and the occurrence of multiple large property losses.

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

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

*Reserving risk*

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

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 and the mix of business, which helps diversify the risk of deterioration in its run-off. Long-tail 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, such as actual versus projected claims analyses and assessment of PSA incurred claim volumes.

The risk is not considered to have changed materially during the year. Whilst the majority of our policies have been found not to respond to Covid-19 claims we have made appropriate provision where cover is in place. A rise in numbers of PSA claims in the Australian business over the past year has led to an increase in reserves.

### *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 underwriting policies the nature of life business underwriting risk that it is exposed to does not change over time. It has not written any new business since April 2013 although it is exploring options that may see it re-open to new business in 2021. 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's business model gives rise to a number of risk concentrations. As a specialist expert 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 underwriting 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 UK 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 underwriting 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.

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

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

### *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 | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Market risk - excluding pension assets | 174,539 | 178,596 |
| Market risk - pension asets | 68,630 | 81,598 |
| Diversification | (11,497) | (11,381) |
| | 231,672 | 248,813 |

### 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.

In addition to exposure to market risks from its own assets, the Group is also exposed to market risks through its sponsorship of 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.

There has been no material change in the Group's overall exposure to market risk during the year due to the relative stability of asset mix. However, there was a significant level of volatility in financial markets during 2020 and although this had dampened by the year-end, the Group's equity asset values showed losses over the year. The consequent reduction in equity exposure led to a decrease in stand-alone market risk capital of £31 million.

### 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.

The investment strategy aligns to the Board's group risk appetite and the Group's investment risk and return objectives. 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 2020 is only 7% 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 cash flows 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 provides reports to the GRC, and the Finance & Investment Committee, which are both committees of the Board.

### Market risk concentration

The largest single investment is a holding in shares of Fundacion Mapfre, representing 7% of total investments. The majority of remaining market risk exposure is located in the UK. The largest exposure is to the UK government, with 5% of total investments being in UK gilts, as at year end 2020. There are no other material concentrations of market risk as the portfolio is well diversified.

### Market risk mitigation

The Group uses derivatives to mitigate equity risk by reducing the effective exposure to equity markets when the assessment of market conditions has resulted in a reduced appetite for bearing this risk. Throughout 2020, 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 technical provisions so that in the event of changes in market yields, resultant movements in liability discount rates will ensure that relevant asset values and liability values move in the same direction, so mitigating the net overall impact. The matching cash flow position is monitored as part of the investment strategy review each year and adjusted as determined to be appropriate.

Interest rate and inflation risks are material risks arising in the pension fund. These are primarily mitigated by the fund's investment in a liability driven investments portfolio that hedges approximately 55% of these risks.

All liabilities are matched with assets in the same currency, so mitigating currency risk. Throughout 2020 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.

The Group continues to monitor factors affecting investment markets on an ongoing basis as a key part of the overall risk management process.

### 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, and although these risks are not considered material they are also quantified within the capital model.

The likelihood of this risk has increased over the reporting period due to the economic impact of Covid-19 on both reinsurers and policyholders. However, we have not seen evidence of this crystallising.

### Credit risk concentration

The Group has risk appetite limits in place which limit exposure to any single reinsurer group. The largest individual reinsurance balance owed at 31 December 2020 was approximately £1.7m.

### 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. There are risk appetite limits in place for reinsurer groups based on credit ratings.

The Group has strong credit control processes in place to manage broker and policyholder exposures including due diligence assessments for brokers that have credit facilities, with ongoing monitoring of the credit status and experience of making timely payments.

### 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 Group 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 £8,293k.

The total amount of expected profit included in future life premiums is £1k.

## 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 is elevated across the industry. Following the outbreak of the Covid-19 pandemic, the Company operated with most staff located remotely. All operations have continued to function effectively and controls remained robust.

The Group's 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 regularly monitored.

### Operational risk mitigation

The Group accepts operational risk as a natural consequence of doing business. Mitigation techniques with respect to operational risk focus on the use of preventative and detective controls. Preventative controls are sought to either avoid a particular risk materialising or to lessen 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.

During the year the Group Operational, Regulatory and Conduct Risk Committee provided oversight of the relevant risks across the Group.

The Group is currently undertaking a long-term transformation programme to ensure ongoing adequacy and effectiveness of material systems infrastructure and will include the implementation of a new core operating system. This will help to improve processes for front-line employees, 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, a proactive compliance function 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 by all SBUs within the Group 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 and specifically cyber are also key operational risks for the Group. Cyber risk is critical due to the ever changing threats and increased volumes of malicious attacks seen across all types of businesses. 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 Group Cyber Security and Business Continuity team.

### 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 plausible in the context of the current business model and forward planning period, 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

Climate change risk relates to the financial risks arising through climate change. The key impacts for the Company are physical risks (event driven or longer term shifts), the transition risks of moving towards a lower carbon economy, and liability risks associated with the potential for litigation arising from an inadequate response. We consider flood risk and other weather-related risk factors in insurance risk selection and catastrophe risk is managed through reinsurance models. We also operate an ESG overlay on the investment strategy.

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 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. Particular risks that are relevant are contagion and contamination. These involve the risk that financial problems in one member of a group can cause deterioration in other group members or the risk of financial distress or other adverse events in one Group company causing damage to the reputation of other firms within the Group.

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

Maintaining a positive reputation is critical to the Group's vision of being the most trusted and ethical specialist financial services group. Risks to the Group's brand and reputation are inherently high in an increasingly interconnected environment, with the risks of external threats such as cyber security attacks, and viral campaigns through social media always present. We operate strong and proactive controls in order to monitor media activity generally, with additional PSA focussed activity overseen by a PSA Governance Committee. The probability of issues peaked during 2020 with perceived risks around business interruption coverage and IICSA. However, following a positive outcome at the High Court and publication of IICSA's Anglican Church investigation Report, these risks have reduced accordingly. There have been no other changes to these risks over the reporting period.

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.

## C.7 Any other information

*Stress & scenario testing*

The 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 the scenarios considered and the resultant impact of the sensitivity on the SCR are:

| Scenario | Change in SII IM SCR Cover |
|---|---|
| Higher than planned attritional claims - an increase in both attritional property and liability claims, where there is little or no recovery from the reinsurance programme (equating to an increase of 5 percentage points to the net loss ratio) | (13%) |
| Deterioration in latent reserves – 1 in 50 year deterioration | (16%) |
| Reduction in GWP year on year – 10% reduction in GWP | (14%) |
| Windstorm catastrophe event combined with reinsurer default – recreates windstorm catastrophe event of 1990 | (6%) |
| Increase in operating expenses – 10% increase in operating expenses and broker commission | (8%) |
| Combined market fall, windstorm catastrophe event and a reinsurer default – combination of 1 in 20 market fall with windstorm scenario above | (33%) |

The impact of the single scenarios is in line with Group expectations. The capital position is strong and remains resilient in highly stressed circumstances. Combining the more extreme market stresses with the most extreme underwriting scenario puts the greatest strain on the business.

The outcome of testing was discussed by the Board during the year and consideration given to the current environment and the impact of Covid-19 on the Group's viability. Among the considerations and scenarios were further investment market volatility, claims experience and business deterioration. Analysis confirms that the Group has sufficient capital resources to cover its capital requirements and is operationally resilient. The impact of Covid-19 on the Group has been subject to continual monitoring with additional focus across committees and at Board level.

*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. It is also a key validation component for the internal model. Various RSTs are performed by starting from the point of business model failure and working backwards to identify plausible root causes which would result in the business model becoming unviable.

Consideration is given to both single risk event scenarios, such as individual large catastrophe events, 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; and*
- *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.

Following the UK's exit from the European Union (EU), the PRA rulebook continues to refer to the EU SII articles in force at 31 December 2020. Reference to EU directives therefore remain appropriate.

Material assets and liabilities are defined as assets and liabilities that are valued in excess of £5.8m (Equivalent to 1% of 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.

The Group has adopted IFRS 16 using the modified retrospective approach, as permitted by the standard. On adoption of IFRS 16, the Group recognised right-of-use assets and associated lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, Leases.

Right-of-use assets have been measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet at initial recognition. Lease liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

## 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 | 2020 As reported IFRS Basis | Unconsolidate non-insurance undertakings | Reclassify to aid comparison | 2020 Reclassified IFRS | Net valuation difference | 2020 Solvency II Valuation |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Total Assets | 1,880,316 | (251,469) | (142,188) | 1,486,659 | (188,847) | 1,297,812 |
| Total liabilities | 1,300,867 | (251,469) | (142,188) | 907,210 | (115,011) | 792,199 |
| **Net assets** | 579,449 | - | - | 579,449 | (73,836) | 505,613 |
| **Breakdown of asset valuation** | | | | | | |
| Goodwill | 43,907 | (6,865) | - | 37,042 | (37,042) | - |
| Intangible assets | 33,445 | (2,354) | - | 31,091 | (31,091) | - |
| Deferred acquisition costs | 41,989 | - | - | 41,989 | (41,989) | - |
| Deferred tax assets | 2,502 | (1,424) | - | 1,078 | 95 | 1,173 |
| Pension benefit surplus | 1,053 | - | - | 1,053 | - | 1,053 |
| Property, plant & equipment held for own use | 42,431 | (6,034) | - | 36,397 | - | 36,397 |
| Investments Participations | 5,696 | 32,789 | 3,873 | 42,358 | (13,602) | 28,756 |
| Other | 972,169 | (1) | 4,203 | 976,371 | 28 | 976,399 |
| Loans & mortgages | 15,728 | - | - | 15,728 | 1,632 | 17,360 |
| Reinsurance recoverables Non-life | 208,677 | - | (24,201) | 184,476 | (60,359) | 124,117 |
| Life | 206,570 | (206,570) | - | - | - | - |
| Insurance & intermediaries receivables | 116,224 | - | (103,441) | 12,783 | - | 12,783 |
| Reinsurance receivables | 11,005 | - | (10,949) | 56 | - | 56 |
| Receivables (trade, not insurance) | 49,236 | (22,610) | (7,090) | 19,536 | (6,519) | 13,017 |
| Cash and cash equivalents | 129,596 | (42,304) | (710) | 86,582 | - | 86,582 |
| Any other assets, not elsewhere shown | 88 | 3,904 | (3,873) | 119 | - | 119 |
| **Total assets** | 1,880,316 | (251,469) | (142,188) | 1,486,659 | (188,847) | 1,297,812 |

### *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. The tax rate used is 19%, being the rate used in the Annual Report and Accounts.

*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.

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

| Plan Assets | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Government bonds | 1,805 | 4,027 |
| Corporate Bonds | 77,575 | 79,836 |
| Listed Equity | 148,313 | 158,999 |
| Unlisted Equity | 1,333 | 779 |
| Investment funds | 86,791 | 69,113 |
| Collateralised securities | 520 | 542 |
| Cash and cash equivalents | 34,416 | 19,546 |
| Investment Property | 41,873 | 43,659 |
| Derivatives | 885 | 2,396 |
| Other | 845 | 787 |
| | **394,356** | **379,684** |

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.

*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 | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Property improvements, fixtures, fittings & computer equipment | 9,941 | 6,047 |
| Owner occupied property | 2,440 | 2,445 |
| Motor vehicles | 13 | 24 |
| Right of use assets - property | 23,011 | 8,702 |
| Right of use assets - motor vehicles | 992 | 1,027 |
| | **36,397** | **18,245** |

Property improvements, fixtures and fittings, and computer equipment are valued in the 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 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.

Right-of-use assets have been valued at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. 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.

Motor vehicles are valued on an amortised cost basis in the financial statements. Their IFRS carrying value 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.

*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 firms, EdenTree Investment Management Limited and EdenTree Asset Management Limited have been valued under sectoral rules for SII (unaudited), as required by Articles 329 and 335 of the Delegated Act.

As all the remaining participations 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 participation'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 participations (£13,602k) between SII and IFRS 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 £3,494k 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 receivabl e is uncollectable, it is written off as impaired.

For SII these balances are valued at the present value of their expected future cash flows. The key assumptions used in the valuation are loan duration, interest rate and discount rate. The interest rate i s as defined in the loan agreement, and is typically either fixed or based on a fixed margin above the Bank of England Base Rate. The discount rate used is taken from the risk-free curves published by the PRA.

*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 £6,520k 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 the technical provisions are made up of:

- Discounted best estimate claims provisions;
- Discounted best estimate premium provisions; and
- Risk margins. (unaudited)

The non-life technical provisions (TPs) are calculated as a sum of best estimate and risk margin using a three-stage process of grouping data for homogeneous risks, selecting methodologies, and setting assumptions which take into account the economic, underwriting and reserving cycles.

The reserving process captures material factors via engagement and interaction across relevant business areas, particularly the claims and underwriting functions. These factors may not be inherent in the historical data. For example, a change introduced to the claims management philosophy may impact the incurred development pattern going forward.

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

*Modelling methodologies and assumptions*

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;
- exposure based methods are used to assess Covid-19 loss of profits reserves, based on policy terms and limits and propensity to claim assumptions.
- 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.
- The premium provision uses realistic business planning assumptions relating to the future accident year period, adjusted if necessary to ensure no credit is taken for planned future rating or underwriting actions, or expense efficiency improvements.

Once the best estimates are calculated all future years' cash flows are discounted to present value using the prescribed risk-free discount curve for the relevant currency interest rate-term structure.

The reinsurer's share of incurred but not reported (IBNR) calculations are varied depending on the type of treaty. Proportional arrangements use assumptions on net to gross ratios and excess of loss arrange ments 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' (70% of TPs) and 'fire and other property damage' (25% 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 prescribed UK risk-free rate decreased over 2020, which resulted in an increase in the discounted latent provisions.

*Motor vehicle classes*

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

The line of business will reduce in significance over time, but remains subject to risk of late developments on open cases.

*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 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. 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 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 – 95% of population mortality tables, ELT16M (males) and ELT16F (females) in 2021 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 2020); and
- future renewal expenses - £15.80 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, 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 long-term level of mortality in 2021 will not deviate materially from the base level assumption, though the impact of the Covid-19 pandemic introduces additional uncertainty to this 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 Company has been relatively stable in recent years.

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

*Non-life technical provisions*

The building blocks making up the TPs can be split between those for which the valuation methodology is compatible between 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 the PRA and applied to total reserves. In contrast, 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.

| Non-life net technical provisions | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| **IFRS Technical Provisions net of deferred acquisition costs, debtors and creditors** | 491,789 | 434,708 |
| Adjustment for risk margin (unaudited) | (8,352) | (7,022) |
| Adjustment for discounting | 22,142 | 12,552 |
| Other adjustments | (22,281) | (13,428) |
| **SII Net technical provisions** | 483,298 | 426,810 |

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.

*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 (11 basis points at 31 December 2020), 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 cash flows 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 | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| **IFRS reserves** | 76,857 | 79,213 |
| Expenses assumed | (2,982) | (3,409) |
| Real interest rate | 2,199 | 2,279 |
| Investment expenses | (185) | (57) |
| Mortality | (1,530) | (1,193) |
| Premium debtors | (304) | (252) |
| Explicit Risk Margin (unaudited) | 2,751 | 2,346 |
| **SII Net technical provisions** | 76,806 | 78,927 |

## 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 applied.

## Use of the volatility adjustment

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

For life insurance TPs the volatility adjustment is used to calculate the value of technical provisions for the single premium funeral plan business.

If the volatility adjustment was changed to zero, the impact would be an increase in technical provisions of £890k, an increase in the SCR of £17k and a decrease of £890k 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 has not been applied.

**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 l arge 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 non-life TPs.

*Life technical provisions*

The most material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period are those reflecting economic conditions and outlook at the reference dates of the respective calculations. A reduction in real interest rates during 2020 h as led to an increase in the value of technical provisions from the values based on the previous year's assumptions.

## 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 | | 2020 As reported IFRS Basis | Unconsolidate non-insurance undertakings | Reclassify to aid comparison | 2020 Reclassified IFRS | Net valuation difference | 2020 Solvency II Valuation |
|---|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Total Assets | | 1,880,316 | (251,469) | (142,188) | 1,486,659 | (188,847) | 1,297,812 |
| Total liabilities | | 1,300,867 | (251,469) | (142,188) | 907,210 | (115,011) | 792,199 |
| **Net assets** | | 579,449 | - | - | 579,449 | (73,836) | 505,613 |
| **Breakdown of liability valuation** | | | | | | | |
| Technical provisions | Non-life | 791,792 | - | (99,639) | 692,153 | (84,738) | 607,415 |
| | Life | 283,427 | (206,570) | (304) | 76,553 | 253 | 76,806 |
| Provisions other than technical provisions | | 7,013 | (1,095) | - | 5,918 | - | 5,918 |
| Pension benefit obligations | | 23,756 | (6,820) | - | 16,936 | - | 16,936 |
| Deferred tax liabilities | | 30,615 | 61 | - | 30,676 | (5,197) | 25,479 |
| Derivatives | | 1,244 | - | - | 1,244 | - | 1,244 |
| Debts owed to credit institutions | | 28,151 | (4,123) | - | 24,028 | - | 24,028 |
| Insurance & intermediaries payables | | 3,055 | - | (3,055) | - | - | - |
| Reinsurance payables | | 39,190 | - | (39,190) | - | - | - |
| Payables (trade, not insurance) | | 66,220 | (31,775) | - | 34,445 | (72) | 34,373 |
| Deferred income | | 26,404 | (1,147) | - | 25,257 | (25,257) | - |
| **Total liabilities** | | 1,300,867 | (251,469) | (142,188) | 907,210 | (115,011) | 792,199 |

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 I FRS 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*

As noted in section D.1. the Group operates a number of defined benefit and defined contribution plans, the assets of which are held in separate trustee-administered funds. Any deficit arising is recognised here. The Group also 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.

| Own Funds | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| Solvency II valuation of assets | 1,297,812 | 1,249,968 |
| Solvency II valuation of liabilities | (792,199) | (693,012) |
| Excess of assets over liabilities | 505,613 | 556,956 |
| Qualifying subordinated debt | - | - |
| Foreseeable distributions | (4,391) | (4,446) |
| Non-available own funds at group level | (21,747) | (17,859) |
| **Total eligible own funds** | **479,475** | **534,651** |

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. 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 June 2021 payment to minority interests 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'.

### 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 is reviewed at least every 5 years by the GRC and annually by the Group Chief Actuary. The policy was last reviewed by the GRC in September 2019 and in August 2020 by the Group Chief Actuary.

*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 capital. This method fully consolidates all insurance companies, ancillary services companies and insurance holding companies in the Group.

The own funds of EdenTree Investment Management Limited and EdenTree Asset Management Limited, which are investment firms, are calculated in accordance with their 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.

### Fungibility and transferability of group own funds (unaudited as derived from the SCR)

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

Own funds that cannot be moved 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 |
|---|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Excess of assets over liabilities excluding intra group transactions** | | | | | | **505,613** |
| Foreseeable distributions | | | | | | (4,391) |
| **Restriction due to solo SII requirements** | | | | | | |
| Notional solo SCR based on group data | **(a)** | 243,128 | 14,394 | 35,027 | 11,952 | |
| Notional share of Group SCR | **(b)** | 223,453 | 13,939 | 32,193 | 5,974 | |
| Contribution ratio to Group SCR | **(b/a)** | 91.9% | 96.8% | 91.9% | 50.0% | |
| Stand-alone solo SCR | **(c)** | 262,723 | 15,394 | 35,027 | 11,952 | |
| **Contribution of Solo to Group SCR** | **(c x b/a = d)** | **241,463** | **14,907** | **32,193** | **5,974** | |
| **Fungibility restrictions:** | | | | | | |
| Due to local capital requirement | | | | | | |
| Own Funds | | 160,908 | 15,394 | 23,346 | | |
| Minority interest | | 101,815 | | | | |
| Due to liquidity | | | | | | |
| Due to deferred tax asset | | | | 1,172 | | |
| | **(e)** | 262,723 | 15,394 | 24,518 | - | |
| **Unavailable at group level** | **(If e>d)** | (21,260) | (487) | - | - | **(21,747)** |
| *(Amount in excess of contribution to Group SCR)* | | | | | | |
| **Available Group Own Funds** | | | | | | **479,475** |
| **Unavailability split by tier:** | | | | | | |
| Tier 1 | | | | | | (13,508) |
| Restricted Tier 1 (Minority interest) | | | | | | (8,238) |
| Tier 3 | | | | | | - |
| | | | | | | (21,746) |

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

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.

| Reconciliation from IFRS net assets to Solvency II own funds | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|
| Equity as reported in IFRS Financial Statements | 579,449 | 622,366 |
| Revalue participations | (13,602) | (14,975) |
| Revalue life technical provisions * | (253) | 33 |
| Revalue non-life technical provisions * | 24,379 | 23,359 |
| Remove deferred commission income and deferred acquisition costs | (16,732) | (16,023) |
| Remove goodwill and intangible assets | (68,133) | (53,885) |
| Remove prepayments and other items with no fair value | (4,787) | (5,363) |
| Impact of revaluation on deferred tax | 5,292 | 2,047 |
| Impact of valuing investment firm using sectoral rules (unaudited) | - | (603) |
| Solvency II valuation of excess of assets over liabilities | 505,613 | 556,956 |
| Foreseeable dividends & distributions | (4,391) | (4,446) |
| Group availability restriction | (21,747) | (17,859) |
| Solvency II Valuation of own funds | 479,475 | 534,651 |

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

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 Investment Management Limited and EdenTree Asset Management limited are investment firms, their net assets are removed from the SII consolidation and replaced by own funds valued in accordance with their 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.

## 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 by type, with comparison to the prior year:

| Analysis of Own Funds | Total | Tier 1 | | Tier 2 | Tier 3 |
|---|---|---|---|---|---|
| | | Unrestricted | Restricted | | |
| **2020** | £'000 | £'000 | £'000 | £'000 | £'000 |
| Ordinary share capital | 20,000 | 20,000 | - | - | - |
| Minority interests | 93,576 | - | 93,576 | - | - |
| Amount equal to deferred tax asset | 1,172 | - | - | - | 1,172 |
| Reconciliation reserve | 364,727 | 364,727 | - | - | - |
| (Net of non-available items) | **479,475** | **384,727** | **93,576** | **-** | **1,172** |
| **2019** | | | | | |
| Ordinary share capital | 20,000 | 20,000 | - | - | - |
| Minority interests | 96,335 | - | 96,335 | - | - |
| Amount equal to deferred tax asset | 1,917 | - | - | - | 1,917 |
| Reconciliation reserve | 416,399 | 416,399 | - | - | - |
| (Net of non-available items) | **534,651** | **436,399** | **96,335** | **-** | **1,917** |
| **Movement in own funds** | | | | | |
| Ordinary share capital | - | - | - | - | - |
| Minority interests | (2,759) | - | (2,759) | - | - |
| Amount equal to deferred tax asset | (745) | - | - | - | (745) |
| Reconciliation reserve | (51,672) | (51,672) | - | - | - |
| (Net of non-available items) | **(55,176)** | **(51,672)** | **(2,759)** | **-** | **(745)** |

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 shows 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** | **534,651** | **436,399** | **96,335** | **-** | **1,917** |
| IFRS total comprehensive expense | (32,617) | (31,492) | - | - | (1,125) |
| Preference dividends paid to minority interest | (8,782) | (8,782) | - | - | - |
| Acquisition of minority interest | (1,519) | (244) | (1,275) | - | - |
| Charitable grant paid net of tax relief | - | - | - | - | - |
| Movement in SII valuation of non-life technical provisions * | 1,020 | 1,020 | - | - | - |
| Movement in SII valuation of life technical provisions * | (286) | (286) | - | - | - |
| Movement in SII revaluation of participations | 1,373 | 1,373 | - | - | - |
| Movement in other SII deductions & revaluations | (14,325) | (14,325) | - | - | - |
| Movement in SII calculation of deferred tax | 3,245 | 2,865 | - | - | 380 |
| Movement in sectoral revaluation of investment firm (unaudited) | 603 | 603 | - | - | - |
| Movement in non-availability of Own Funds at group level | (3,888) | (2,404) | (1,484) | - | - |
| Total movement for year | **(55,176)** | **(51,672)** | **(2,759)** | **-** | **(745)** |
| **Current year balance** | **479,475** | **384,727** | **93,576** | **-** | **1,172** |

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

The £32,617k IFRS total comprehensive expense is reported in the Group's financial statements and includes loss after tax of £17,344k, actuarial losses of £19,036k in respect of the Group's retirement benefit obligations, losses on net investment hedges of £2,399k and gains on currency translation of £1,980k.

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.

### Transitional arrangements

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

### Ancillary own funds

Approval has not been sought for any form of ancillary own funds. There is no unpaid share capital in issue and no material letters of credit, guarantees or any other legally binding commitments have been identified or recognised.

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

| Analysis of eligible own funds available to cover Group SCR | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Unrestricted tier 1 capital | 384,727 | 436,399 |
| Restricted tier 1 capital | 93,576 | 96,335 |
| **Total eligible tier 1 capital** | **478,303** | **532,734** |
| Restricted tier 1 relegated to tier 2 | - | - |
| Other tier 2 capital | - | - |
| **Total eligible tier 2 capital** | **-** | **-** |
| **Eligible tier 3 capital** | **1,172** | **1,917** |
| **Total eligible own funds*** | **479,475** | **534,651** |
| **Ineligible own funds** | **-** | **-** |
| **Total own funds*** | **479,475** | **534,651** |

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

The restricted tier 1 own funds cannot amount to more than 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 | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Unrestricted tier 1 capital* | 376,116 | 427,308 |
| Restricted tier 1 capital | 93,576 | 96,335 |
| **Total eligible tier 1 capital** | **469,692** | **523,643** |
| Restricted tier 1 relegated to tier 2 | - | - |
| Tier 2 capital | - | - |
| **Total eligible tier 2 capital** | **-** | **-** |
| **Total eligible own funds*** | **469,692** | **523,643** |
| **Ineligible own funds*** | **1,172** | **1,917** |
| **Total basic own funds after deductions** | **470,864** | **525,560** |

*** - Excluding own funds of investment firms (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.

## E.2 Solvency Capital Requirement [SCR] (unaudited) & 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 SII Directive. The Group uses a Partial Internal Model (PIM), 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 Internal 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 2020 the SCR for the Group was £280,403k, 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 (unaudited as this is derived from the SCR):

| Minimum group solvency capital requirement | 2020 | 2019 |
|---|---|---|
| | £'000 | £'000 |
| MCR of Ecclesiastical Insurance Office plc | 65,681 | 66,063 |
| MCR of Ecclesiastical Life Limited | 3,848 | 3,994 |
| Local regulatory requirement of Ansvar Insurance ltd | 23,346 | 18,292 |
| **Minimum group solvency capital requirement** | **92,875** | **88,349** |

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

Market risk has reduced over the year, predominantly the result of reduced equity exposure following significant falls in equity markets in the first half of 2020. Despite some recovery in the second half of the year, the equity exposure at the end of 2020 is still significantly lower than at the end of 2019. The underlying view of the market (based on the ESG) is not materially different.

Counterparty default risk is largely unchanged, since there have been no material changes in exposure over the period.

Within non-life underwriting risk, there has been an increase in reserving risk due to additional allowance being made for Covid-19 reserves and a deterioration in latent claims reserve risk in Australia, following increases in reported claim volumes. Premium risk benefited from expected improvements in the underwriting result. However, this was mostly offset by increases in reinsurance costs and an increase in natural catastrophe risk due to exposure growth across all territories.

The 2020 operational risk figure remained largely unchanged over the year.

Other risks mostly relates to the pension fund longevity risk, which increased during the year, largely due to an increase in the liabilities as a result of discount rates falling.

The continued dominance of market risk on the SCR means that increases in non-life underwriting risk lead to an increase in diversification benefit, with the SCR benefitting from improvements in expected underwriting profit. Further, increases in pension longevity risk diversify away to a large extent, as this risk has very limited links to other risk types.

The 2020 LACDT adjustment has reduced significantly as a result of the significant fall in equities in the first half of 2020 which has reduced the opening deferred tax liabilities.

The table below summarises the movement in the SCR and MCR between the prior year and the current year.

| Solvency Capital Requirement | 2020 £'000 | 2019 £'000 | Change £'000 |
|---|---|---|---|
| Market risk | 231,672 | 248,813 | (17,141) |
| Counterparty default risk | 13,749 | 13,482 | 267 |
| Non-life underwriting risk | 146,572 | 137,491 | 9,081 |
| Life underwriting risk | 3,541 | 2,977 | 564 |
| Operational risk | 33,094 | 33,369 | (275) |
| Other risks | 29,392 | 26,242 | 3,150 |
| Diversification | (162,139) | (154,488) | (7,651) |
| SCR before adjustments | 295,881 | 307,886 | (12,005) |
| Loss absorbing capacity of deferred tax | (25,500) | (32,300) | 6,800 |
| Other adjustments | 5,178 | 2,393 | 2,785 |
| Consolidated SCR | 275,559 | 277,979 | (2,420) |
| Sectoral capital requirement of investment firm | 4,844 | 4,844 | - |
| **Group SCR** | **280,403** | **282,823** | **(2,420)** |

The minimum group SCR has increased following in increase in the local Australian Prudential Regulation Authority (APRA) requirement of the Groups Australian subsidiary.

## 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 links 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.

### 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.

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

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.

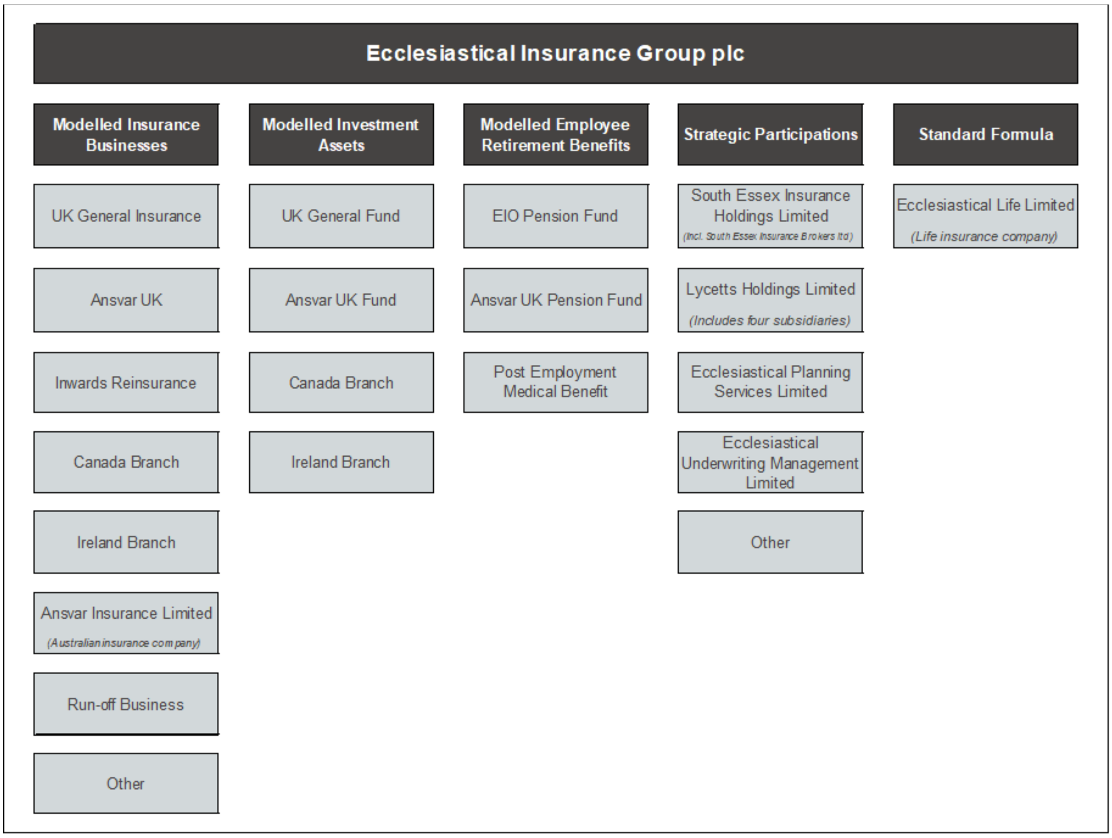
### Scope of the Partial Internal Model

The Internal 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.

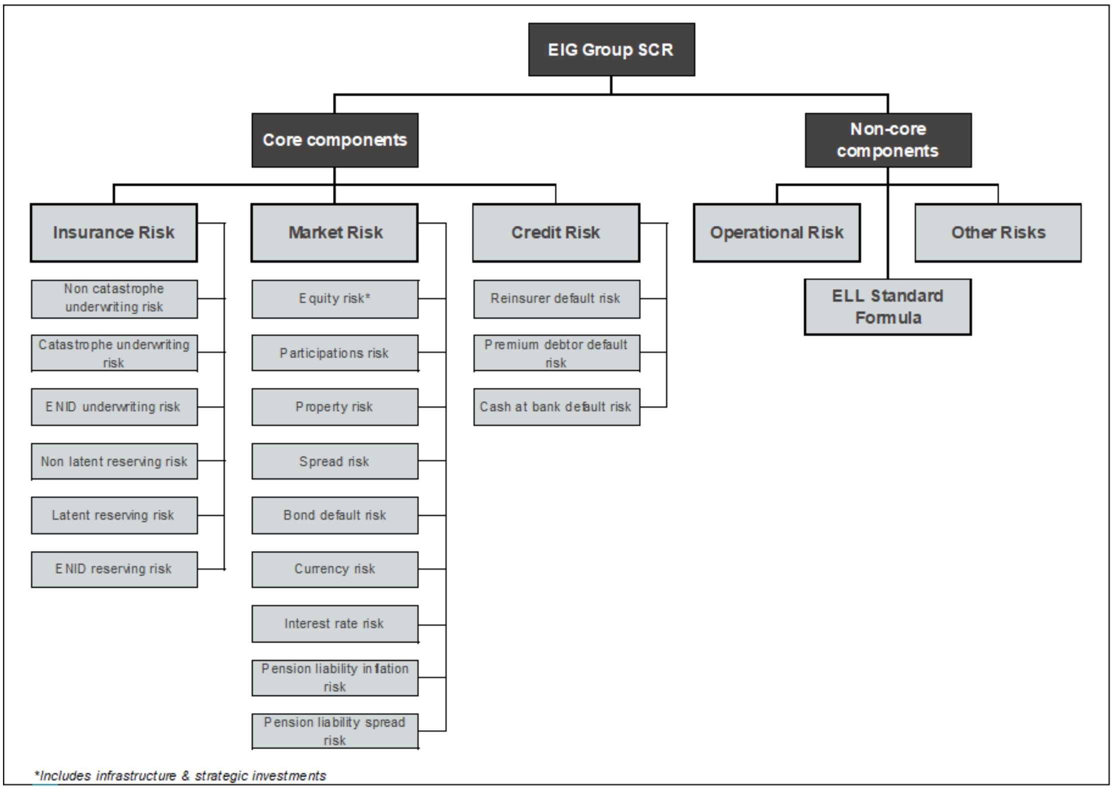
A number of additional 'Non-Core' risks are then aggregated with the stochastically modelled requirement at the final stage. These risks use a combination of stochastic and scenario based approaches. This also includes the SCR for ELL which is calculated separately using the Standard Formula.

Finally, Model Adjustments are applied in order to derive the final capital requirement. This includes the addition of the capital requirement for a non-insurance subsidiary, EdenTree (an Investment Management Company), whose capital requirement is calculated in accordance with the relevant sectoral rules.

The diagram below illustrates the business unit scope of the Internal Model:




The diagram below illustrates the component risks within the PIM:



### Use of the Partial Internal Model

The Internal 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 Internal Model is also widely used and fully integrated into decision making processes.

The Internal Model provides support and justification for a variety of key business processes. These include, but are not limited to:

- 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.

### Undertakings included in the internal model

For the purposes of calculating the Group SCR, the Model is defined as a 'Partial Internal Model' under SII. This is because the Group includes a subsidiary, Ecclesiastical Life Limited, whose capital requirement is calculated using the Standard Formula. In addition, the Group includes a non-insurance subsidiary, EdenTree (an investment management company), whose capital requirement is calculated in accordance with the relevant sectoral rules.

All other relevant business units are included in the scope of the Internal Model.

### Methods used in the Partial Internal Model

#### *Integration of the partial internal model*

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.

#### *Calculation of the probability distribution forecast and the SCR*

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 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.

Operational risk and other risks are modelled independently then aggregated with the core only 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.

*Risk measure and time period*

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 Internal Model have been selected to agree to that set out in Article 101(3) of the Directive.

### 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.

### Main differences between any internal model used at an individual level and group

The methodology and risk type scope of the Internal Model is the same for all undertakings within the Group.

### 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.<br>▪ Net earned premiums provide the volume metric for premium risk, with net best estimate claims reserves providing the volume metric for reserve risk.<br>▪ No account is taken of the relative scale or nature of business within each line, but geographical diversification is included.<br>▪ 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.<br>▪ 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.<br>▪ 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.<br>▪ 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.<br>▪ Gross catastrophe underwriting loss experience is calculated by applying simulated events from external vendor models to the Group'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.<br>▪ Additional scenarios relating to potential events not in data (ENID) are modelled, for example terrorism events and new latent claims.<br>▪ 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.<br>▪ All risk is modelled to ultimate, with an adjustment applied to reflect the amount of risk that would emerge over the one year period.<br>▪ The expected profitability of the business explicitly impacts the level of capital requirement.<br>▪ 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.<br>▪ 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.<br>▪ A shock is applied to the opening best estimate expense reserves, in addition to a shock to the future expense inflation rate.<br>▪ 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.<br>▪ 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.<br>▪ A symmetric adjustment is applied to the base shocks to reduce pro-cyclicality.<br>▪ A transitional arrangement is unwinding over time such that the applied stress is currently increasing year on year.<br>▪ 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)<br>▪ 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.<br>▪ The ESG is updated at least annually and is designed to reflect current market conditions<br>▪ 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.<br>▪ 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.<br>▪ The stress for this risk is not applied to Government bonds. | ▪ Corporate bond returns are based on a discounted cash flow 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.<br>▪ 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. |

| Model Risk Category | Standard Formula Sub-component(s) | Standard Formula approach | Partial Internal Model |
|---|---|---|---|
| | 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.<br>▪ Profits and/or losses from currency hedging contracts are also included. |
| | Interest Rate | ▪ A prescribed upward and downward stress, by duration of cash flow, is applied to the EIOPA risk-free yield curve. These stressed yield curves are then applied to aggregate net fixed interest opening cash flows 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 cash flows 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.<br>▪ The use of the closing cash flows 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.<br>▪ Risks associated with the allowable spread within pension liabilities discount rate are captured via an explicit adjustment to the ESG simulated spreads where appropriate.<br>▪ 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<br>▪ 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.<br>▪ 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.<br>▪ 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.<br>▪ 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.<br>▪ 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 Group, such as data loss or systems failure, are constructed and quantified in consultation with business risk experts.<br>▪ These are combined using correlations between the scenarios to produce on overall Operational risk distribution. |

| Model Risk Category | Standard Formula Sub-component(s) | Standard Formula approach | Partial Internal Model |
|---|---|---|---|
| **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.<br>▪ This includes a deterministic scenario for longevity risk in the pension scheme, applied as a stress to current and future mortality rates. |
| **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.<br>▪ The LACDT is capped within each entity at the level of available net deferred tax liabilities and loss carryback. |
| **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.<br>▪ 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.<br>▪ Operational risk, Other risks and Other adjustments are aggregated with the core model using linear correlation approaches. |

## E.5 Non-compliance with the minimum group SCR and non-compliance with the SCR (unaudited)

### Minimum group SCR non-compliance

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

### SCR non-compliance

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

## E.6 Any other information

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

# Appendix 1 - QRT S.02.01.02 Balance Sheet

S.02.01.02

Balance sheet

| | | Solvency II value |
|---|---|---|
| | Assets | C0010 |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | 1,172 |
| R0050 | Pension benefit surplus | 1,053 |
| R0060 | Property, plant & equipment held for own use | 36,397 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 1,005,330 |
| R0080 | *Property (other than for own use)* | 142,142 |
| R0090 | *Holdings in related undertakings, including participations* | 28,756 |
| R0100 | *Equities* | 100,590 |
| R0110 | *Equities - listed* | 30,071 |
| R0120 | *Equities - unlisted* | 70,519 |
| R0130 | *Bonds* | 495,649 |
| R0140 | *Government Bonds* | 198,540 |
| R0150 | *Corporate Bonds* | 296,252 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 857 |
| R0180 | *Collective Investments Undertakings* | 234,929 |
| R0190 | *Derivatives* | 2,380 |
| R0200 | *Deposits other than cash equivalents* | 883 |
| R0210 | *Other investments* | 0 |
| R0220 | Assets held for index-linked and unit-linked contracts | |
| R0230 | Loans and mortgages | 17,360 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | |
| R0260 | *Other loans and mortgages* | 17,360 |
| R0270 | Reinsurance recoverables from: | 124,117 |
| R0280 | *Non-life and health similar to non-life* | 124,117 |
| R0290 | *Non-life excluding health* | 124,117 |
| R0300 | *Health similar to non-life* | |
| R0310 | *Life and health similar to life, excluding index-linked and unit-linked* | 0 |
| R0320 | *Health similar to life* | |
| R0330 | *Life excluding health and index-linked and unit-linked* | |
| R0340 | *Life index-linked and unit-linked* | |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 12,783 |
| R0370 | Reinsurance receivables | 55 |
| R0380 | Receivables (trade, not insurance) | 13,018 |
| R0390 | Own shares (held directly) | |
| 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 | 86,408 |
| R0420 | Any other assets, not elsewhere shown | 119 |
| R0500 | Total assets | 1,297,811 |

| | | Solvency II value |
|---|---|---|
| | Liabilities | C0010 |
| R0510 | Technical provisions - non-life | 607,415 |
| R0520 | *Technical provisions - non-life (excluding health)* | 607,415 |
| R0530 | *TP calculated as a whole* | |
| R0540 | *Best Estimate* | 545,479 |
| R0550 | *Risk margin* | 61,935 |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 76,807 |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP calculated as a whole* | |
| R0630 | *Best Estimate* | |
| R0640 | *Risk margin* | |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 76,807 |
| R0660 | *TP calculated as a whole* | |
| R0670 | *Best Estimate* | 74,055 |
| R0680 | *Risk margin* | 2,751 |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP calculated as a whole* | |
| R0710 | *Best Estimate* | |
| R0720 | *Risk margin* | |
| R0740 | Contingent liabilities | |
| R0750 | Provisions other than technical provisions | 5,918 |
| R0760 | Pension benefit obligations | 16,936 |
| R0770 | Deposits from reinsurers | |
| R0780 | Deferred tax liabilities | 25,479 |
| R0790 | Derivatives | 1,244 |
| R0800 | Debts owed to credit institutions | 24,028 |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | 34,373 |
| R0850 | Subordinated liabilities | 0 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 0 |
| R0880 | Any other liabilities, not elsewhere shown | 0 |
| R0900 | Total liabilities | 792,199 |
| | | |
| R1000 | Excess of assets over liabilities | 505,613 |

# 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 | | | | 902 | 0 | | 290,696 | 108,565 | | 2,695 | 213 | 16,567 | | | | | 419,638 |
| R0120 Gross - Proportional reinsurance accepted | | | | 166 | 153 | | 15,328 | 864 | | 101 | 0 | 1,038 | | | | | 17,649 |
| R0130 Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | 0 | | 0 | 0 |
| R0140 Reinsurers' share | | | | 731 | 0 | | 156,063 | 7,068 | | 2,439 | 172 | 7,242 | | -642 | | 0 | 173,074 |
| R0200 Net | | | | 336 | 153 | | 149,961 | 102,361 | | 357 | 41 | 10,363 | | 642 | | 0 | 264,213 |
| **Premiums earned** | | | | | | | | | | | | | | | | | |
| R0210 Gross - Direct Business | | | | 845 | 0 | | 273,028 | 101,843 | | 2,663 | 244 | 16,078 | | | | | 394,700 |
| R0220 Gross - Proportional reinsurance accepted | | | | 154 | 143 | | 14,629 | 1,532 | | 97 | 0 | 1,047 | | | | | 17,603 |
| R0230 Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | 0 | | 0 | 0 |
| R0240 Reinsurers' share | | | | 680 | 0 | | 147,067 | 7,984 | | 2,399 | 197 | 6,967 | | -642 | | 0 | 164,653 |
| R0300 Net | | | | 319 | 143 | | 140,590 | 95,391 | | 360 | 47 | 10,159 | | 642 | | 0 | 247,651 |
| **Claims incurred** | | | | | | | | | | | | | | | | | |
| R0310 Gross - Direct Business | | | | 711 | -59 | | 130,917 | 45,236 | | 1,020 | 79 | 26,392 | | | | | 204,296 |
| R0320 Gross - Proportional reinsurance accepted | | | | 90 | 84 | | 4,373 | -6 | | 0 | 0 | 175 | | | | | 4,715 |
| R0330 Gross - Non-proportional reinsurance accepted | | | | | | | | | | | | | | -359 | | 0 | -359 |
| R0340 Reinsurers' share | | | | 320 | 0 | | 72,284 | 14,456 | | 999 | 71 | 12,023 | | -5,606 | | 33 | 94,581 |
| R0400 Net | | | | 481 | 24 | | 63,005 | 30,774 | | 21 | 9 | 14,543 | | 5,247 | | -33 | 114,071 |
| **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 | | 0 | | 0 | 0 |
| R0550 **Expenses incurred** | | | | 94 | 47 | | 71,219 | 47,165 | | 863 | 79 | 5,000 | | 1 | | 26 | 124,495 |
| R1200 **Other expenses** | | | | | | | | | | | | | | | | | 21,366 |
| R1300 **Total expenses** | | | | | | | | | | | | | | | | | 145,861 |

## 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 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 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 | Total |
| | | C0210 | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 | C0300 |
| | **Premiums written** | | | | | | | | | |
| R1410 | Gross | | | | 12 | | | | | 12 |
| R1420 | Reinsurers' share | | | | | | | | | 0 |
| R1500 | Net | | | | 12 | | | | | 12 |
| | **Premiums earned** | | | | | | | | | |
| R1510 | Gross | | | | 12 | | | | | 12 |
| R1520 | Reinsurers' share | | | | | | | | | 0 |
| R1600 | Net | | | | 12 | | | | | 12 |
| | **Claims incurred** | | | | | | | | | |
| R1610 | Gross | | | | 3,653 | | | | | 3,653 |
| R1620 | Reinsurers' share | | | | | | | | | 0 |
| R1700 | Net | | | | 3,653 | | | | | 3,653 |
| | **Changes in other technical provisions** | | | | | | | | | |
| R1710 | Gross | | | | | | | | | 0 |
| R1720 | Reinsurers' share | | | | | | | | | 0 |
| R1800 | Net | | | | 0 | | | | | 0 |
| R1900 | Expenses incurred | | | | 513 | | | | | 513 |
| R2500 | Other expenses | | | | | | | | | |
| R2600 | Total expenses | | | | | | | | | 513 |

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

S.05.02.01

Premiums, claims and expenses by country

Non-life

| | | C0010 | C0020 | C0030 | C0040 | C0050 | C0060 | C0070 |
|---|---|---|---|---|---|---|---|---|
| | | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations | | | Top 5 countries (by amount of gross premiums written) - non-life obligations | | Total Top 5 and home country |
| R0010 | | | AU | CA | IE | | | |
| | | C0080 | C0090 | C0100 | C0110 | C0120 | C0130 | C0140 |
| | **Premiums written** | | | | | | | |
| R0110 | Gross - Direct Business | 248,009 | 80,178 | 75,953 | 15,498 | | | 419,638 |
| R0120 | Gross - Proportional reinsurance accepted | 17,567 | 0 | 0 | 82 | | | 17,649 |
| R0130 | Gross - Non-proportional reinsurance accepted | 0 | 0 | | | | | 0 |
| R0140 | Reinsurers' share | 104,491 | 46,586 | 17,681 | 4,316 | | | 173,074 |
| R0200 | Net | 161,085 | 33,592 | 58,272 | 11,264 | | | 264,213 |
| | **Premiums earned** | | | | | | | |
| R0210 | Gross - Direct Business | 239,795 | 71,980 | 68,460 | 14,466 | | | 394,700 |
| R0220 | Gross - Proportional reinsurance accepted | 17,343 | 0 | 0 | 260 | | | 17,603 |
| R0230 | Gross - Non-proportional reinsurance accepted | 0 | 0 | | | | | 0 |
| R0240 | Reinsurers' share | 99,600 | 43,684 | 17,235 | 4,134 | | | 164,653 |
| R0300 | Net | 157,538 | 28,295 | 51,225 | 10,592 | | | 247,651 |
| | **Claims incurred** | | | | | | | |
| R0310 | Gross - Direct Business | 103,115 | 59,723 | 33,103 | 9,273 | | | 205,214 |
| R0320 | Gross - Proportional reinsurance accepted | 4,574 | 0 | 0 | -118 | | | 4,456 |
| R0330 | Gross - Non-proportional reinsurance accepted | -100 | 0 | | | | | -100 |
| R0340 | Reinsurers' share | 36,603 | 43,647 | 13,215 | 1,865 | | | 95,329 |
| R0400 | Net | 70,986 | 16,076 | 19,888 | 7,291 | | | 114,241 |
| | **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 |
| R0550 | Expenses incurred | 79,621 | 12,975 | 26,846 | 5,053 | | | 124,495 |
| R1200 | Other expenses | | | | | | | 21,366 |
| R1300 | Total expenses | | | | | | | 145,861 |

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

S.05.02.01

Premiums, claims and expenses by country

Life

| | | Home Country | Top 5 countries (by amount of gross premiums written) - life obligations | | | Top 5 countries (by amount of gross premiums written) - life obligations | | Total Top 5 and home country |
|---|---|---|---|---|---|---|---|---|
| | | C0150 | C0160 | C0170 | C0180 | C0190 | C0200 | C0210 |
| R1400 | | C0220 | C0230 | C0240 | C0250 | C0260 | C0270 | C0280 |
| | Premiums written | | | | | | | |
| R1410 | Gross | 12 | | | | | | 12 |
| R1420 | Reinsurers' share | | | | | | | 0 |
| R1500 | Net | 12 | | | | | | 12 |
| | Premiums earned | | | | | | | |
| R1510 | Gross | 12 | | | | | | 12 |
| R1520 | Reinsurers' share | | | | | | | 0 |
| R1600 | Net | 12 | | | | | | 12 |
| | Claims incurred | | | | | | | |
| R1610 | Gross | 3,653 | | | | | | 3,653 |
| R1620 | Reinsurers' share | | | | | | | 0 |
| R1700 | Net | 3,653 | | | | | | 3,653 |
| | Changes in other technical provisions | | | | | | | |
| R1710 | Gross | | | | | | | 0 |
| R1720 | Reinsurers' share | | | | | | | 0 |
| R1800 | Net | 0 | | | | | | 0 |
| R1900 | Expenses incurred | 513 | | | | | | 513 |
| R2500 | Other expenses | | | | | | | |
| R2600 | Total expenses | | | | | | | 513 |

# Appendix 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 | 684,221 | 0 | 0 | 890 | 0 |
| R0020 | Basic own funds | 470,864 | 0 | 0 | -890 | 0 |
| R0050 | Eligible own funds to meet Solvency Capital Requirement | 479,475 | 0 | 0 | -890 | 0 |
| R0090 | Solvency Capital Requirement | 280,403 | 0 | 0 | 17 | 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 | 364,727 | 364,727 | | | |
| 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 | 1,172 | | | | 1,172 |
| R0170 | *The amount equal to the value of net deferred tax assets not available at the group level* | 0 | | | | 0 |
| R0180 | Other items approved by supervisory authority as basic own funds not specified above | 0 | 0 | 0 | 0 | 0 |
| R0190 | *Non available own funds related to other own funds items approved by supervisory authority* | 0 | | | | |
| R0200 | Minority interests (if not reported as part of a specific own fund item) | 101,815 | | 101,815 | | |
| R0210 | *Non-available minority interests at group level* | 8,239 | | 8,239 | | |
| 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 | 8,611 | 8,611 | | | |
| 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 | 8,239 | 0 | 8,239 | 0 | 0 |
| R0280 | Total deductions | 16,850 | 8,611 | 8,239 | 0 | 0 |
| R0290 | Total basic own funds after deductions | 470,864 | 376,116 | 93,576 | 0 | 1,172 |
| | 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 | 8,611 | 8,611 | | | |
| R0420 | Institutions for occupational retirement provision | 0 | | | | |
| R0430 | Non regulated entities carrying out financial activities | 0 | | | | |
| R0440 | Total own funds of other financial sectors | 8,611 | 8,611 | 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 ) | 470,864 | 376,116 | 93,576 | 0 | 1,172 |
| R0530 | Total available own funds to meet the minimum consolidated group SCR | 469,692 | 376,116 | 93,576 | 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 ) | 470,864 | 376,116 | 93,576 | 0 | 1,172 |
| R0570 | Total eligible own funds to meet the minimum consolidated group SCR (group) | 469,692 | 376,116 | 93,576 | 0 | |
| R0610 | Minimum consolidated Group SCR | 92,875 | | | | |
| R0650 | Ratio of Eligible own funds to Minimum Consolidated Group SCR | 505.72% | | | | |
| 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 ) | 479,475 | 384,727 | 93,576 | 0 | 1,172 |
| R0680 | Group SCR | 280,403 | | | | |
| R0690 | Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A | 171.00% | | | | |

| | Reconcilliation reserve | C0060 |
|---|---|---|
| R0700 | Excess of assets over liabilities | 505,613 |
| R0710 | Own shares (held directly and indirectly) | |
| R0720 | Forseeable dividends, distributions and charges | 4,391 |
| R0730 | Other basic own fund items | 122,987 |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 |
| R0750 | Other non available own funds | 13,508 |
| R0760 | Reconciliation reserve | 364,727 |
| | Expected profits | |
| R0770 | Expected profits included in future premiums (EPIFP) - Life business | 1 |
| R0780 | Expected profits included in future premiums (EPIFP) - Non- life business | 8,293 |
| R0790 | Total Expected profits included in future premiums (EPIFP) | 8,294 |

# 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 | 119,496 | 119,496 | 0 | |
| 2 | 50200I | Non-life underwriting risk: Reserving risk | 86,447 | 86,447 | 0 | |
| 3 | 59900I | Diversification within non-life underwriting risk | -59,371 | -59,371 | 0 | |
| 4 | 10000I | Market risk: excluding Pension risk | 174,539 | 160,045 | 0 | |
| 5 | 10000P | Market risk: Pension risk | 68,630 | 68,630 | 0 | |
| 6 | 19900 | Diversification within market risk | -11,497 | -11,497 | 0 | |
| 7 | 30000I | Life underwriting risk | 3,541 | 0 | 0 | |
| 8 | 20000I | Counterparty default risk | 13,749 | 13,354 | 0 | |
| 9 | 70100I | Operational risk | 33,095 | 32,761 | 0 | |
| 10 | 80100 | Other risks and adjustments: Other risks | 29,392 | 29,392 | 0 | |
| 11 | 80300 | Other risks and adjustments: Loss-absorbing capacity of deferred tax | -25,500 | -25,500 | 0 | |
| 12 | 80400 | Other risks and adjustments: Other adjustments | 5,178 | 5,178 | 0 | |

| | Calculation of Solvency Capital Requirement | C0100 |
|---|---|---|
| R0110 | Total undiversified components | 437,698 |
| R0060 | Diversification | -162,139 |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | |
| R0200 | Solvency capital requirement excluding capital add-on | 275,559 |
| R0210 | Capital add-ons already set | |
| R0220 | Solvency capital requirement for undertakings under consolidated method | 280,403 |
| | **Other information on SCR** | |
| R0300 | Amount/estimate of the overall loss-absorbing capacity of technical provisions | |
| R0310 | Amount/estimate of the overall loss-absorbing capacity ot deferred taxes | -25,500 |
| R0400 | Capital requirement for duration-based equity risk sub-module | |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | |
| R0420 | Total amount of Notional Solvency Capital Requirement for ring fenced funds | |
| R0430 | Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | |
| R0470 | Minimum consolidated group solvency capital requirement | 92,875 |
| | **Information on other entities** | |
| R0500 | Capital requirement for other financial sectors (Non-insurance capital requirements) | 4,844 |
| R0510 | *Credit institutions, investment firms and financial institutions, alternative investment funds* | 4,844 |
| R0520 | *Institutions for occupational retirement provisions* | |
| R0530 | *Capital requirement for non- regulated entities carrying out financial activities* | |
| R0540 | Capital requirement for non-controlled participation requirements | |
| R0550 | Capital requirement for residual undertakings | |
| | **Overall SCR** | |
| R0560 | SCR for undertakings included via D and A | |
| R0570 | Solvency capital requirement | 280,403 |

# 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 unlimite | 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 unlimite | Non-mutual | Prudential Regulation Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 3 | AU | 21007216506 | Specific code | Ansvar Insurance Ltd | Non life insurance undertaking | Company limited by shares or by guarantee or unlimite | Non-mutual | Australian Prudential Regulation Authc | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 4 | AU | 623695054 | Specific code | Ansvar Risk Management Services Ltd | Other | Company limited by shares or by guarantee or unlimite | 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 unlimite | Non-mutual | Financial Conduct Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Sectoral Rules |
| 6 | GB | 213800H5IYFFG685CA61 | LEI | Edentree Asset Management Ltd | Credit institution, investment firm and financial institution | Company limited by shares or by guarantee or unlimite | Non-mutual | Financial Conduct Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Sectoral rules |
| 7 | GB | 126123 | Specific code | Ecclesiastical Financial Advisory Services | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | Financial Conduct Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 8 | GB | 06317313 | Specific code | South Essex Insurance Holdings Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 9 | GB | 5866203 | Specific code | Lycetts Holdings Limited | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 10 | GB | 162830 | Specific code | Benefact Management Services Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 11 | 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 unlimite | Non-mutual | Prudential Regulation Authority | | | | | Dominant | | Included in the scope | | Method 1: Full consolidation |
| 12 | GB | 738805 | Specific code | Ecclesiastical Planning Services Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 13 | GB | 402228 | 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 unlimite | Non-mutual | | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Full consolidation |
| 14 | GB | 941199 | Specific code | EIO Trustees | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 15 | GB | WRSIns1 | Specific code | WRS Insurance Brokers Ltd | Other | Company limited by shares or by guarantee or unlimite | 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 | 10988127 | Specific code | Ecclesiastical Group Healthcare Trustees Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 17 | GB | 01143899 | Specific code | Lloyd & Whyte Group Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | Financial Conduct Authority | 20.04% | 20.04% | 20.04% | | Significant | 20.04% | Included in the scope | | Method 1: Adjusted equity method |
| 18 | GB | 479477 | Specific code | South Essex Insurance Brokers Ltd | Other | Company limited by shares or by guarantee or unlimite | 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 | 00706042 | Specific code | Lycett Browne - Swinburne and Douglass Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | Financial Conduct Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 20 | GB | 10906990 | Specific code | Lycetts Risk Management Services Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | Financial Conduct Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 21 | GB | 2057974 | Specific code | Lycetts Financial Services Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | Financial Conduct Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 22 | GB | 03544899 | Specific code | Robertson-McIsaac Ltd | Other | Company limited by shares or by guarantee or unlimite | Non-mutual | Financial Conduct Authority | 100.00% | 100.00% | 100.00% | | Dominant | 100.00% | Included in the scope | | Method 1: Adjusted equity method |
| 23 | GB | 03142714 | Specific code | Farmers and Mercantile Insurance Brokers Ltd | Other | Company limited by shares or by guarantee or unlimite | 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 |
| 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 |
| IICSA | Independent Inquiry into Child Sexual Abuse |
| LTIP | Long-Term Incentive Plan |
| MCR | Minimum Capital Requirement |
| MLRO | Money Laundering Reporting Officer |
| NEDs | Non-Executive Directors |
| ORSA | Own Risk and Solvency Assessment |
| PIM | Partial internal model |
| 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 |
| SM&CR | Senior Managers & Certification Regime |
| SFCR | Solvency and Financial Condition Report |
| SID | Senior Independent Director |
| SII | Solvency II |
| TPs | Technical Provisions |