Solvency and Financial Condition Report

Benefact Group plc
(formerly Ecclesiastical Insurance Group plc)

For the year ended 31 December 2021

Contents

Executive Summary

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 Benefact Group plc (BG, 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.

Business performance

Profit before tax of £81.9m (2020: loss before tax £15.3m) has been driven in particular by strong investment returns, as markets rebounded strongly from 2020.

The Group's general insurance businesses reported profit before tax of £8.8m (2020: £12.1m) representing another robust performance. This result includes areas where we have strengthened reserves and the impacts of some adverse weather events. Our underwriting result is also reflective of our continued strategic investment across our insurance technology platforms to ensure that our businesses are well positioned to deliver sustainable and profitable growth. 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 11% growth in gross written premiums (GWP).

Our business is managed with a long-term view of risk and as a result, we have a strong capital position that can withstand short-term volatility and our strong credit ratings with S&P and AM Best were both reaffirmed during the year. Our SII regulatory capital position remains above regulatory requirements and risk appetite and was supported with the issuance of €30m subordinated debt by Ecclesiastical Insurance Office plc (EIO) in February 2021, as the Group seeks to take advantage of profitable growth opportunities.

Solvency and financial condition

A summary of the Group's solvency position at the end of 2021 and the change over the year is shown below:

Summary Solvency position	2021	2020	Change
	£'000	£'000	£'000
Available Own Funds	**603,714**	**479,475**	**124,239**
Solvency Capital Requirement			
Market risk	251,790	231,672	20,118
Counterparty default risk	17,518	13,749	3,769
Non-life underwriting risk	131,408	146,572	(15,164)
Life underwriting risk	3,816	3,541	275
Operational risk	29,166	33,094	(3,928)
Other risks	27,463	29,392	(1,929)
Diversification	(169,601)	(162,139)	(7,462)
Loss absorbing capacity of deferred tax	(47,500)	(25,500)	(22,000)
Other adjustments	13,414	5,178	8,236
Consolidated SCR	257,475	275,559	(18,084)
Sectoral capital requirement of investment firm	3,873	4,844	(971)
Group SCR	**261,348**	**280,403**	**(19,055)**
Coverage ratio	**231%**	**171%**	**60%**

The Group's regulatory solvency surplus has increased significantly during the year and remains considerably above risk appetite. Own funds increased by £124.2m mainly reflecting profits booked in the year and the €30m, tier 2, subordinated debt issued in February to support future profitable growth opportunities.

The Group's Solvency Capital Requirement (SCR) decreased in the year by £19.1m, predominantly due to higher loss absorbing capacity of deferred taxes (LACDT) resulting from higher taxable profits in 2021 and an increase in the UK tax rate in 2023 from 19% to 25%, increasing both the deferred tax provision and the associated absorbency.

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 2022

The Group continues to take 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. Since 2014, the Group has given over £150m to good causes and is now aiming to donate a cumulative £250m to good causes by the end of 2025.

Solvency levels are very strong and projected to remain so over the plan period, with no instances of a breach to its MCR, SCR or the Board's risk appetite having occurred up to the date of this report being published.

The draft results for the Group exceeded forecast expectations. As a result, the Board approved a further £5m grant in specie to Benefact Trust Limited (BTL) at their meeting on 2 February 2022. It will be accounted for in 2022, as this will be the date the grant is made.

The recent devastating events in Ukraine, and the consequences of previously unthinkable international economic sanctions has led to heightened market volatility, an increased risk of inflation and risks to the supply chain. We will continue to manage these risks and remain alert to changes in them across all of our businesses. Despite the increased level of uncertainty, we remain optimistic about the future and are fully committed to our ethical and long-term investment strategy.

The Group continues to take a long-term view of risk, is expected to remain well capitalised and is capable of withstanding potential future volatility. The Group has recently launched an ambitious new strategy that seeks to innovate and accelerate growth so that we can give even more money to good causes. Further investment is planned in new systems and technology, helping our businesses to innovate with purpose. 2022 is expected to see the rollout of a new strategic General Insurance system for the UK and Ireland which, once live, will help us to provide our customers and brokers with an enhanced experience and more efficient processes and capacity.

Statement of Directors' responsibilities

Benefact Group Plc

Financial year ended 31 December 2021

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 2022

Audit report

Report of the external independent auditors to the Directors of Benefact 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 2021:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report of the Company as at 31 December 2021, ('**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 2021 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:

- Obtaining and reviewing management's updated going concern assessment which included the board approved income statement, balance sheet, cash flow and solvency forecasts;
- Considering the forward looking assumptions and assessed the reasonableness of these based on recent historic performance;
- Considering information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment; and
- Considering 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.

Auditors' 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 decision 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 (UK) and the Financial Conduct Authority (UK), 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 the incentive to inflate Own Funds through the posting of inappropriate journal entries and management bias in accounting estimates specifically the valuation of specific general insurance reserves including asbestos and Physical and Sexual Abuse ("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; 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 2022

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

Benefact 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

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

BG, together with its direct and indirect subsidiaries 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

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

External auditor

PricewaterhouseCoopers LLP
2 Glass Wharf
Temple Quay
Bristol
BS2 0FR

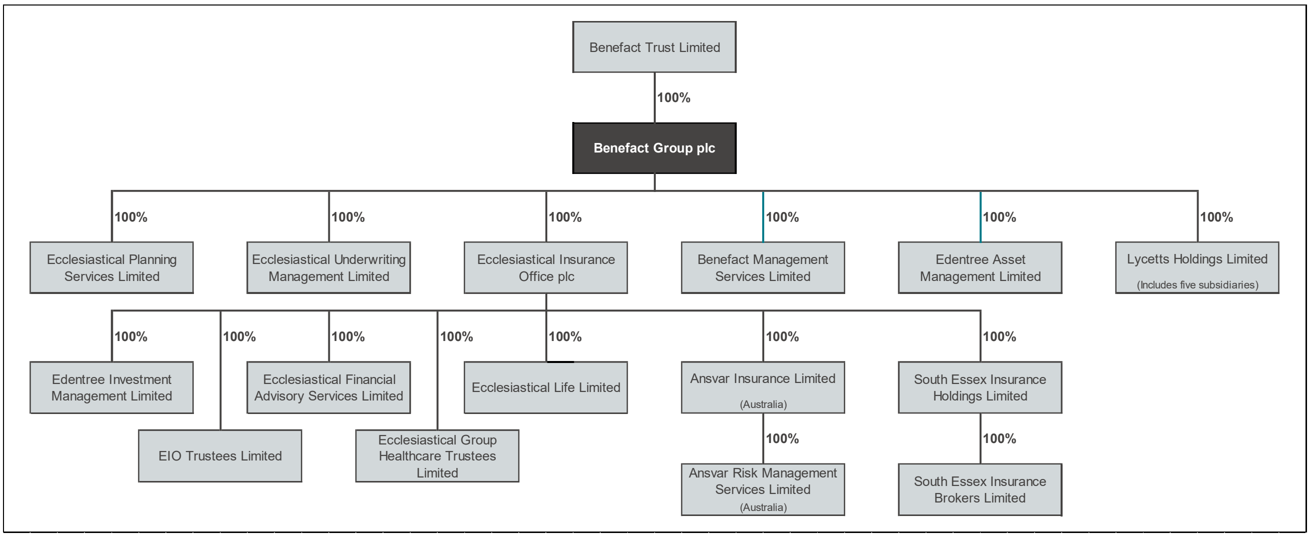
Qualifying holdings

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

BTL owns 19,999,999 ordinary £1 shares and the Chair of BG owns, in a non-beneficial capacity, 1 ordinary £1 share.

Group structure

Below is a simplified representation of the Benefact Group:



Subsidiaries and related undertakings

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

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 was re-opened to new business in August. 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 (EPSL)* 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.

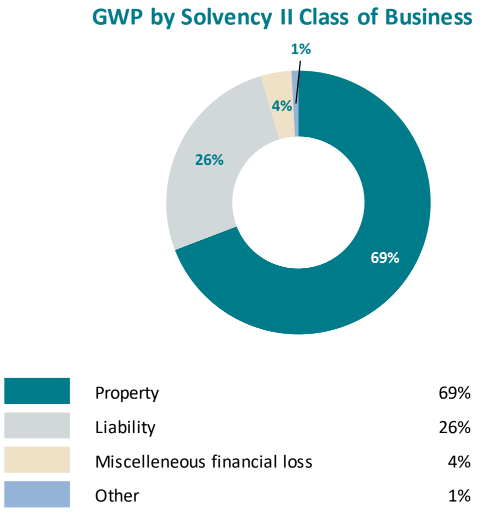
Lines of business

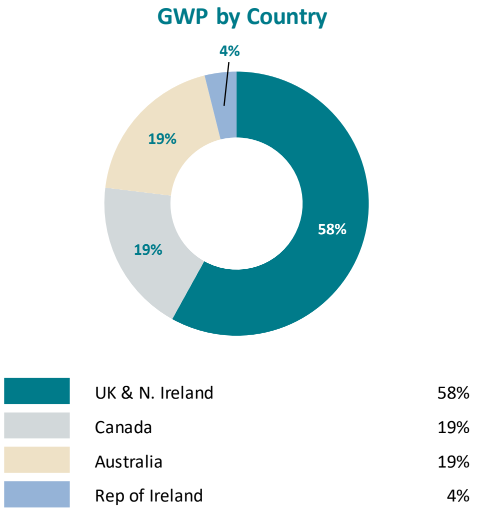
General Insurance business

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 material line of life business is index-linked life insurance contracts, and has not underwritten any new business for this product since 2013.

The Group's life insurance subsidiary, ELL, re-opened to new business in August 2021 writing whole of life policies backing funeral plans issued by EPSL and another third party. The whole of life investment contracts are backed by a third party investment product. This new business line is expected to become a more significant feature of ELL's financial performance and position as it expands.

Significant events

The Group's SII regulatory capital position was supported with the issuance of €30m subordinated debt by EIO in February 2021, as the Group seeks to take advantage of profitable growth opportunities. The invasion of Ukraine in late February 2022 is a cause for concern around the world. Large oil and natural gas stocks are found in the region, leading to fears of supply shortages due to the imposition of sanctions and surging energy prices. Countries across Europe (including the UK) are seeking to lessen their reliance on Ukraine and Russia for oil and natural gas supplies. Disruption fears now encompass a wide range of other products that will affect both businesses and consumers.

Uncertainty has spread, with volatility seen in global financial markets and adverse impacts beginning to flow through for economic growth and inflation. Cyber risk remains a constantly evolving threat due to the threat of zero day attack and with the unfolding conflict in Ukraine.

Although the easing of most pandemic-related restrictions means we entered 2022 in a very different place to the start of last year, we are still living with Covid-19, and some remaining level of uncertainty from the pandemic will likely persist.

These risks are being continually monitored and the Group is managing the ongoing impact of the Ukraine conflict and associated risks, utilising business continuity and risk management processes where appropriate.

The Group has a robust and regular solvency monitoring process in place together with a strong risk management framework. Whilst 2021 solvency surplus is extremely strong, the Group continues to monitor the impact of the Ukraine conflict and other key risks. 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 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 for general insurance lines was a profit of £8.8m (2020: £12.1m profit). This represents another strong performance and includes the impact of reserve strengthening in Australia and more weather and large claim experience in the UK. 2020 was negatively impacted by the incidence of Covid-19 related business interruption claims.

The Group's life business made a net underwriting profit of £1.0m (2020: £0.5m). The main driver of the operating profit in the current year has been the release of prudence margins in the valuation basis of the technical reserves as the business matures.

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Net Earned Premium	95,478	95,391	153,205	140,590	10,569	10,159	13,746	1,511	(9)	12
Net Claims Incurred	(30,446)	(30,774)	(71,213)	(63,005)	(4,071)	(14,543)	(22,462)	(5,748)	(2,488)	(3,653)
Operating Expenses	(51,734)	(44,989)	(78,576)	(70,792)	(4,709)	(4,900)	(1,030)	(846)	(386)	(351)
Underwriting Performance	**13,299**	**19,628**	**3,416**	**6,793**	**1,790**	**(9,284)**	**(9,745)**	**(5,084)**	**(2,883)**	**(3,992)**
Net investment return of assets backing liabilities									**3,845**	**4,456**
Net underwriting result									**962**	**464**

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. The overall liability result includes the adverse impact of reserves strengthening in the liability account for historic physical and sexual abuse (PSA) claims.

Fire and other damage to property

The property account performed well, but behind last year's level due to a higher incidence of weather and large claims in 2021 compared to the prior year.

Miscellaneous financial loss

The underwriting result in 2020 for miscellaneous financial loss account was impacted by the Covid-19 related business interruption claims where cover was confirmed, resulting in a loss of c£10m. These reserves have run-off favourably in 2021.

Other

For 2021, the other segment includes the impact of internal reinsurance accepted by Ecclesiastical covering development on historic liabilities of the Australia subsidiary. Increased PSA claims volume, consistent with trends for the wider Australian market have resulted in a loss for the year.

Life business

ELL reported a net underwriting result of £1.0m for the year (2020: £0.5m). The Company operates solely in the UK.

Until August 2021, the Company's business comprised an in-force portfolio of policies consisting entirely of whole-of-life insurance policies written for the purpose of funding funeral provision. This business is in run-off, with new business having ceased in April 2013. The main driver of the operating profit in the current year has been the release of prudence margins in the valuation basis of the technical reserves as the business matures.

The Company re-opened to new business in August with the launch of whole of life investment contracts backed by an investment product provided by an external organisation. These contracts themselves back pre-paid funeral plans written by Ecclesiastical Planning Services Limited (EPSL), a fellow member of the Benefact Group, and a third party provider. The 2021 result incorporated a small loss related to new business written since August 2021 more than offset by the profitable run-off of the legacy book.

Performance by geographical region

Underwriting performance by Geographical Region	UK & Ireland		Canada		Australia	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Net Earned Premium	174,589	167,488	61,974	51,226	36,435	28,937
Net Claims Incurred	(62,786)	(72,930)	(25,886)	(19,888)	(39,523)	(21,423)
Operating Expenses	(86,920)	(82,096)	(29,023)	(26,817)	(20,205)	(12,839)
Underwriting Performance	**24,883**	**12,462**	**7,065**	**4,521**	**(23,294)**	**(5,326)**

Table above is general insurance underwriting result only.

UK & Ireland[1]

In the UK and Ireland, financial year underwriting profits increased to £24.9m (2020: £12.5m). Current year underwriting performance was strong with prior year claim releases contributing to a more modest proportion of the result compared with previous financial years. Despite a series of weather events and large claims, current year loss ratios were slightly ahead of expectations as a result of rate changes and portfolio management. Both property and casualty accounts generated underwriting profits.

GWP grew by 7.5% to £297.2m (2020: £276.6m).

1 - Underwriting performance for the UK & Ireland differs from that disclosed in note 5 to the Benefact 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 £7.1m (2020: £4.5m profit). Despite an increase in the number of large losses, the property book performed well due to benign weather, lighter than expected attritional losses, and favourable development on prior year net losses. The performance of the liability book was impacted by some adverse development on prior year claims and the strengthening of the reserves provision. Premium growth of 20.1% was supported by strong retention and rate increases as well as new business.

Australia

The Australian business reported an underwriting loss of £23.3m (2020: £5.3m loss). The liability account was adversely impacted by reserve strengthening in respect of historic PSA claims in Ansvar Australia reflecting a higher actual number of claims reported in 2021 and related increases in future expectations. GWP grew by 14.2% with strong new business growth, retention and rate increases.

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

	Investment income			Fair value gains/(losses)			Total return		
	2021 £'000	2020 £'000	Change £'000	2021 £'000	2020 £'000	Change £'000	2021 £'000	2020 £'000	Change £'000
Debt	12,123	12,631	(508)	(9,236)	5,048	(14,284)	2,887	17,679	(14,792)
Equities	7,793	6,255	1,538	45,494	(17,418)	62,912	53,287	(11,163)	64,450
Property	8,945	8,806	139	20,235	(4,975)	25,210	29,180	3,831	25,349
Cash	(23)	149	(172)	-	-	-	(23)	149	(172)
Derivatives	-	-	-	3,504	(2,396)	5,900	3,504	(2,396)	5,900
Exchange	593	530	63	-	-	-	593	530	63
Discount rate	-	-	-	11,864	(15,899)	27,763	11,864	(15,899)	27,763
Other	3,277	2,435	843	(2,546)	-	(2,546)	731	2,435	(1,704)
	32,708	**30,805**	**1,903**	**69,315**	**(35,640)**	**104,955**	**102,023**	**(4,835)**	**106,858**
Investment expenses	(843)	(621)	(222)	-	-	-	(843)	(621)	(222)
Total investments	**31,865**	**30,184**	**1,681**	**69,315**	**(35,640)**	**104,955**	**101,180**	**(5,456)**	**106,636**

Total investment return was a profit of £101.2m (2020: £5.5m loss) with global markets recovering following a disappointing year in 2020.

The result is driven by fair value gains, reflecting growth in the world markets (for example the FTSE 100 All-share index rose 14.3% in the year). Within the Group's UK equity portfolio, small-cap exposure proved beneficial as the FTSE Small-Cap outperformed the FTSE All-Share by a significant margin over the course of the year. The two most significant contributors were equity fair value gains of £53.3m in the year and property gains of £29.2m.

Investment income of recorded £31.9m in the year exceeded plan and 2020 due to increased dividends from equities and rental income.

Gains and losses recognised directly in equity

During the year the Group designated certain derivatives as a hedge of its net investments in foreign subsidiaries and branches. These generated a gain of £3.5m in the current year (2020: £2.4m loss) 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	2021 £'000	2020 £'000	Change £'000
Return from non-insurance operations	2,777	(4,513)	7,290
Corporate costs	(24,134)	(21,591)	(2,543)
Actuarial gains on retirement plans	32,910	(15,162)	48,072
Gains/(losses) on currency translation differences	(628)	(94)	(533)

Non-insurance operations reported a profit of £2.8m (2020: £4.5m loss) following due to improved returns in the Broking & Advisory division, partly offset by planned losses in Investment Management as the Group invests in EdenTree IM to support future profitable growth.

Corporate costs are costs incurred in managing the group and its subsidiaries and certain Group-wide strategic investments. The increase in the year primarily reflects interest costs associated with the subordinated debt raised in February 2021 and higher levies.

Actuarial gains or losses on retirement plans primarily relate to the Group's valuation of retirement benefits which includes the defined benefit pension scheme and post-retirement medical benefit scheme. The £32.9m gain on retirement plans is mainly driven by the positive investment returns as markets recovered from a difficult 2020.

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)

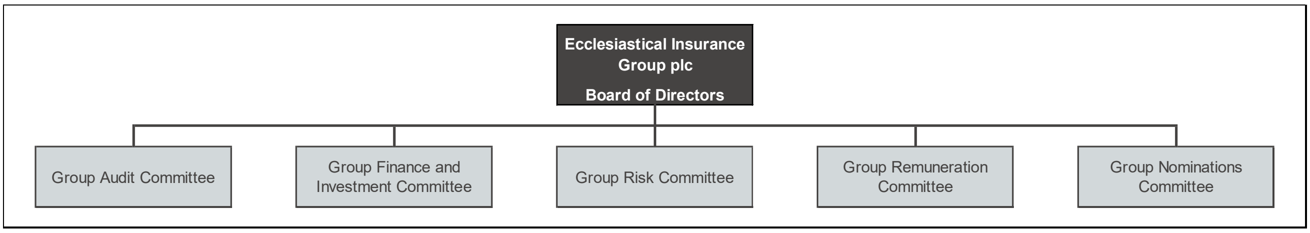
The NEDs have a responsibility to uphold high standards of integrity and probity, including acting as both internal and external ambassadors of the Group. As part of their role, the NEDs should constructively challenge and help develop proposals on strategy.

Senior Independent Director (SID)

In addition to their other duties as a NED, 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 Tterms 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, climate, non-financial and regulatory reporting processes;
- overseeing the Group's risk management systems and internal controls;
- reviewing the Group's whistleblowing arrangements;
- reviewing tax strategy and policies;
- overseeing the internal audit function;
- managing the relationship with the external auditor, including in relation to the auditor's appointment, reappointment and resignation, terms and remuneration, independence and expertise, non-audit services, and the audit cycle; and
- reporting to the Board on how it has discharged its responsibilities.

Group Finance and Investment Committee

Comprising three independent NEDs and 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), conduct risk and climate change risk; and
- reporting to the Board on how it has discharged its responsibilities.

Group Remuneration Committee

Comprising three 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, 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 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 Group Chief Actuary who is accountable to the CEO.

Material changes in the system of governance

There were no material changes to the system of governance during the year.

Assessment of the adequacy of the system of governance

The Board, through the GAC and GRC, annually reviews the adequacy of the system of governance on a holistic basis and has concluded that it is 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, all directors receive an annual appraisal from the Chair. The Chair is appraised by the Board, in his absence, led by the SID. It is the Board's policy for its evaluations to be facilitated typically every two years. The last external Board evaluation was carried out in 2019.

During 2021, the Board focused its attention on a Board and Committee Reporting Review, which was an action arising from the previous Board evaluation. This review was externally facilitated and will further strengthen the Board's oversight and decision making of the Group and its SBUs. The review process included interviews with the Group Chief Executive, NEDs, Chair and other Senior Managers and culminated with a workshop where the external facilitator presented the key observations and proposals, which will be embedded during the course of 2022. The Company Secretariat also facilitated an evaluation based on bespoke questionnaires with outcomes considered by the Board and committees.

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 are comprised of 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 and/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 contribution to reward provided 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.

NEDs 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, governance and 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
- 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.

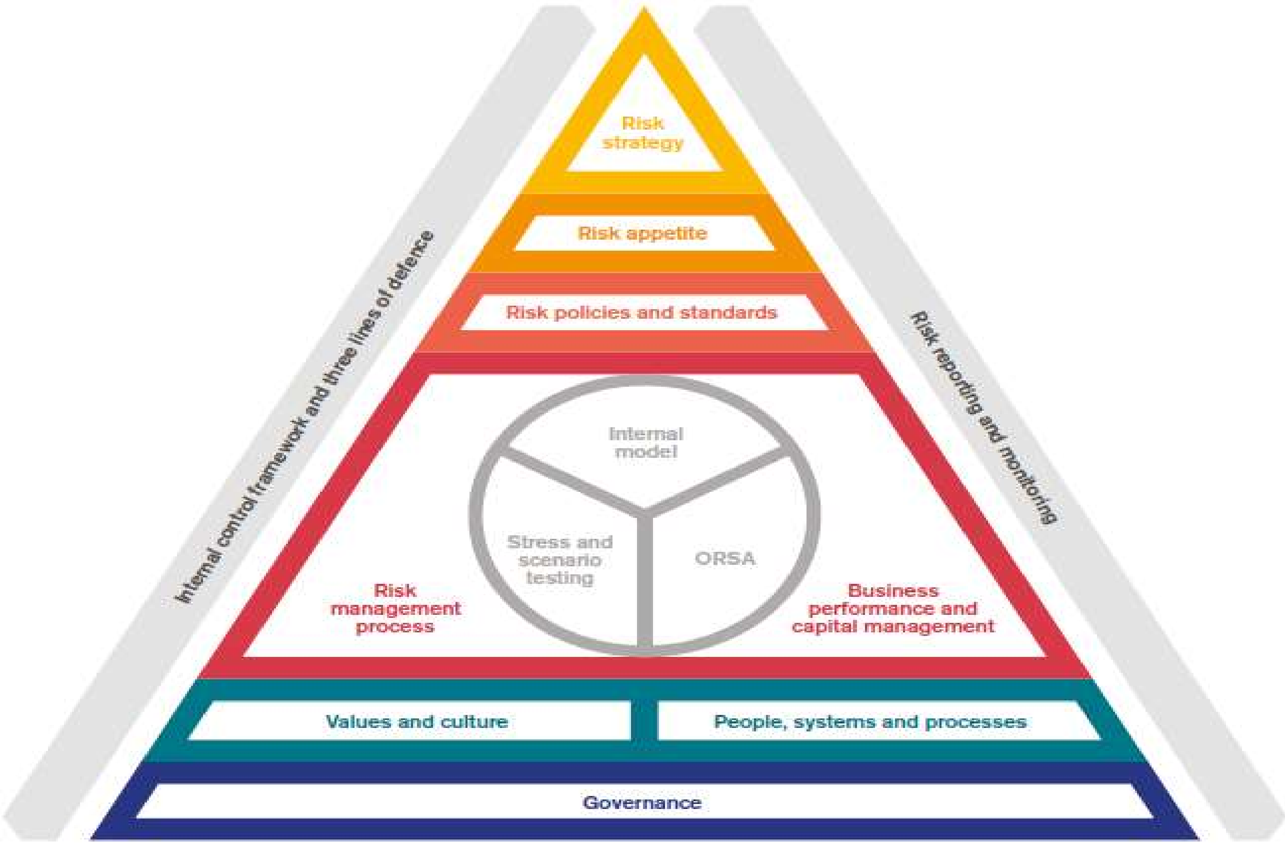
Regulatory requirements for risk management are complied with at all times and are regarded as the minimum standards for the Group's enterprise risk management system. The Group recognises that there are a number of risks that it faces which could impact on the achievement of its strategy and is therefore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

Own risk and solvency assessment process

The objective of the ORSA process is to demonstrate that the Group 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 SSII 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 of 31 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 2021.

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

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

GIA maintains a professional audit team with sufficient knowledge, skills, experience and professional qualifications. Where specialist, technical support is necessary to supplement GIA resource, this is available through a co-sourcing contract with an external 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 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 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 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 only 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, IT data lines provision and management, and IT infrastructure support.

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

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 IM outsource Trustee services and Custodian and Dealing services.

Outsource providers predominantly 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 IM 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

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	2021	2020
	£'000	£'000
Premium risk	107,583	119,496
Reserving risk	78,144	86,447
Diversification	(54,319)	(59,371)
Non-life underwriting risk	**131,408**	**146,572**
Life underwriting risk	**3,816**	**3,541**

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 of a number of 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 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 majority of our policies have been found not to respond to Covid-19 claims, though we have made appropriate provision where cover is in place.

PSA claims experience in Australia and Canada has exceeded expected levels over the period and consequently this element of reserving risk has increased. However, much of that has been offset as experience in the UK has been slightly favourable to expectations.

Life Business

The Group is exposed to 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.

Prior to this year no new business had been written since April 2013. The reserve held for each of those policies 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.

New business recommenced from August 2021, with the underwriting of unit-linked policies, primarily single premium, with a guarantee of at least return of premium on death. The key risk for these policies is that unit values at death will be below the level of guarantee.

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.

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 Insurance 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 process for recommending levels of reserves.

Life business

This risk has overlaps with market risk. For the policies written prior to April 2013 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. Policies written since reopening to new business have no material underwriting risk.

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	2021	2020
	£'000	£'000
Market risk - excluding pension assets	189,755	174,539
Market risk - pension asets	76,285	68,630
Diversification	(14,249)	(11,497)
	251,790	231,672

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 market risk exposures arising are equity risk, property risk, interest rate risk, spread risk, currency risk and inflation risk.

The Group's asset mix has remained relatively stable over the year, with changes in exposure largely due to investment growth and continued management of equity exposure. Strong returns over the last year have increased the total investment exposure, leading to an increase in stand-alone market risk capital of £20m

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 2021 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 4% of total investments being in UK gilts, as at. 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 2021, 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 regularly and reviewed as part of the investment strategy review each year, with adjustments made 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 sought to hedge approximately 60% of these risks during the year.

All liabilities are matched with assets in the same currency, so mitigating currency risk. Throughout 2021 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.

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 2021 was approximately £2.0m.

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.

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 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. 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
Multiple Terrorist attacks on the Church	(5%)
Extreme Reserve deterioration based on increased PSA claims	(4%)
Premium Rate reductions combined with an increase in claims	(16%)
Two severe European Windstorms, followed by a Flood	(21%)
Failure of the biggest Reinsurer Mapfre (includes Equity exposure)	(37%)

Combined Market falls similar to 2008 and a series of windstorm catastrophe event	(53%)

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. Since the year-end the inflationary environment has escalated and stress testing has been performed on the potential impacts, notably on future claims inflation. 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

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.

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.

Material assets and liabilities are defined as assets and liabilities that are valued in excess of £6.6m (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.

Subordinated liabilities are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred. All borrowings are subsequently measured at amortised cost using the effective interest rate method. The amortisation is recognised as an interest expense using the effective interest rate method.

A new product launched by ELL in 2021 has no significant insurance risk and is therefore classified as a financial instrument in the preparation of the annual financial statements. The Group recognises a liability measured at fair value. The fair value of these liabilities is estimated based on an arms-length transaction between willing market participants with consideration given to the cost of the guarantee to the policyholders. The cost of the guarantee to policyholders is determined using risk free rates of return, with the associated volatility assumption and allowing for the costs of administration associated with this low risk investment strategy.

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		2021 As reported IFRS Basis	Unconsolidate non-insurance undertakings	Reclassify to aid comparison	2021 Reclassified IFRS	Net valuation difference	2021 Solvency II Valuation
		£'000	£'000	£'000	£'000	£'000	£'000
	Total Assets	2,067,973	(231,213)	(153,299)	1,683,461	(220,932)	**1,462,529**
	Total liabilities	1,405,359	(231,213)	(153,299)	1,020,847	(142,470)	**878,377**
	Net assets	662,614	-	-	662,614	(78,462)	**584,152**
Breakdown of asset valuation							
Goodwill		43,880	(6,838)	-	37,042	(37,042)	-
Intangible assets		30,381	(1,896)	-	28,485	(28,485)	-
Deferred acquisition costs		46,027	-	-	46,027	(46,027)	-
Deferred tax assets		9,607	(1,127)	-	8,480	(721)	**7,759**
Pension benefit surplus		28,304	-	-	28,304	-	**28,304**
Property, plant & equipment held for own use		38,469	(4,992)	-	33,477	-	**33,477**
Investments	Participations	12,148	49,862	12,586	74,596	(29,985)	**44,611**
	Other	1,257,161	(199,183)	5,725	1,063,703	(15)	**1,063,688**
Loans & mortgages		25,321	-	(9,631)	15,690	(574)	**15,116**
Reinsurance recoverables	Non-life	254,449	-	(28,771)	225,678	(68,879)	**156,799**
Insurance & intermediaries receivables		120,039	-	(107,583)	12,456	-	**12,456**
Reinsurance receivables		12,583	-	(12,535)	48	-	**48**
Receivables (trade, not insurance)		45,449	(23,997)	(6,785)	14,667	(9,204)	**5,463**
Cash and cash equivalents		144,012	(46,947)	(2,512)	94,553	-	**94,553**
Any other assets, not elsewhere shown		143	3,905	(3,793)	255	-	**255**
Total assets		2,067,973	(231,213)	(153,299)	1,683,461	(220,932)	**1,462,529**

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

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 25%, being the future rate used in the annual report and accounts for balances reversing after April 2023.

Pension benefit surplus

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

In accordance with IAS 19, Employee Benefits, for defined benefit plans, the pension costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to profit or loss so as to spread the regular cost over the service lives of employees, in accordance with the advice of qualified actuaries.

The pension obligation is measured as the present value of the estimated future cash outflows using a discount rate based on market yields for high-quality corporate bonds. The resulting pension plan surplus or deficit appears as an asset or obligation in the statement of financial position. Any asset resulting from this calculation is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future employer contributions to the plan.

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

Plan Assets	2021	2020
	£'000	£'000
Government bonds	1,764	1,805
Corporate Bonds	86,905	77,575
Listed Equity	167,263	148,313
Unlisted Equity	711	1,333
Investment funds	79,761	86,791
Collateralised securities	464	520
Cash and cash equivalents	37,046	34,416
Investment Property	47,665	41,873
Derivatives	851	885
Other	455	845
	422,885	**394,356**

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	2021	2020
	£'000	£'000
Property improvements, fixtures, fittings & computer equipment	10,641	9,941
Owner occupied property	1,465	2,440
Motor vehicles	-	13
Right of use assets - property	20,384	23,011
Right of use assets - motor vehicles	987	992
	33,477	**36,397**

Property improvements, fixtures, 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 at least 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.

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 IM and EdenTree AM 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 (£29,985k) 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 £3,213k included within ‘receivables (trade, not insurance)’ in the financial statements have been moved to investments as bond valuations are inclusive of accrued interest for SII. This is a presentational difference only with no change in value.

Investments – property

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

Investments – derivatives

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

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

Investments – deposits other than cash equivalents

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

Loans and mortgages

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

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 is 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 £9,204k 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 non-life TPs are made up of:

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

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

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

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

Modelling methodologies and assumptions

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

The following methods are used accordingly:

- Incurred Development Factor Method (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 material planned future actions.

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 arrangements incorporate stochastic modelling of net average costs where applicable.

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

Valuation

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

The two major contributors to the TPs are the 'general liability' (68% of TPs) and 'fire and other property damage' (27% 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 increased over 2021, which resulted in a decrease in the discounted latent provisions.

Motor vehicle classes

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

The line of business 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's most material line of life business is the legacy whole-of-life policies backing funeral plans, as the recently launched product still has relatively small volumes.

TPs are valued by projecting probability-weighted future cash-flows using best-estimate assumptions and discounting these to the reporting date using a risk-free curve specified by the PRA.

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 2021); and
- future renewal expenses – Legacy whole-of-life: £17.90 per policy per annum, inflating at RPI (as above) plus 0.75% per annum. New whole-of-life: 0.3% p.a. of AUM and £5.72 per policy per annum, inflating at RPI 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.

Life technical provisions

Judgement is made to derive all of the assumptions used in the calculation of life TPs. For each of these the actual future outcomes may differ from the values assumed, 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 TPs. The assumptions are derived from market swap rates at the reporting date and are consistent with the methodology used to set the risk-free yields.

The assumption of future levels of mortality will have a relatively minor impact on the value of TPs. Experience of this portfolio of business has been sufficiently credible to give comfort that the long-term level of mortality in 2022 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 Group’s life business has been relatively stable in recent years.

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

Non-life technical provisions

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

The claims provision calculation (liability on earned business) may follow similar bases, methods and assumptions as IFRS, with the exception that the SII discount rate is prescribed 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	2021 £'000	2020 £'000
IFRS Technical Provisions net of deferred acquisition costs, debtors and creditors	513,187	491,789
Adjustment for risk margin (unaudited)	(11,048)	(8,352)
Adjustment for discounting	15,079	22,142
Other adjustments	(30,305)	(22,281)
SII Net technical provisions	486,913	483,298

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

Life net technical provisions	2021 £'000	2020 £'000
IFRS reserves (Legacy business)	73,909	76,857
Expenses assumed	(2,921)	(2,982)
Real interest rate	2,258	2,199
Investment expenses	(174)	(185)
Mortality	(1,477)	(1,530)
Premium debtors	(1,018)	(304)
Explicit Risk Margin	2,574	2,751
SII Net technical provisions	73,151	76,806
IFRS Life business liabilities (New product ELLIS)	15,518	-
Impact of investment assumptions	966	-
Explicit Risk Margin	122	-
SII Net technical provisions	16,606	-
Total SII Net technical provisions	**89,757**	**76,806**

Legacy life insurance business

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, 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.

New ELLIS product

The new ELLIS product is classified as an investment contract. Life business liabilities are valued in the IFRS annual report and accounts at fair value. The fair value of these liabilities is estimated based on an arms-length transaction between willing market participants with consideration given to the cost of the guarantee to the policyholders. For SII, life business liabilities are transferred to technical provisions. As noted above, valuation technical provisions is covered in section D.2

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 the volatility adjustment is used to calculate the value of technical provisions for the legacy single premium funeral plan business only. The unadjusted risk free curve is used for the rest of the Group's life business.

If the volatility adjustment was changed to zero, the impact would be an increase in technical provisions of £1,136k, an increase in the Group SCR of £91k, an increase in the minimum consolidated Group SCR of £14k and a decrease of £1,136k in both basic own funds and amount of own funds eligible to cover the Group SCR and the minimum consolidated Group SCR.

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

The transitional risk-free interest rate term structure and transitional deduction are not applied in calculating the technical provisions.

Recoverables from reinsurance contracts and special purpose vehicles

Non-life technical provisions

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

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

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

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

Life technical provisions

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

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

Non-life technical provisions

There have been no significant changes to previously used assumptions for 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 2021 has 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		**2021 As reported IFRS Basis**	Unconsolidate non-insurance undertakings	Reclassify to aid comparison	**2021 Reclassified IFRS**	Net valuation difference	**2021 Solvency II Valuation**
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Total Assets		2,067,973	(231,213)	(153,299)	1,683,461	(220,932)	**1,462,529**
Total liabilities		1,405,359	(231,213)	(153,299)	1,020,847	(142,470)	**878,377**
Net assets		662,614	-	-	662,614	(78,462)	**584,152**
Breakdown of liability valuation							
Technical provisions	Non-life	869,383	(932)	(114,179)	754,272	(110,560)	**643,712**
	Life	19,434	54,474	14,501	88,409	1,348	**89,757**
Provisions other than technical provisions		7,318	(1,175)	-	6,143	-	**6,143**
Pension benefit obligations		10,783	(3,725)	-	7,058	-	**7,058**
Deferred tax liabilities		49,748	93	-	49,841	(4,146)	**45,695**
Derivatives		331	-	-	331	-	**331**
Debts owed to credit institutions		24,994	(3,555)	-	21,439	-	**21,439**
Insurance & intermediaries payables		3,238	-	(3,238)	-	-	**-**
Reinsurance payables		34,865	-	(34,865)	-	-	**-**
Subordinated liabilities in BOF		24,433	-	-	24,433	(481)	**23,952**
Payables (trade, not insurance)		331,057	(275,187)	(15,518)	40,352	(72)	**40,280**
Any other liabilities, not elsewhere shown		10	-	-	10	-	**10**
Deferred income		29,765	(1,206)	-	28,559	(28,559)	**-**
Total liabilities		1,405,359	(231,213)	(153,299)	1,020,847	(142,470)	**878,377**

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

Technical provisions – life and non-life

The valuation of life and non-life TPs and the differences in valuation methodology compared with the IFRS financial statements are covered in section D.2.

Provisions other than technical provisions

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

Pension benefit obligations

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).

Subordinated Liabilities

Subordinated liabilities consists of a privately placed issue of 20-year subordinated bonds, maturing in February 2041 and callable after February 2031. The Group's subordinated debt ranks below its senior debt and ahead of its preference shares and ordinary share capital.

Subordinated liabilities are recognised initially at fair value in the financial statements. All borrowings are subsequently measured at amortised cost using the effective interest rate method. For SII, the fair value is calculated as the present value of future cash flows, using a risk-free discount curve adjusted to take into account the credit standing of the issuing company at initial recognition of the liability.

Payables (trade, not insurance)

Except for life business liabilities, 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.

Life business liabilities are valued in the IFRS annual report and accounts at fair value. The fair value of these liabilities is estimated based on an arms length transaction between willing market participants with consideration given to the cost of the guarantee to the policyholders. For SII life business liabilities are transferred to technical provisions. As noted above, valuation technical provisions is covered in section D.2

Deferred commission income

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

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	2021 £'000	2020 £'000
Solvency II valuation of assets	1,462,529	1,297,812
Solvency II valuation of liabilities	(878,377)	(792,199)
Excess of assets over liabilities	584,152	505,613
Qualifying subordinated liabilities	23,952	-
Foreseeable distributions	(4,391)	(4,391)
Non-available own funds at group level	-	(21,747)
Total eligible own funds	**603,713**	**479,475**

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.

Foreseeable distributions are future material expense items at Group level such as dividends that have been approved for payment by the Board. The June 2022 payment to minority interests have been approved for payment by the Board of EIO and therefore has been included as a foreseeable distribution.

Article 330 of the Delegated Regulation requires regulated undertakings within the Group to retain sufficient eligible own funds to cover their own solvency requirement. This meant that an element of own funds of each undertaking may not be freely moved around the Group and therefore be unavailable to the Group to cover the Group SCR. This is referred to as 'non-available own funds at group level'.

PRA Supervisory Statement SS9/15 'Solvency II: Group Supervision' (SS9/15), which was issued in April 2020, clarified that firms should not consider the solo SCR as restricting the availability of own fund items or assets at the level of the group. The 2020 Own Funds calculation did not take this clarification into account, and £21.7m was deducted in the calculation of total eligible own funds, consistent with previous years. The 2021 calculation has reflected SS9/15 and the amount of non-available own funds at a group level has fallen to zero.

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 2021 by the Group Chief Actuary.

Business planning

Group 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 IM and EdenTree AM, 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)

Own funds that cannot be moved because it is required to cover an individual company's 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*'.

In April 2020 the PRA issued SS9/15 which clarified that firms should not consider the solo SCR as restricting the availability of own fund items or assets at the level of the group. Taking this guidance into account has resulted in no unavailable own funds.

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						**584,152**
Subordinated liabilities						**23,952**
Foreseeable distributions						(4,391)
Restriction due to solo SII requirements						
Notional solo SCR based on group data	**(a)**	213,549	21,768	40,303	17,824	
Notional share of Group SCR	**(b)**	192,412	20,107	36,314	8,643	
Contribution ratio to Group SCR	**(b/a)**	90.1%	92.4%	90.1%	48.5%	
Stand-alone solo SCR	**(c)**	236,500	19,560	40,303	17,824	
Contribution of Solo to Group SCR	**(c x b/a = d)**	**213,090**	**18,068**	**36,314**	**8,643**	
Fungibility restrictions:						
Due to local capital requirement						
Own Funds		-	-	21,947	-	
Minority interest		-	-	-	-	
Due to liquidity		-	-	-	-	
Due to deferred tax asset		-	-	4,857	-	
	(e)	-	-	26,804	-	
Unavailable at group level	**(If e>d)**	-	-	-	-	-
(Amount in excess of contribution to Group SCR)						
Available Group Own Funds						**603,713**
Unavailability split by tier:						
Tier 1						-
Restricted Tier 1 (Minority interest)						-
Tier 2						-
Tier 3						-
						-

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	2021	2020
	£'000	£'000
Equity as reported in IFRS Financial Statements	**662,614**	**579,449**
Revalue participations	(30,066)	(13,602)
Revalue life technical provisions *	(1,348)	(253)
Revalue non-life technical provisions *	41,681	24,379
Revalue subordinated debt	481	-
Remove deferred commission income and deferred acquisition costs	(17,468)	(16,732)
Remove goodwill and intangible assets	(65,527)	(68,133)
Remove prepayments and other items with no fair value	(9,721)	(4,787)
Impact of revaluation on deferred tax	3,425	5,292
Impact of valuing investment firm using sectoral rules (unaudited)	81	-
Solvency II valuation of excess of assets over liabilities	**584,152**	**505,613**
Include subordinated Liabilities in basic own funds	23,952	-
Foreseeable dividends & distributions	(4,391)	(4,391)
Group availability restriction	-	(21,747)
Solvency II Valuation of own funds	**603,713**	**479,475**

**** - 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 IM and EdenTree AM 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, subordinated liabilities recognised as tier 2 own funds and any group availability restriction deducted.

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 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Ordinary share capital	20,000	20,000	-	-	-
Minority interests	101,815	-	101,815	-	-
Subordinated Liabilities	23,952	-	-	23,952	-
Amount equal to deferred tax asset	7,759	-	-	-	7,759
Reconciliation reserve	450,187	450,187	-	-	-
(Net of non-available items)	**603,713**	**470,187**	**101,815**	**23,952**	**7,759**
2020					
Ordinary share capital	20,000	20,000	-	-	-
Minority interests	93,576	-	93,576	-	-
Subordinated Liabilities	-	-	-	-	-
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**
Movement in own funds					
Ordinary share capital	-	-	-	-	-
Minority interests	8,239	-	8,239	-	-
Subordinated Liabilities	23,952	-	-	23,952	-
Amount equal to deferred tax asset	6,587	-	-	-	6,587
Reconciliation reserve	85,460	85,460	-	-	-
(Net of non-available items)	**124,238**	**85,460**	**8,239**	**23,952**	**6,587**

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.

Subordinated liabilities issued by EIO during the year have been recognised as tier 2 capital as it meets the relevant requirements of Article 73 of the Delegated Act.

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 IM and EdenTree AM, the Group's investment firms, 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 Unrestricted	Tier 1 Restricted	Tier 2	Tier 3
	£'000	£'000	£'000	£'000	£'000
Prior year balance	**479,475**	**384,727**	**93,576**	**-**	**1,172**
IFRS total comprehensive income	95,363	87,961	-	-	7,402
Preference dividends paid to minority interest	(8,782)	(8,782)	-	-	-
Currency translation and property gains/(losses)		-	-	-	-
Acquisition of minority interest	-	-	-	-	-
Charitable grant paid net of tax relief	(17,010)	(17,010)	-	-	-
Prior year adjustment	13,594	13,594	-	-	-
Movement in SII valuation of subordinated Liabilities	481	481	-	-	-
Movement in SII valuation of non-life technical provisions *	17,302	17,302	-	-	-
Movement in SII valuation of life technical provisions *	(1,095)	(1,095)	-	-	-
Movement in SII revaluation of participations	(16,464)	(16,464)	-	-	-
Movement in other SII deductions & revaluations	(3,064)	(3,064)	-	-	-
Movement in SII calculation of deferred tax	(1,867)	(1,052)	-	-	(815)
Movement in sectoral revaluation of investment firm (unaudited)	81	81	-	-	-
Movement in non-availability of Own Funds at group level	21,747	13,508	8,239	-	-
Subordinated liability recognised as basic own funds	23,952	-	-	23,952	-
Total movement for year	**124,238**	**85,460**	**8,239**	**23,952**	**6,587**
Current year balance	**603,713**	**470,187**	**101,815**	**23,952**	**7,759**

- Risk margin thereof unaudited

The £95,363k IFRS total comprehensive expense is reported in the Group's financial statements and includes profit after tax of £63,098k, actuarial gains of £32,910k in respect of the Group's retirement benefit obligations, gains on net investment hedges of £1,729k and losses on currency translation of £2,356k.

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 TPs 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	2021 £'000	2020 £'000
Unrestricted tier 1 capital	470,187	384,727
Restricted tier 1 capital	101,815	93,576
Total eligible tier 1 capital	**572,002**	**478,303**
Restricted tier 1 relegated to tier 2	-	-
Other tier 2 capital	23,952	-
Total eligible tier 2 capital	**23,952**	**-**
Eligible tier 3 capital	**7,759**	**1,172**
Total eligible own funds*	**603,713**	**479,475**
Ineligible own funds	**-**	**-**
Total own funds*	**603,713**	**479,475**

*** - 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	2021 £'000	2020 £'000
Unrestricted tier 1 capital*	464,031	376,116
Restricted tier 1 capital	101,815	93,576
Total eligible tier 1 capital	**565,846**	**469,692**
Restricted tier 1 relegated to tier 2	-	-
Tier 2 capital	18,010	-
Total eligible tier 2 capital	**18,010**	**-**
Total eligible own funds*	**583,856**	**469,692**
Ineligible own funds*	**13,701**	**1,172**
Total basic own funds after deductions	**597,557**	**470,864**

*** - 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 own funds to meet the minimum consolidated group SCR of £13,701k represents the own funds classified as tier 3 plus the tier 2 own funds in excess of the 20% limit.

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 requirements of EdenTree IM and EdenTree AM, which are calculated in accordance with their own sectoral rules (unaudited), in line with Articles 329 and 336 of the SII Delegated Act.

The PIM 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 2021 the SCR for the Group was £261,348k, 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 and Changes to the minimum group SCR compared to the prior period

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	2021	2020
	£'000	£'000
MCR of Ecclesiastical Insurance Office plc	63,211	65,681
MCR of Ecclesiastical Life Limited	4,890	3,848
Local regulatory requirement of Ansvar Insurance ltd	21,947	23,346
Minimum group solvency capital requirement	**90,048**	**92,875**

The minimum group SCR has decreased following decreases in the MCR of EIO and the local Australian Prudential Regulation Authority (APRA) requirement of the Groups Australian subsidiary.

The MCR of ELL increased in line with the increase in the Company's SCR.

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

Summary Solvency position	2021	2020	Change
	£'000	£'000	£'000
Available Own Funds	**603,713**	**479,475**	**124,238**
Solvency Capital Requirement			
Market risk	251,790	231,672	20,118
Counterparty default risk	17,518	13,749	3,769
Non-life underwriting risk	131,408	146,572	(15,164)
Life underwriting risk	3,816	3,541	275
Operational risk	29,166	33,094	(3,928)
Other risks	27,463	29,392	(1,929)
Diversification	(169,601)	(162,139)	(7,462)
Loss absorbing capacity of deferred tax	(47,500)	(25,500)	(22,000)
Other adjustments	13,414	5,178	8,236
Consolidated SCR	257,475	275,559	(18,084)
Sectoral capital requirement of investment firm	3,873	4,844	(971)
Group SCR	**261,348**	**280,403**	**(19,055)**
Coverage ratio	**231%**	**171%**	**60%**

Growth in investment assets over the year has led to an increase in Market risk. In particular, infrastructure, strategic investments and property exposures have increased. While equity returns in 2021 were strong, net equity exposure has not changed materially over the year due to sales.

Increases in underwriting exposure have increased exposure to reinsurer defaults. Similarly, premium growth has led to higher exposure to premium debtors. Counterparty default risk has therefore increased over the period.

Non-life underwriting risk has reduced over the year, despite exposure growth and increasing risk in some areas (e.g. a deterioration in latent claims reserve risk in Australia). This is due to diversification with the Group's other risks and an improvement in expected profitability. Furthermore, an increase in discount rates over the year has reduced non-life underwriting risk exposure.

The 2021 Operational risk figure has reduced following a review of scenarios and some minor changes.

Other risks mostly relates to the pension fund longevity risk, which reduced during the year, due to a reduction in the liabilities as a result of discount rates increasing.

Other adjustments have increased largely due to an increase in the allowance for Group unallocated costs, recognising higher costs in 2022 budgets.

The 2021 LACDT adjustment has increased significantly as a result of the significant increase in the net deferred tax liability, due to investment gains. There was also a material increase due to an increase in the assumed tax rate, as the majority of investments are expected to be disposed of when the prevailing tax rate is 25%. There has also been a large taxable profit in the year which provides carry-back relief at a level much higher than in recent years.

Group diversification (unaudited)

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

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

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

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

Diversification has increased as the PIM is now reflecting the loss absorbing effect of a restriction placed on the Ecclesiastical Staff Retirement Benefit Fund (SRBF) assets recognised on the balance sheet. The restriction is calculated based on the surplus position of the fund, meaning that the balance sheet position will not move until losses are sufficiently large. The market risk figures reflect risk on the full, unrestricted, asset values, such that this benefit is shown in the diversification line.

Without the impact of the SRBF asset restriction, diversification has actually decreased, due to the increased dominance of market risk and reduced value of other risk types.

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 PIM.

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 PIM, as approved by the PRA. The following sections describe various aspects of this model.

Use of the Partial Internal Model

The PIM is a key tool within the risk management system. It plays a central role in the management of risks. In addition to its primary role of calculating the regulatory and internal capital requirements, the Model is also widely used and fully integrated into decision making processes.

The PIM 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.

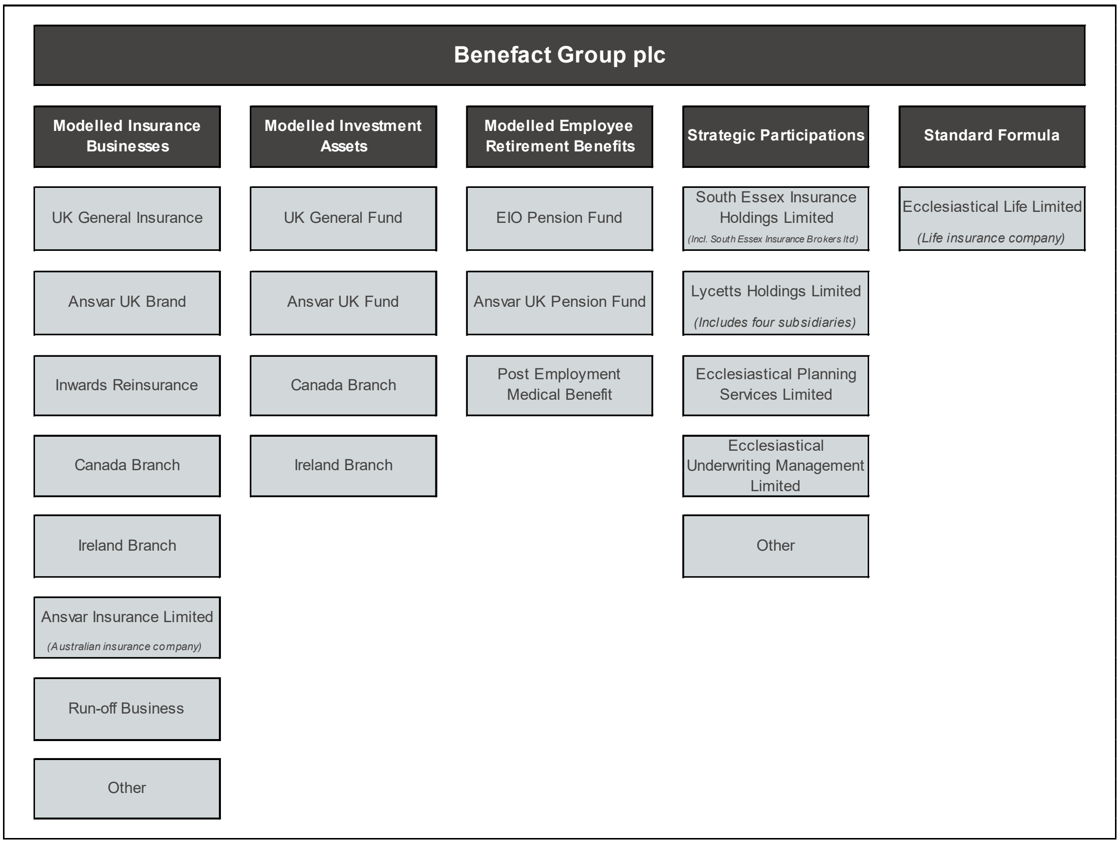
Scope of the Partial Internal Model

The PIM 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.

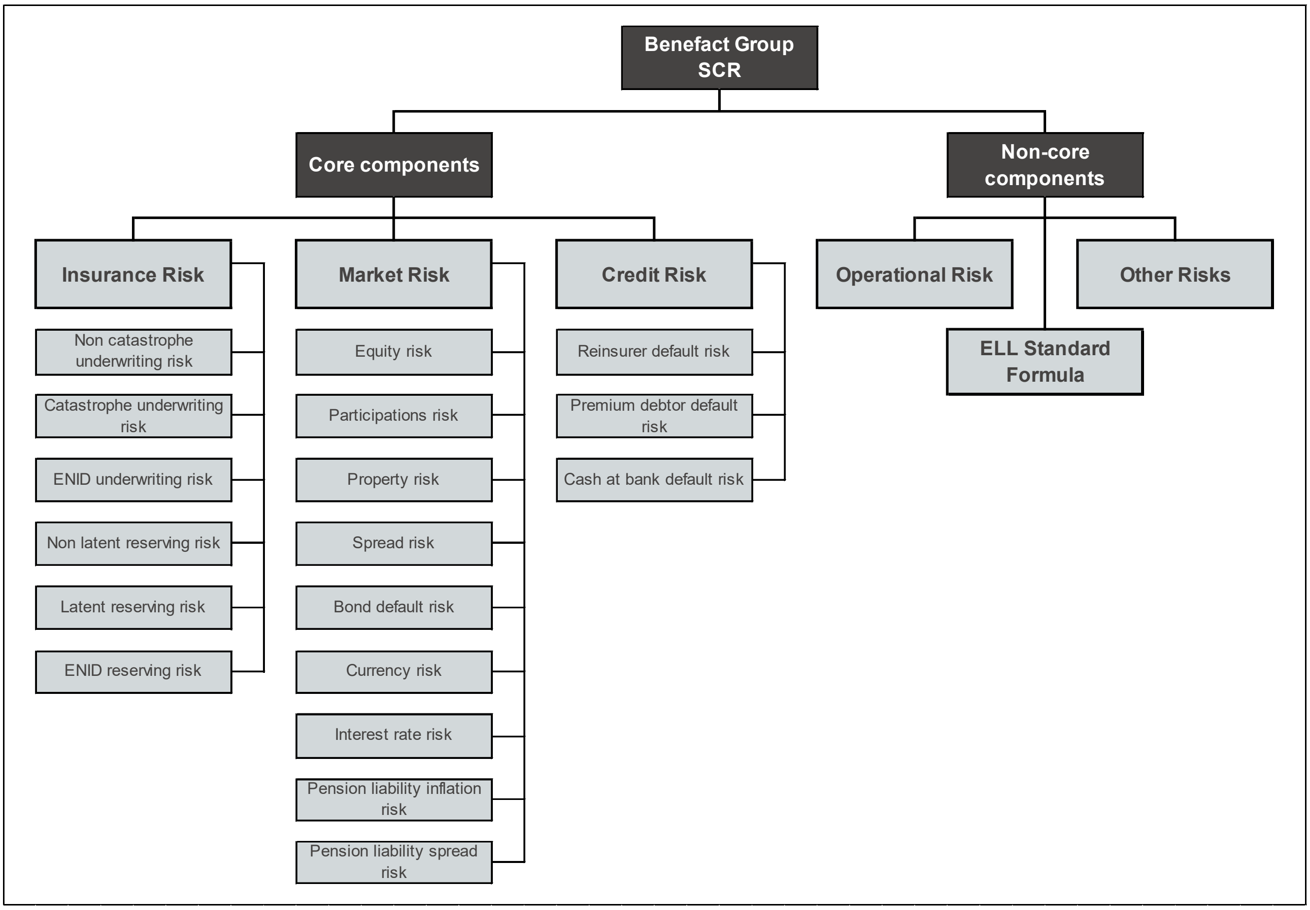
A number of additional 'non-core' risks are then aggregated with the stochastically modelled requirement at the final stage. These risks use a combination of stochastic and scenario based approaches. This also includes the SCR for ELL which is calculated separately using the Standard Formula.

Finally, model adjustments are applied in order to derive the final capital requirement. This includes the addition of the capital requirements for two non-insurance subsidiaries, EdenTree IM and EdenTree AM, whose capital requirement are calculated in accordance with the relevant sectoral rules.

The diagram below illustrates the business unit scope of the PIM:



The diagram below illustrates the component risks within the PIM:



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 such as gross claims and investment returns are allowed to vary 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 PIM 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 PIM 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 the Group's own risk profile than the Standard Formula.

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

Model Risk Category	Standard Formula Sub-component(s)	Standard Formula approach	Partial Internal Model
Market Risk: (excluding Pension Risk)	Equity	▪ Equity shocks vary based on classification as Type 1 (listed in EEA or OECD countries) and Type 2 (other) equities. ▪ A symmetric adjustment is applied to the base shocks to reduce pro-cyclicality. ▪ A transitional arrangement is unwinding over time such that the applied stress is currently increasing year on year. ▪ The shock is assumed to be instantaneous at the balance sheet, reflecting derivative protection held at that date.	▪ Market returns on equity indices for relevant global economies over a one year time horizon are simulated using the externally provided ESG (this enables correlations between economies to be explicitly captured and between each different market risk type) ▪ The Group's equity holdings are each mapped to a relevant economy and the ESG parameters applied, together with Capital Asset Pricing Model (CAPM) assumptions, to project returns for the portfolio. ▪ The ESG is updated at least annually and is designed to reflect current market conditions ▪ Derivatives held to mitigate this risk are modelled based on assumed levels of protection that are supported by management actions.
	Participations	▪ Strategic Participations are modelled similarly to equities, with a lower shock.	▪ A beta parameter is calibrated and applied to the relevant economy's equity index to reflect relatively low volatility of participation returns. ▪ In both the Internal Model and Standard Formula, the following business units are modelled as strategic participations: SEIH (broker), Lycetts (broker), Lloyd & Whyte (Broker), EPSL (funeral planning) and EFAS (financial advisory).
	Property	▪ A single instantaneous shock factor is applied to the value of all properties at the balance Sheet date.	▪ The ESG simulates property returns for each economy. A beta parameter is calibrated and applied to adjust the level of risk, which broadly aligns the resulting charge to the Standard Formula.
	Spread	▪ A stress is applied based upon both the bond credit quality and duration to maturity. This stress accounts for both the bond spread risk and the bond default risk. ▪ The stress for this risk is not applied to Government bonds.	▪ Corporate bond returns are based on a discounted 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. ▪ The model distinguishes bond default risk separately from spread risk by simulating losses from defaults which occur during the year, allowing for recoveries. The ESG provides a transition matrix which is applied to determine how bonds change credit rating and/or default during the year, with migration risk being captured within spread risk.
	Currency	▪ A single instantaneous shock is applied to the currency rates used to value the opening net asset value position for each foreign currency exposure (net of derivative protection at the opening date).	▪ This risk is quantified by applying the ESG's simulated exchange rate movements to opening net assets by currency, and therefore includes diversification between currencies. ▪ Profits and/or losses from currency hedging contracts are also included.
	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 and insurance liabilities. ▪ 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.

Model Risk Category	Standard Formula Sub-component(s)	Standard Formula approach	Partial Internal Model
Market Risk: (Pension Risk)	N/A (combined with market risks above)	▪ The assets and liabilities relating to retirement benefit schemes are included in the relevant market risk modules.	▪ In addition to including Pension Fund assets and liabilities in the market risk modelling, Pension liabilities inflation risk is explicitly modelled using ESG inflation curves over the 1 year horizon. ▪ Risks associated with the allowable spread within pension liabilities discount rate are captured via an explicit adjustment to the ESG simulated spreads where appropriate. ▪ The level of pension surplus recognised is restricted in line with current accounting principles.
Counterparty Default Risk	Type 1 and Type 2 exposures	▪ Type 1 (rated) exposures are calculated from probability of default and loss given default ▪ Type 2 (unrated) exposures are given a % charge, distinguishing an increased charge for those which relate to balances > 3 months overdue.	▪ Three modules are used to capture different default risk characteristics relating to reinsurers, intermediaries and banks. ▪ Reinsurer defaults consider the term to payment in addition to the simulated reinsurer balances, credit rating and loss given default. As a simplification this risk is all assumed to emerge in the first year. ▪ Premium Debtor Default Risk is aligned with the Standard Formula Type 2 calculation, given the small magnitude of the underlying exposure and the low materiality of this risk. ▪ Bank default is modelled similarly to reinsurers, but calibrated to the risk of default occurring within the first year.
Operational Risk	N/A	▪ The higher of the charge derived from factors applied to premiums and reserves is added to the base SCR. ▪ This represents the diversified Operational risk charge, with no separate quantification of an undiversified charge.	▪ Bespoke scenarios, covering the key operational risk exposures of the Group, such as data loss or systems failure, are constructed and quantified in consultation with business risk experts. ▪ These are combined using correlations between the scenarios to produce on overall Operational risk distribution.
Other Risks	N/A	▪ N/A	▪ This category typically relates to smaller risks which are not integrated into the stochastic modelling or attributable to other categories. ▪ This includes a deterministic scenario for longevity risk in the pension scheme, applied as a stress to current and future mortality rates.
Loss Absorbing Capacity of Deferred Tax	LACDT	▪ The tax adjustment is calculated based on an instantaneous loss represented by the diversified components making up the standard formula SCR.	▪ The movement in tax balances is calculated across the distribution to identify the after-tax SCR. ▪ The LACDT is capped within each entity at the level of available net deferred tax liabilities and loss carry-back.
Other Adjustments	N/A	▪ N/A	▪ This category relates to income and expenses that are not within the other risk components. These are calibrated based on the business plan, adjusted where appropriate to reflect the values that would be expected to occur during the disaster year, where supported by management actions. ▪ The result is adjusted directly against the SCR.
Aggregation	N/A	▪ A linear correlation matrix is applied between the risk modules.	▪ Sub-risks within the core risks (Insurance Risk, Market Risk and Credit Risk) are aggregated to form a multivariate distribution. This uses a sophisticated copula based correlation approach to produce an aggregate distribution from which the SCR is calculated. ▪ Operational risk, Other risks and Other adjustments are aggregated with the core model using linear correlation approaches.

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	0
R0040	Deferred tax assets	7,759
R0050	Pension benefit surplus	28,304
R0060	Property, plant & equipment held for own use	33,477
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,098,738
R0080	*Property (other than for own use)*	163,355
R0090	*Holdings in related undertakings, including participations*	44,611
R0100	*Equities*	108,193
R0110	*Equities - listed*	27,404
R0120	*Equities - unlisted*	80,789
R0130	*Bonds*	517,654
R0140	*Government Bonds*	238,211
R0150	*Corporate Bonds*	278,677
R0160	*Structured notes*	0
R0170	*Collateralised securities*	766
R0180	*Collective Investments Undertakings*	256,666
R0190	*Derivatives*	650
R0200	*Deposits other than cash equivalents*	7,610
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	14,660
R0230	Loans and mortgages	15,116
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	15,116
R0270	Reinsurance recoverables from:	156,799
R0280	*Non-life and health similar to non-life*	156,799
R0290	*Non-life excluding health*	156,799
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	0
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	12,456
R0370	Reinsurance receivables	48
R0380	Receivables (trade, not insurance)	5,463
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	89,454
R0420	Any other assets, not elsewhere shown	256
R0500	**Total assets**	1,462,529

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	643,711
R0520	*Technical provisions - non-life (excluding health)*	643,711
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	585,553
R0550	*Risk margin*	58,158
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	73,151
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	73,151
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	70,577
R0680	*Risk margin*	2,574
R0690	Technical provisions - index-linked and unit-linked	16,607
R0700	*TP calculated as a whole*	15,464
R0710	*Best Estimate*	1,020
R0720	*Risk margin*	122
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	6,143
R0760	Pension benefit obligations	7,058
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	45,695
R0790	Derivatives	331
R0800	Debts owed to credit institutions	21,440
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	40,279
R0850	Subordinated liabilities	23,952
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	23,952
R0880	Any other liabilities, not elsewhere shown	10
R0900	**Total liabilities**	878,377
R1000	**Excess of assets over liabilities**	584,152

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				740	0		322,586	125,188		2,913	179	17,385					468,993
R0120	Gross - Proportional reinsurance accepted				98	90		13,689	2,391		113	0	846					17,227
R0130	Gross - Non-proportional reinsurance accepted														0		0	0
R0140	Reinsurers' share				601	0		176,393	23,511		2,861	156	8,110		-13,031		0	198,601
R0200	Net				237	90		159,882	104,068		166	23	10,121		13,031		0	287,619
	Premiums earned																	
R0210	Gross - Direct Business				881	0		306,832	116,631		2,792	185	17,182					444,502
R0220	Gross - Proportional reinsurance accepted				177	164		13,512	2,359		106	0	895					17,214
R0230	Gross - Non-proportional reinsurance accepted														0		0	0
R0240	Reinsurers' share				716	0		167,139	23,511		2,702	172	7,508		-13,031		0	188,718
R0300	Net				341	164		153,205	95,478		197	12	10,569		13,031		0	272,998
	Claims incurred																	
R0310	Gross - Direct Business				517	-757		166,392	69,626		1,281	-3	7,404					244,461
R0320	Gross - Proportional reinsurance accepted				112	103		6,792	100		0	0	9					7,116
R0330	Gross - Non-proportional reinsurance accepted														436		0	436
R0340	Reinsurers' share				414	0		101,971	39,280		1,249	-2	3,342		-22,433		0	123,822
R0400	Net				215	-653		71,213	30,445		32	-1	4,071		22,869		0	128,190
	Changes in other technical provisions																	
R0410	Gross - Direct Business				0	0		0	0		0	0	0					0
R0420	Gross - Proportional reinsurance accepted				0	0		0	0		0	0	0					0
R0430	Gross - Non-proportional reinsurance accepted														0		0	0
R0440	Reinsurers' share				0	0		0	0		0	0	0		0		0	0
R0500	Net				0	0		0	0		0	0	0		0		0	0
R0550	**Expenses incurred**				114	93		79,132	54,187		882	49	4,813		1		31	139,302
R1200	**Other expenses**																	24,034
R1300	**Total expenses**																	163,336

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 obligations	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross				-9					-9
R1420	Reinsurers' share									0
R1500	Net			0	-9					-9
	Premiums earned									
R1510	Gross				-9					-9
R1520	Reinsurers' share									0
R1600	Net			0	-9					-9
	Claims incurred									
R1610	Gross				2,488					2,488
R1620	Reinsurers' share									0
R1700	Net			0	2,488					2,488
	Changes in other technical provisions									
R1710	Gross									0
R1720	Reinsurers' share									0
R1800	Net			0	0					0
R1900	**Expenses incurred**			0	550					550
R2500	**Other expenses**									
R2600	**Total expenses**									550

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			CA	IE	AU			
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	265,145	91,610	18,873	93,365			468,993
R0120	Gross - Proportional reinsurance accepted	17,227	0	0	0			17,227
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share	104,564	21,554	5,088	67,395			198,601
R0200	Net	177,807	70,056	13,785	25,970			287,619
	Premiums earned							
R0210	Gross - Direct Business	255,732	82,606	16,866	89,299			444,502
R0220	Gross - Proportional reinsurance accepted	17,212	0	2	0			17,214
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share	97,497	20,632	4,694	65,895			188,718
R0300	Net	175,447	61,974	12,174	23,403			272,998
	Claims incurred							
R0310	Gross - Direct Business	101,437	59,889	6,850	76,285			244,461
R0320	Gross - Proportional reinsurance accepted	7,208	0	-92	0			7,116
R0330	Gross - Non-proportional reinsurance accepted	436						436
R0340	Reinsurers' share	27,694	34,003	2,340	59,780			123,817
R0400	Net	81,387	25,886	4,418	16,505			128,195
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0			0
R0550	**Expenses incurred**	82,719	29,056	7,164	20,363			139,302
R1200	**Other expenses**							24,034
R1300	**Total expenses**							163,336

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

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	-9						-9
R1420	Reinsurers' share							0
R1500	Net	-9						-9
	Premiums earned							
R1510	Gross	-9						-9
R1520	Reinsurers' share							0
R1600	Net	-9						-9
	Claims incurred							
R1610	Gross	2,488						2,488
R1620	Reinsurers' share							0
R1700	Net	2,488						2,488
	Changes in other technical provisions							
R1710	Gross							0
R1720	Reinsurers' share							0
R1800	Net	0						0
R1900	**Expenses incurred**	550						550
R2500	**Other expenses**							
R2600	**Total expenses**							550

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	733,469	0	0	1,136	0
R0020	Basic own funds	597,557	0	0	-1,136	0
R0050	Eligible own funds to meet Solvency Capital Requirement	603,714	0	0	-1,136	0
R0090	Solvency Capital Requirement	261,348	0	0	91	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	450,188	450,188			
R0140	Subordinated liabilities	23,952		0	23,952	0
R0150	*Non-available subordinated liabilities at group level*	0				
R0160	An amount equal to the value of net deferred tax assets	7,759				7,759
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*	0		0		
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**	6,156	6,156			
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**	0	0	0	0	0
R0280	**Total deductions**	6,156	6,156	0	0	0
R0290	**Total basic own funds after deductions**	597,557	464,032	101,815	23,952	7,759
	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	6,156	6,156			
R0420	Institutions for occupational retirement provision	0				
R0430	Non regulated entities carrying out financial activities	0				
R0440	**Total own funds of other financial sectors**	6,156	6,156	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)	597,557	464,032	101,815	23,952	7,759
R0530	Total available own funds to meet the minimum consolidated group SCR	589,799	464,032	101,815	23,952	
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)	597,557	464,032	101,815	23,952	7,759
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	583,856	464,032	101,815	18,010	
R0610	**Minimum consolidated Group SCR**	90,048				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	648.38%				
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)**	603,714	470,188	101,815	23,952	7,759
R0680	**Group SCR**	261,348				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	231.00%				

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	584,152
R0710	Own shares (held directly and indirectly)	
R0720	Forseeable dividends, distributions and charges	4,391
R0730	Other basic own fund items	129,574
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0750	Other non available own funds	
R0760	**Reconciliation reserve**	450,188
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	2
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	9,504
R0790	**Total Expected profits included in future premiums (EPIFP)**	9,506

Appendix 8 – QRT S.25.02.22 SCR – 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

USP Key	USP Key	USP Key
For life underwriting risk: 1 - Increase in the amount of annuity benefits 9 - None	**For health underwriting risk:** 1 - Increase in the amount of annuity benefits 2 - Standard deviation for NSLT health premium risk 3 - Standard deviation for NSLT health gross premium risk 4 - Adjustment factor for non-proportional reinsurance 5 - Standard deviation for NSLT health reserve risk 9 - None	**For non-life underwriting risk:** 4 - Adjustment factor for non-proportional reinsurance 6 - Standard deviation for non-life premium risk 7 - Standard deviation for non-life gross premium risk 8 - Standard deviation for non-life reserve risk 9 - None

	Unique number of component	Component description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
Row	C0010	C0020	C0030	C0070	C0090	C0120
1	50100I	Non-life underwriting risk: Premium risk	107,583	107,583	9	
2	50200I	Non-life underwriting risk: Reserving risk	78,144	78,144	9	
3	59900I	Diversification within non-life underwriting risk	-54,319	-54,319	9	
4	10000I	Market risk: excluding Pension risk	189,755	169,783	9	
5	10000P	Market risk: Pension risk	76,285	76,285	9	
6	19900	Diversification within market risk	-14,249	-14,249	9	
7	30000I	Life underwriting risk	3,816	0	9	
8	20000I	Counterparty default risk	17,518	16,929	9	
9	70100I	Operational risk	29,166	29,166	9	
10	80100	Other risks and adjustments: Other risks	27,463	27,463	9	
11	80300	Other risks and adjustments: Loss-absorbing capacity of deferred tax	-47,500	-47,500	9	
12	80400	Other risks and adjustments: Other adjustments	13,414	13,414	9	

S.25.02.22

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

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	427,076
R0060	Diversification	-169,601
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	257,475
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement for undertakings under consolidated method**	261,348
	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	-47,500
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	90,048
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	3,873
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management*	3,873
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**	261,348

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

S.32.01.22

Undertakings in the scope of the group

									Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
	Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/ non mutual)	Supervisory Authority	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
Row	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0180	C0190	C0200	C0210	C0220	C0230	C0240	C0250	C0260
1	GB	213800E5HL2O1FU4I690	LEI	Ecclesiastical Insurance Office plc	Non life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
2	GB	213800I6N42TMC2CCC49	LEI	Ecclesiastical Life Limited	Life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
3	AU	21007216506	Specific code	Ansvar Insurance Limited	Non life insurance undertaking	Company limited by shares or by guarantee or unlimited	Non-mutual	Australian Prudential Regulation Authority	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 Pty Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
5	AU	162612286	Specific code	Ansvar Insurance Services Pty Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
6	GB	2138007SX6JDAUVXLI53	LEI	EdenTree Investment Management Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral Rules
7	GB	213800H5IYFFG685CA61	LEI	EdenTree Asset Management Limited	Credit institution, investment firm and financial institution	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Sectoral Rules
8	GB	126123	Specific code	Ecclesiastical Financial Advisory Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
9	GB	06317313	Specific code	South Essex Insurance Holdings Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
10	GB	05866203	Specific code	Lycetts Holdings Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
11	GB	162830	Specific code	Benefact Management Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
12	GB	213800O4B9KNVTLIVR02	LEI	Benefact Group Plc	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	Company limited by shares or by guarantee or unlimited	Non-mutual	Prudential Regulation Authority					Dominant		Included in the scope		Method 1: Full consolidation
13	GB	738805	Specific code	Ecclesiastical Planning Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
14	GB	402228	Specific code	Ecclesiastical Underwriting Management Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Full consolidation
15	GB	0941199	Specific code	E.I.O. Trustees Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
16	GB	10988127	Specific code	Ecclesiastical Group Healthcare Trustees Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual		100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
17	GB	01143899	Specific code	Lloyd & Whyte Group Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	40.04%	40.04%	40.04%		Significant	40.04%	Included in the scope		Method 1: Adjusted equity method
18	GB	479477	Specific code	SEIB Insurance Brokers Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
19	GB	00706042	Specific code	Lycett Browne - Swinburne & Douglass Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
20	GB	10906990	Specific code	Lycetts Risk Management Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
21	GB	02057974	Specific code	Lycetts Financial Services Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
22	GB	03544899	Specific code	Robertson-McIsaac Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method
23	GB	03142714	Specific code	Farmers & Mercantile Insurance Brokers Limited	Other	Company limited by shares or by guarantee or unlimited	Non-mutual	Financial Conduct Authority	100.00%	100.00%	100.00%		Dominant	100.00%	Included in the scope		Method 1: Adjusted equity method

Appendix 10 – Glossary of Abbreviations

The Board	The Board of Directors of the Group
The Chairman	The Chairman of the Board
The Group	Benefact 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
BG	Benefact Group plc (formerly Ecclesiastical Insurance Group plc)
BT	Benefact Trust Limited (formerly Allchurches Trust Limited)
CFO	Group Chief Financial Officer
CRO	Group Chief Risk Officer
CRSA	Control Risk and Self-Assessment process
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