Solvency and Financial Condition Report

Ecclesiastical Insurance Office plc

For the year ended 31 December 2019

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Executive summary

Introduction

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

This SFCR is in respect of the solo insurance undertaking of Ecclesiastical Insurance Office plc. The Company is a wholly-owned subsidiary of Ecclesiastical Insurance Group plc (EIG, the Group) and a separate SFCR will be published covering the SII requirements of the Group.

Our business

We are a commercial business with a charitable owner and purpose, with a distinctive positioning that sets us apart from other businesses in the financial services sector. Our purpose is to deliver growing financial returns to our shareholder and owner, which are then distributed to charitable causes and communities, contributing to society's greater good. We use our distinctive proposition to create competitive advantage.

Our charitable purpose drives our strategic goal of being the most trusted and ethical business in our chosen markets. It also shapes the way we do business, particularly our focus on doing the right thing for our customers and business partners. It creates an environment where sustainable, long-term value generation is prized over short-term results.

Within the wider Group that the Company belongs to, we do this by managing a successful, ethically run global portfolio of businesses covering specialist insurance and broking and advisory services. We provide products and services to businesses and, organisations and retail customers, both directly and through intermediaries. Worldwide, we insure over £275bn of property and in the UK we are the leading insurer of Grade I listed buildings, insure thousands of charities and churches and many of the UK's independent schools. We also provide specialist investment management, risk management, broking and advisory services.

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

Business performance

The Company delivered a 2019 pre-tax profit of £80.6m (2018: £15.8m) and continues to demonstrate the Company's long-term objective of delivering sustainable profitable growth. Profit before tax was favourable to budget, mainly due to superior investment returns and strong underwriting performance. We continue to be a trusted partner to our brokers and customers, and this is reflected in our high retention and satisfaction levels, which supports our growth in revenue. Our business is managed for a long-term view of risk and as a result, we have a strong capital position that can withstand short-term volatility.

Underwriting results in the year were strong across the group at £23.3m (2018: £27.8m) and reflected the anticipated reduction in reserves releases compared with prior year. The recovery of the market from Q4 2018 and subsequent favourable investment market conditions resulted in a net investment return of £79.1m (2018: £7.8m).

Charitable grants of £32.5m (2018: £18.8m) were made during the year as part of our commitment towards the £100m target by 2020 and we have seen the positive and substantial impact this charitable giving makes to people's lives.

To support our growth and sustainability ambitions we have continued to invest in our people, technology and our offices. The development of our new general insurance underwriting platform is progressing well and has been designed to provide an outstanding customer, broker and employee experience.

Solvency and financial condition

A summary of the Company's solvency position at the end of 2019 and the change over the year is shown below:

Summary Solvency position	2019 £'000	2018 £'000	Change £'000
Own Funds	570,110	551,857	18,253
Solvency Capital Requirement	264,251	256,898	7,353
Coverage ratio	**216%**	**215%**	**1%**

The Company's regulatory solvency position has remained stable during the year. Own funds increased by £18.3m mainly due to the upturn in investment markets which positively impacted retained profit for 2019. This is explained in more detail in section E.1. The Company's SCR increased in the year by £7.4m, predominantly the result of increased equity exposure following growth in equity markets over 2019. More detail on the changes in SCR during the year are given in section E.2.

Outlook for 2020

The Company takes a long-term view to managing and investing in the business and our strong set of 2019 results is reflective of this approach. The Company's focus continues to be on delivering sustainable profitability and to be the most trusted and ethical financial services group. The Company will continue to focus on delivering sustainable profit growth and remain optimistic about the opportunities to continue to evolve our business for the greater good of society and to make a positive impact on people's lives.

Work on the new head office is on schedule to be complete by the end of 2020. Investment continues to be made in new systems and technology, most notably in the ongoing development of a new strategic UK General Insurance system which, once live, will help us to provide our customers and brokers with an enhanced experience and give us better processes and capacity.

In early 2020, the existence of a new coronavirus, now known as Covid-19, was confirmed and since this time it has spread across the globe and is characterised by the World Health Organisation as a pandemic. The Company considers Covid-19 a new emerging risk which impacts market risk, insurance risk and operational risk. These risks are being continually monitored and managed under well-established business continuity plans.

The Company and the wider group is regularly monitoring solvency levels and no instances of a breach of its Minimum Capital Requirement (MCR), Solvency Capital Requirement (SCR) or the Board's risk appetite have occurred up to the date of this report being published. The impact of the pandemic is covered in more detail in section A.1 'Significant events'. Serving our customers and the health, safety and well-being of our employees will continue to be our priority throughout the duration of the outbreak.

We continue to monitor developments following the UK's exit from the European Union (EU) and ongoing trade negotiations between the UK and the EU is likely to increase the risk of continuing investment market volatility and currency instability.

Statement of Directors' responsibilities

Ecclesiastical Insurance Office Plc

Financial year ended 31 December 2019

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 Company's Annual Report & Accounts, confirm that, to the best of their knowledge:

a) throughout the financial year in question, the Company 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 Company continues so to comply, and will continue so to comply in future.

By Order of the Board

Mark Hews

Director and Chief Executive Officer

Date: 29 May 2020

Audit report

REPORT OF THE EXTERNAL INDEPENDENT AUDITOR TO THE DIRECTORS OF ECCLESIASTICAL INSURANCE OFFICE PLC ('THE COMPANY') PURSUANT TO RULE 4.1 (2) OF THE EXTERNAL AUDIT CHAPTER OF THE PRA RULEBOOK APPLICABLE TO SOLVENCY II FIRMS

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

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2019, ('the Narrative Disclosures subject to audit'); and
- Company templates S.02.01.02, S.17.01.02, S.23.01.01, S.28.01.01 ('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 SFCR'.

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

- information contained within the relevant elements of the SFCR set out about above which are, or derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Company templates S.05.01.02, S.05.02.01, S.19.01.21, s.25.03.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

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

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the 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 SFCR in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the SFCR is not appropriate; or
- the Directors have not disclosed in the SFCR any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the SFCR is authorised for issue.

We have nothing to report in relation to these matters.

Other Information

The Directors are responsible for the Other Information.

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

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

We have nothing to report in relation to these matters.

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the relevant elements of the SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the SFCR.

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

Other Matter

The Company has authority to calculate its Solvency Capital Requirement using an 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

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Ecclesiastical Insurance Office PLC's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in relation to this matter.

Use of our Report

This report is made solely to the Directors of Ecclesiastical Insurance Office PLC in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the SFCR and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the PRA, for our audit work, for this report or for the opinions we have formed.

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

29 May 2020

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

Solo partial/internal model

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

- The following elements of 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 template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0600: MCR
  - Row R0620: Ratio of Eligible own funds to SCR
  - Row R0640: Ratio of Eligible own funds to MCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01
  - Row R0310: SCR
  - Row R0320: MCR cap
  - Row R0330: MCR floor
  - Row R0340: Combined MCR
  - Row R0400: Minimum Capital Requirement
- Elements of the Narrative Disclosures subject to audit identified as ‘unaudited’.

A. Business and performance

A.1 Business details and Group structure

Name and legal form of the Company

Ecclesiastical Insurance Office plc is a public limited company incorporated and domiciled in England.

The address of the registered office is:

Beaufort House
Brunswick Road
Gloucester
GL1 1JZ

Supervisory authority

The supervisory authority for both the Company and the Group is:

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

External auditor

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Qualifying holdings

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

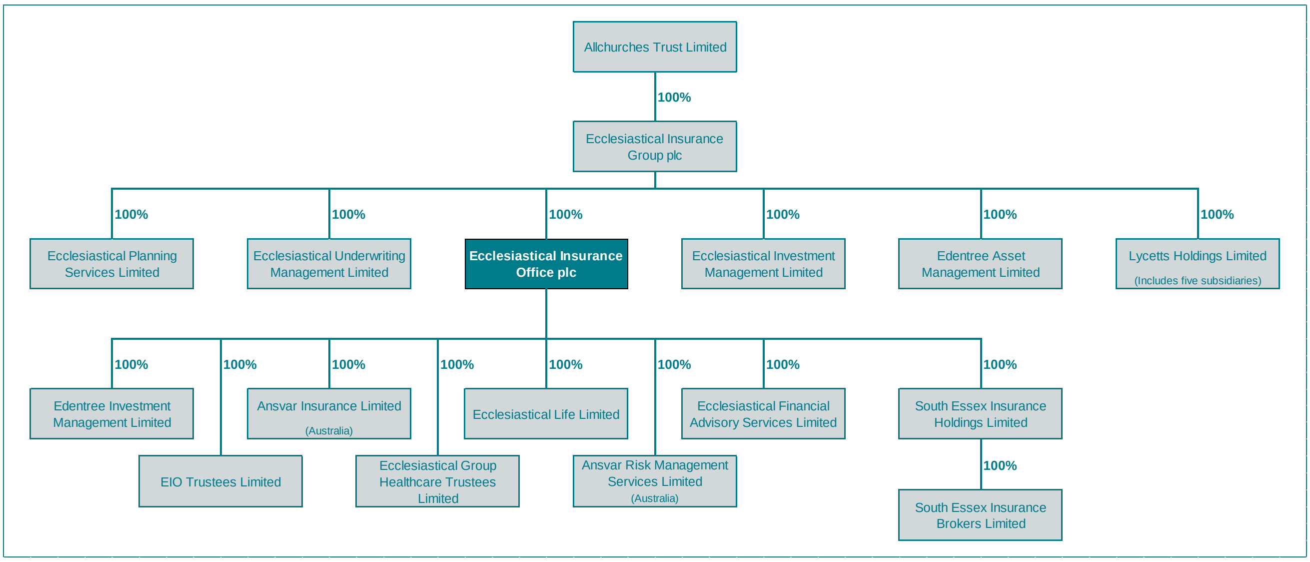
The Company's shares and associated voting rights are held solely by its parent Ecclesiastical Insurance Group plc (EIG), a company incorporated and domiciled in the UK.

EIG holds 350,677,850 ordinary £0.04 shares. The only other ordinary shareholder, Mark Hews, who is Group Chief Executive of the Company, holds 125 ordinary £0.04 shares in a non-beneficial capacity, for the benefit of EIG.

In addition, there are 106,450,000 £1.00 non-cumulative irredeemable preference shares in issue. There are no qualifying holdings within this class of share capital.

Group structure

The Company is a wholly-owned subsidiary of EIG. Its ultimate parent is Allchurches Trust Limited (ATL), which is a mixed activity insurance holding company. Both companies are incorporated and operate in the United Kingdom. Below is a simplified representation of the Ecclesiastical Group and the position of the Company within that Group:



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

Incorporated in the United Kingdom:

- Ecclesiastical Financial Advisory Services Limited
- Ecclesiastical Life Limited *(insurance undertaking)*
- EdenTree Investment Management Limited *(investment fund management undertaking)*
- South Essex Insurance Brokers Limited
- South Essex Insurance Holdings Limited

Incorporated in Australia:

- Ansvar Insurance Limited *(third country insurance undertaking)*

The Company also has branches in the Republic of Ireland and Canada.

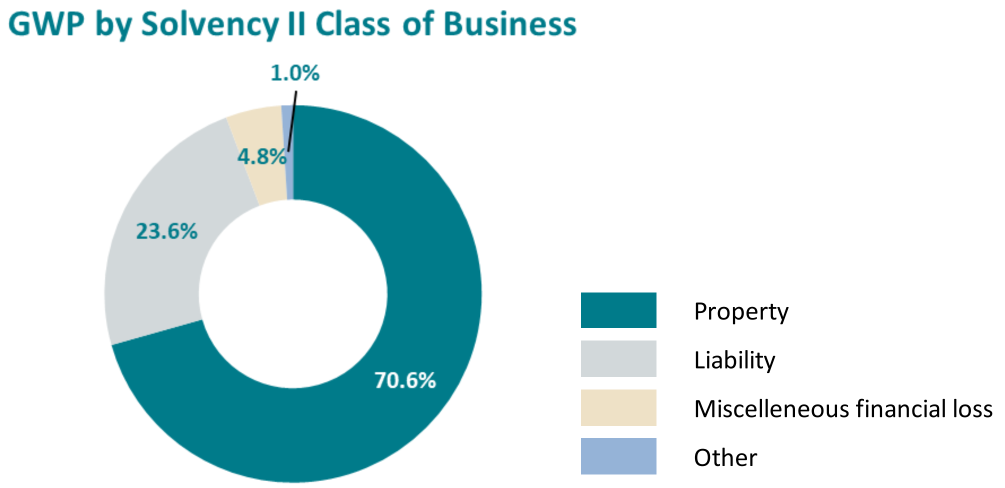
Lines of business

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

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 is shown in the chart below:



Significant events

In early 2020, the existence of a new coronavirus, now known as Covid-19, was confirmed and since this time it has spread across the globe and is characterised by the World Health Organisation as a pandemic. The Company considers Covid-19 a new emerging risk which particularly impacts market risk, insurance risk and operational risk. These risks are being continually monitored and managed under well-established business continuity plans.

The disclosures in this document are based on the position of the Company at 31 December 2019. Any impact arising from Covid-19 relates to conditions arising after this date and, as such, are considered non-adjusting events.

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

The Company's market risk is impacted in the form of reduced asset valuations in certain investment classes and uncertainty around valuation. Insurance risk is increased in the form of higher claims. Operational risk is heightened with a significant and rapid migration to a remote working environment and additional risk associated with key suppliers.

The Company has experienced an increase in business interruption claims notified as a result of Covid-19. This will continue to be monitored and the reserves adjusted as the year unfolds.

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

Serving its customers and the health, safety and well-being of its employees will remain the main operational priority throughout the duration of the outbreak. The Company and wider group will continue to monitor the situation and the advice from Governments, relevant health authorities and regulators in the countries operated in as the outbreak evolves, and will take appropriate actions if required.

As at 31 December 2019, the Own Funds of the Company amounted to £570.1m (section E.1) and its SCR was £264.3m (section E.2), equating to a solvency coverage ratio of 216%.

The Directors have assessed the impact of financial market falls and expected impact on trading after the balance sheet date by performing a full solvency calculation as at 31 March 2020. At that date solvency cover had reduced to 200%. The Company's considerable capital resources have proven resilient to the current market disruption, and the Directors can confirm that as at the date of this report the Company continues to both meet its Solvency II regulatory requirements (SCR and MCR) and remain above its internal risk appetite. Nevertheless, the Company has identified relevant management actions that can be taken should the position deteriorate further.

Assessments have been made as part of regular solvency monitoring activity as to the impact of the pandemic on financial performance in 2020 and over the three year planning period and will continue to be developed as the situation evolves. Liquidity projections have also been made and concluded that the Company holds sufficient cash levels to make payments as they fall due.

The Company continues to monitor developments following the UK's exit from the EU and expects the ongoing trade negotiations between the UK and the EU to increase the risk of continuing investment market volatility and currency instability.

The significant risks to which the Company 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 Company's underwriting performance for the year was a profit of £23.3m (2018: £27.8m profit). This represents another good performance with a favourable result on the liability account and a solid outturn on the property book. Prior year releases were lower than in 2018 contributing to a lower underwriting result in 2019.

Performance by material class of business

Underwriting performance by line of business	General Liability		Fire and Other Damage to Property		Misc. Financial Loss	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Net Earned Premium	69,697	65,940	123,240	115,237	9,730	10,108
Net Claims Incurred	(16,391)	(8,361)	(56,872)	(56,966)	(3,491)	(2,793)
Operating Expenses	(36,916)	(34,116)	(60,522)	(57,842)	(4,536)	(6,032)
Underwriting Performance	**16,390**	**23,463**	**5,846**	**429**	**1,703**	**1,283**

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, although the benefit of the reserve release was lower than in 2018.

Fire and other damage to property

The improvement in the underwriting result on the property account was primarily driven by the Canadian business who delivered a profit of £2.9m (2018: £2.3m loss), with good current year experience driven by fewer large losses and the favourable development of prior year claims, helping to offset the impact of a series of weather events during the first and third quarters.

UK and Ireland benefitted from an absence of large weather events, although this was partially offset by an increase in subsidence and theft claims during the year.

Miscellaneous Financial Loss

The underwriting result on the miscellaneous financial loss account was an improvement on prior year due to a significant improvement in the net loss ratio within the UK pecuniary loss line of business.

Performance by geographical region

Underwriting performance by Geographical Region	UK & Ireland		Canada	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Net Earned Premium	157,853	152,113	45,185	39,767
Net Claims Incurred	(58,249)	(44,321)	(18,741)	(20,983)
Operating Expenses	(78,778)	(77,715)	(24,225)	(21,383)
Underwriting Performance	**20,826**	**30,077**	**2,219**	**(2,599)**

UK & Ireland[1]

Underwriting profits were strong in the UK and Ireland with a favourable result on the liability account. The property account returned a profit, although behind last year's result, driven by an increase in theft and subsidence claims during the year. This, together with a reduced level of reserve releases, has resulted in an overall reduction in the underwriting result in 2019.

Canada

In Canada the positive performance was attributed to fewer large losses, an increase in subrogation recoveries and a decline in catastrophe events. The property book performed well with favourable development in prior year claims helping to offset the impact of weather events. Liability account reserves were strengthened for prior year PSA claims.

[1] Underwriting performance for the UK & Ireland differs from that disclosed in note 5 to the Ecclesiastical Insurance Office 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.

A.3 Performance from investment activities

Investment performance by asset class

	Investment income			Fair value gains/(losses)			Total return		
	2019 £'000	2018 £'000	Change £'000	2019 £'000	2018 £'000	Change £'000	2019 £'000	2018 £'000	Change £'000
Debt	9,221	9,809	(588)	964	(8,934)	9,898	10,185	875	9,310
Equities	22,507	13,144	9,363	46,621	(23,679)	70,300	69,128	(10,535)	79,663
Property	8,519	8,238	281	(3,900)	4	(3,904)	4,619	8,242	(3,623)
Cash	446	678	(232)	-	-	-	446	678	(232)
Derivatives	-	-	-	1,451	3,112	(1,661)	1,451	3,112	(1,661)
Exchange	(72)	(127)	55	-	-	-	(72)	(127)	55
Discount rate	-	-	-	(7,706)	5,046	(12,752)	(7,706)	5,046	(12,752)
Other	1,051	516	535	-	-	-	1,051	516	535
Total investments	**41,672**	**32,258**	**9,414**	**37,430**	**(24,451)**	**61,881**	**79,102**	**7,807**	**71,295**

The Company saw a far less volatile end to 2019 compared to 2018, with strong returns in UK and worldwide stock markets resulting in a net investment return of £79.1 (2018: £7.8m). Equity performance was very strong with a profit of £69.1m contrasting with a £10.5m loss in 2018. Within the UK equity portfolio, the mid-cap bias proved beneficial as the FTSE 250 index outperformed the FTSE All-Share index by 10%, driven in large part by fourth quarter strength as the election of a majority Government reduced Brexit uncertainty. Equity income includes £13.8m (2018: £4.1m) of dividends received from subsidiaries.

Income from debt investments remained stable reflecting the continued low interest rate environment and downwards pressure on yields. The downward movement in bond yields led to a decrease in the discount rate applied to long-tail general insurance liabilities, resulting in a fair value loss in 2019 against a profit in 2018.

Gains and losses recognised directly in equity

During the year the Company designated certain derivatives as a hedge of its net investments in foreign subsidiaries and branches. These generated a gain of £0.6m in the current year (2018: £0.5m) which was recognised directly in equity and is included in 'Gains/losses on currency translation difference' within section A.4.

Investments in securitisation

The company held no material holdings in securitisations in the current or prior period.

A.4 Performance from other activities

Other activities	2019 £'000	2018 £'000	Movement %
Corporate costs	(18,460)	(16,829)	10%
Actuarial gains / (losses) on retirement plans	(5,851)	3,559	(264%)
Gains / (losses) on currency translation differences	(13)	(457)	(97%)

Corporate costs are costs incurred in managing the Company and its subsidiaries and certain company-wide strategic investments. The increase in the year is primarily due to a headcount increase during the year and a higher level of charitable giving.

Actuarial gains or losses on retirement plans primarily relate to the Company's valuation of retirement benefits which includes the defined benefit pension scheme and post-retirement medical benefit scheme. Changes in assumptions used to calculate defined benefit scheme liabilities increased actuarial losses but were partly offset by excess returns on scheme assets, resulting in a £5.9m loss on retirement plans.

A.5 Other information

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

B. System of governance

B.1 General information on the system of governance

Governing Body – Roles and segregation of responsibilities

The Governing Body of the Company is the Board of Directors (the Board). The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enables the risks 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, risk management and internal controls, contracts, communication, board membership and other appointments, remuneration, delegation of authority, 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 (NEDs)

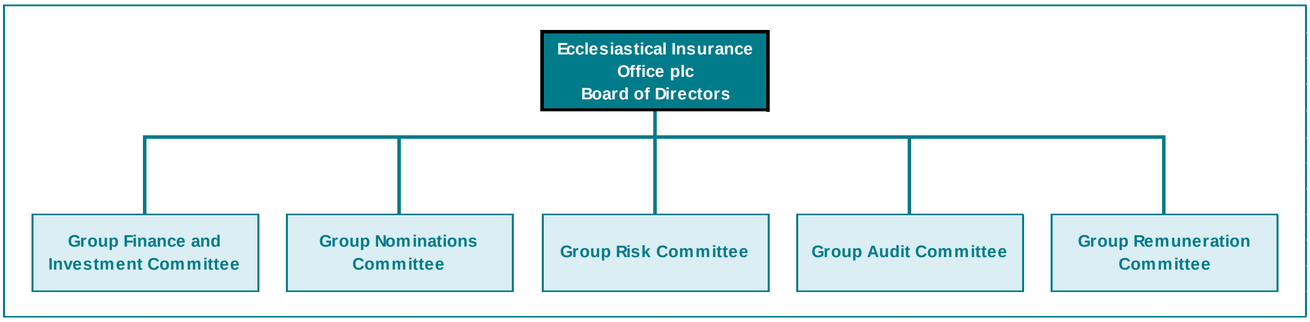
The NEDs have a responsibility to uphold high standards of integrity and probity, including acting as both internal and external ambassadors of the Company. As part of their role, the NEDs should constructively challenge and help develop proposals on strategy.

Senior Independent Director (SID)

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

Delegation to committees

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



Each Committee has agreed Terms of Reference which sets out requirements for membership, meeting administration, Committee responsibilities and reporting.

A high-level overview of each Committee's delegated responsibilities is summarised below:

Group Audit Committee (GAC)

Comprising three independent NEDs, its responsibilities include:

- overseeing of the Company's financial and regulatory reporting processes;
- overseeing the Company's risk management systems and internal controls;
- reviewing the Company'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 Company's financial assets (including its investment portfolio), is properly governed, controlled and performing as expected within agreed risk parameters. The Committee reviews and advises on any major financial decisions on behalf of the Board and reports to the Board on how it has discharged its responsibilities.

Group Risk Committee (GRC)

Comprising three independent NEDs, its responsibilities include:

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

Group Remuneration Committee

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

- remuneration policy and practices of the Company 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 company purpose and values and linked to delivery of the Company'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 Company;
- 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 four 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 Company's subsidiary companies.

Roles and responsibilities of key functions

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

Group Compliance

Group Compliance provides assurance to the Board that the Company 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 Company might be used to further financial crime. It ensures that appropriate mechanisms exist to identify, assess and act upon new and emerging regulatory obligations and compliance risks that may impact on the Company.

Group Internal Audit

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

Group Risk

Group Risk derives its authority from the CEO and provides Group level oversight of the prudent management of risk including but not limited to conduct risk, in relation to each entity within the Group and, on an aggregated basis, of risk across the Group. This includes designing and recommending policies for the risk appetite and tolerances to the Group CEO for agreement by the Board and ensuring that these are appropriately monitored. The Group Chief Risk Officer reports to the Group Chief Financial Officer (CFO) who is accountable to the CEO.

Actuarial

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

Material changes in the system of governance

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

Assessment of the adequacy of the system of governance

The Board, through the GAC and GRC, annually reviews the adequacy of the system of governance on a holistic basis and has concluded that it is 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 September 2018.

In addition, the performance of the Board and its Committee is regularly reviewed and it is the Board's policy for its evaluations to be externally facilitated every two years. In early 2020, the Group Nominations Committee led an external evaluation of the Board and Committees, assisted by the Company Secretariat. An external board evaluation provider conducted this evaluation and all Board and Committee members were required to complete a bespoke assessment. The outcome of the evaluation was considered by the Board at their meeting on 17 March 2020 and the report has been shared with the PRA and Financial Conduct Authority (FCA).

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

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 Company'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.

More details on performance criteria and amounts awarded to senior executives under these schemes can be found in the Remuneration Report in the Company's 2019 Annual Report & Accounts (financial statements).

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 charged.

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

Where an employee has accrued benefits in the legacy defined benefit pension scheme and is eligible to retire early, the pension entitlement will be calculated subject to the scheme rules and no enhanced early retirement terms other than those applicable in general under the scheme rules will apply.

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

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

There were no such material transactions during the reporting period. No contract of significance existed during or at the end of the financial year in which a director was or is materially interested.

B.2 Fit and proper requirements

In order to determine fitness and propriety of all senior roles within the Company, individuals are subject to a competency-based interview following an analysis of their CV.

The competency-based interview is intended to explore the candidates' experience and qualifications and would explore:

- appropriate market knowledge;
- business strategy;
- financial analysis;
- governance and risk management;
- oversight and controls;
- regulatory framework; and
- cultural fit.

Criminal record checks (DBS) and sanctions checks are carried out for each person in quantifying honesty, integrity and reputation along with a credit check to assist in verifying financial soundness. The Group will also check the FCA register where persons have previously held a regulatory role to check that no disciplinary actions have occurred against them. References are also taken from previous employers.

The Group implemented the Senior Managers and Certification Regime during late 2018 and 2019 which came into effect on 10 December 2018. The Group's approach to Fitness and Propriety was reviewed and refined. In late 2019, the process of assessing fitness and proprietary rolled out for all Senior Managers and Certified persons.

In 2018, the company identified those employees who were carrying out a certificated role. This is defined as person performing a role which is involved in one of more aspects of the firm's affairs, so far as relating to a regulated activity and those aspects involve, or might involve, a risk of significant harm to the firm or any of its customers. Those who were deemed to be carrying out certificated functions, were assessed against the fitness and proprietary checks in late 2019.

The fitness and proprietary checks consisted of:

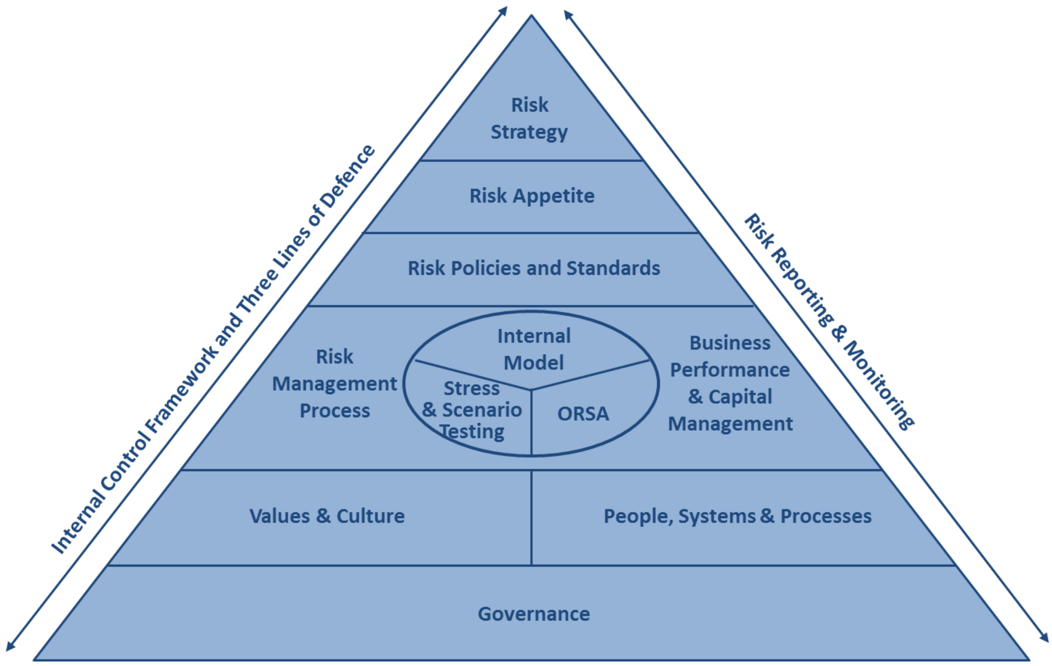
- disclosure and Barring (DBS) Criminal records check;
- credit Check;
- individuals self assessment against fitness and proprietary questions;
- check that the employee has undertaken sufficient continuous professional development;
- check that the employee has completed required mandatory training; and
- check that the employee has performed satisfactorily.

B.3 Risk management system including the ORSA

Overview of the risk management system

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

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



Regulatory requirements for risk management are complied with at all times and are regarded as the minimum standards for the Company's Enterprise Risk Management system. The Company 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 Company 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 Company's executive management.

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

Effectiveness of identifying and managing risks

The Group's Risk Management Framework is designed to help ensure that the significant risk exposures of all business units, individually and in aggregate, can be effectively identified, measured, monitored, managed and reported upon.

The primary tools and processes for achieving this are outlined below:

Group Risk Appetite

The Board has established a risk appetite for the Company. This focuses on the material risk areas and establishes the risk-taking capacity of the Company. Business Units maintain their own risk appetite limits, which are aligned to the overall Group risk appetite. Quarterly monitoring of compliance with the Group risk appetite is prepared by Group Risk and the outputs reported to the GRC.

Structured Business Risk Reviews

The management of each business unit carries out a regular business risk review. They use Group defined risk management processes to formally identify, assess and record the most significant risks to their objectives. Management record details of these risks within a risk register and also note the mitigations or other responses agreed to appropriately manage these exposures and report to relevant stakeholders across the organisation. The risk register is a living document which is updated on an ongoing basis to reflect changes. The Group Risk function facilitates this process and provides the methodology and tools used.

Loss and Near Miss Process

An operational risk loss and near-miss process is in place across the Company to facilitate the identification, recording and analysis of instances where actual costs (both financial and non-financial) have been incurred, or could have been incurred or reputational damage suffered, due to the realisation of an operational loss event or process or control failure. This is regularly reviewed and drives improvements in the internal controls. Appropriate reporting of such items is provided to the Group Operational, Regulatory and Conduct Risk Committee.

Risk Reporting to Group Executive Risk Committees and Board Risk Committees

A business unit reports to the appropriate Group executive risk committee where a current risk exposure has the potential to impact its ability to achieve its objectives. The Group executive risk committee reports to the GRC where they believe that a current risk exposure has the potential to impact the Company's ability to achieve its objectives. The Group Risk team assess common risks across a number of business units and report to the GRC where it is believed that any of those risks in aggregate, could adversely impact the Company'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 that risk review meeting will help determine the nature of any actions resulting, which may include for example, continued monitoring, a deep dive analysis of the risk, or stress and scenario testing of the risk to better understand the range of potential impacts. Those emerging risks with the potential to impact the Company are highlighted to the GRC as part of the regular reports.

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

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

Implementation of the risk management function

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

- *1st Line - Business Management* - is responsible for strategy execution, performance, identification and management of risks and the application of appropriate controls;
- *2nd Line - Reporting, Oversight and Guidance* - is responsible for assisting the CRO and Board to formulate risk appetite, establish minimum standards, develop appropriate reporting, oversight and challenge of risk profiles and risk management activities within each of the business units. This includes executive risk management committees and is subject to oversight and challenge by the GRC; and the
- *3rd Line - Assurance* - provides independent and objective assurance of the effectiveness of the Company's systems of internal control. This activity principally comprises the internal audit function which is subject to oversight and challenge by the GAC.

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 Company'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 Company's Risk Management Framework on behalf of the Board.
Executive Risk Committees (Second Line of Defence)	Responsible for the oversight of the most significant risks, including overseeing cross functional risks and ensuring that coordinated organisation-wide responses are in place.
SBU Management and Risk committees (First Line of Defence)	Responsible for ensuring that they are aware of the key risks relating to their SBU and are satisfied with the way in which they are being managed. They are responsible for ensuring that appropriate actions are in place and risks with an organisation-level impact are escalated to the appropriate executive risk committees.
Business Units and Functions (First Line of Defence)	Responsible for maintaining their own local risk profiles, which detail the most significant risks faced by the business unit or function. This is part of the process whereby management ensure that there is an ongoing process for the identification, assessment, management and reporting of the risks identified to their business objectives.
Group Risk Function (Second Line of Defence)	Provide oversight, expert advice and propose standards and guidance to ensure a consistent and robust approach to risk management across the organisation. Facilitates the management and ongoing effectiveness of the Risk Management Framework by providing the tools, training and support to all levels of the business so stakeholders can effectively discharge their responsibilities.
Internal Audit (3rd Line of Defence)	Provide independent assurance over the design and operational effectiveness of the Risk Management Framework.

Own risk and solvency assessment process

The objective of the ORSA process is to demonstrate that the Company (including all subsidiaries) has, or can access, the necessary resources to carry out its corporate strategy and business plan in the context of risk policy, risk appetite, a forward looking assessment of risks, the potential for stress and the quality of its risk management environment.

In accordance with SII Regulations, the Company maintains an ORSA policy framework to regulate and manage the ORSA process. The ORSA combines the Company'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 Company has, or the extent to which it is likely to have access to the financial, capital and other critical resources required to deliver the business plan.

Preparation of the ORSA report is coordinated by the Group Risk Function in accordance with ORSA Policy, Process, Standards and Guidance.

Frequency of review

The Company performs a full ORSA at least annually, covering the solvency position at the reference date 31st December. The annual frequency is deemed sufficient for carrying out a full ORSA due to the stable nature of the business model, maturity of the risk framework and surplus capital held. However, the ORSA is re-run, either in full or partially, in accordance with several pre-defined ORSA triggers that are defined and monitored to identify events that could significantly impact business decision making.

Each ORSA report is reviewed and approved by the GMB and GRC, who make a recommendation for final approval by the Board. The Board take an active role in the ORSA, primarily through the actions of the GRC, particularly in the forward-looking assessment of risk. The most recent ORSA Report was approved by the Board in November 2019.

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

Determination of own solvency needs

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

- maintaining the Risk Management Framework, including policies and risk appetite;
- assessment of the current risk profile of the business and ensuring adherence to risk appetite. This provides a context for business planning;
- a forward-looking risk assessment, including analysis of emerging risks;

- a business plan for the chosen time horizon that has been derived with reference to the risk appetite, the risk profile of the business and optimal use of capital;
- identification of the impact of the proposed business plan on the risk profile of the business;
- a stress-testing and scenario analysis framework, including reverse stress testing, with assessment in context of the proposed business plan;
- assessment of the capital required to carry out the business plan, particularly the own funds necessary to meet regulatory and internally assessed capital requirements;
- assessment of the risk profile in comparison to the assumptions underlying the calculation of the regulatory capital requirements;
- consideration of how capital shortfall might be addressed and the likelihood of success; and
- assessment of the adequacy and quality of the risk management environment.

B.4 Internal control system

Internal control system

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

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

- delivery of business strategy and objectives: supporting the effectiveness and efficiency of operations and core processes;
- reliability of financial reporting: to ensure the reliability, accuracy and quality of financial information, and to mitigate the risk that inaccurate management information is used to make business decisions or is reported externally;
- internal model: to ensure the 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 Company complies with such as the Corporate Governance Code;
- reputation: to ensure that the whole system of control is designed in such a way as to ensure the Company operates to the ethical standards established by the Board, thereby protecting the Company's reputation with customers, regulators, investors and other external parties; and
- customer: to ensure that the Company provides products and services that deliver fair customer outcomes.

The Control Framework comprises the following elements:

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

This function sits in the second line of the three lines of defence governance system and is responsible for:

- identifying, assessing, monitoring and reporting on the Company's compliance risk exposures;
- assessing possible impact of regulatory change and monitoring the appropriateness of compliance procedures; and
- assisting, challenging and advising the Company in fulfilling its responsibilities to manage compliance risks.

The activities and responsibilities undertaken by Group Compliance are set out in the Group Compliance Charter and those policies where it has delegated responsibilities. These set out how the roles and responsibilities interact with the operational and support functions of the Company as well as with the GMB and GRC.

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

- regulatory compliance;
- risk assessment;
- control framework;
- monitoring;
- training, advice and support;
- policies;
- event reporting and investigation;
- Board reporting;
- regulator and market engagement;
- financial crime and data protection;
- sanctions; and
- security & data governance.

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

- production and performance of an annual compliance monitoring plan;
- production and review of compliance-related policies and standards;
- delivery of compliance training, completion of annual 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 MI to the Board including an annual Money Laundering Reporting Officer (MLRO) report; and
- performance of regular sanctions screening and reporting of sanctions breaches and suspicious transactions.

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

B.5 Internal Audit Function

Implementation of the internal audit function

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 Company and the wider Group and to evaluate the adequacy and effectiveness of all controls operating in the Group, including financial, operating, compliance, and risk management controls.

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

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

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

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

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

- *Risk-based internal audits* - GIA's standard audit response, this methodology will also be used to respond to most management requests for assurance and focuses on assessing the adequacy and effectiveness of key controls mitigating High and Very High risks;
- *Programme & Project Assurance* - A series of risk-based assurance responses to programmes and projects. This differs from standard risk-based audits in that it focuses on key controls as well as the commercial aspects of the programme, such as benefits realisation;
- *Close and Continuous* - This will involve GIA having regular meetings with key stakeholders and attending decision making forums as appropriate. It will also include ongoing assessment of key documents as they are produced. Any concerns will be raised with management at an early stage to allow the programme to address them in a timely manner; and
- *Consultancy* - Completing a piece of ad-hoc work for management, usually around the development of controls in a specialised area. Such work may be characterised by the need to formally contract with the business to assist in control development. GIA will rarely perform these pieces of work as they potentially compromise 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 GAC Chairman, and has access to the Chairman of the 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 Group Audit Committee 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 Company or wider 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 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 Company's procurement and outsourcing policy is to outsource services on an exceptional basis. Outsourcing is considered as an option when reviewing the operational effectiveness and business requirements of meeting the needs of our customers and whether these can be better delivered from outside the organisation using specialist providers. Outsourcing will always be subject to the services maintaining the integrity of the Company's compliance with regulatory obligations and not increasing the Company's exposure to operational risk.

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

The Company's investment management activity is outsourced to a subsidiary company, EdenTree Investment Management Limited, with a comprehensive investment management agreement in place. The Company and EdenTree outsource Trustee services and Custodian and Dealing services.

All outsource providers operate from within the United Kingdom.

B.8 Any other information

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

C. Risk profile

C.1 Underwriting risk

The following table provides a quantitative overview of the Company's level of exposure to non-life underwriting risk:

Non-life underwriting risk	2019 £'000	2018 £'000
Premium risk	94,411	103,580
Reserving risk	77,506	75,375
Diversification	(45,788)	(48,939)
	126,129	**130,016**

Underwriting risk exposure

The elements of the Company's underwriting risk are:

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

Reserving risk

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

Latent reserving risk (such as Physical and Sexual Abuse (PSA) and asbestosis claims) has a high level of uncertainty, particularly relating to volumes of future claims arising from historic periods of exposure, giving potential to affect the future profits and capital position, though conversely it might give releases to enhance profits. Exposure to PSA liability claims is a distinctive feature of the Company's risk profile, which arises primarily from historic coverage of the core church book.

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

The Company has regular monitoring and review processes in place to assess reserving risks, for example Actual v Projected claims analyses and assessment of PSA incurred claim volumes.

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

Premium risk

The underwriting risk for the Company 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 Company remains exposed to significant residual risk due to the potential risk of aggregation (a number of small events) spanning several perils or territories, and the potential costs of reinstating cover.

The main peril to which the Company 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 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 for Canada in the tail (as detailed below).

Within non-catastrophe underwriting risk, the potential for a disaster scenario arising from substantial levels of attritional or large claims is relatively low, particularly taking into account the Company's reinsurance structure. Nevertheless, the Non Cat Underwriting Result can materially worsen the Company's result in low return periods, particularly due to certain risks that benefit less from reinsurance cover. Other key risks include poor premium rates, poor weather experience and the occurrence of multiple large property losses.

The Company 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 significant changes to the risk exposures over the reporting period.

Underwriting risk concentration

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

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

Underwriting risk mitigation

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

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

Group underwriting and reserving policies and procedures, and risk appetite statements are in place to limit insurance risk concentrations.

The Company has an Insurance Risk Committee, chaired by the Group Underwriting Director, which is responsible for the oversight of the non-life insurance risks of the Company. The Insurance Risk Committee reports to the GRC which provides challenge on the management of insurance 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 and the PSA Governance Committee which oversees PSA claims and the PSA reserving model.

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 Company's level of exposure to market risk:

Market risk	2019 £'000	2018 £'000
Market risk - excluding Pension risk	172,124	150,334
Market risk - Pension risk	81,598	78,281
Market Diversification	(12,113)	(12,052)
	241,609	**216,563**

Market risk exposure

Market risk is the risk that the Company 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 Company is exposed to are:

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

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

There has been no material change in the Company's overall exposure to market risk during the year due to the relative stability of asset mix. However, Company stand-alone market risk capital has increased by £25m, largely in response to equity gains over the year.

Compliance with prudent person principle

The Company 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 Company to fully understand the risks in the assets.

The Investment Strategy aligns to the Board 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 is currently 8% of overall assets.

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

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

All investment risk exposures are monitored regularly, and are overseen by the Group Market and Investment Risk Committee, which provides reports to the Group Risk Committee, 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 8% 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 year end 2019. There are no other material concentrations of market risk as the portfolio is well diversified.

Market risk mitigation

The Company 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 2019, the Company 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 cashflow position is monitored as part of the investment strategy review each year and adjusted as determined to be appropriate.

Interest rate and inflation risks are material risks arising in the pension fund. These are primarily mitigated by the fund's investment in a Liability Driven Investments portfolio that hedges approximately 60% of these risks.

All liabilities are matched with assets in the same currency, so mitigating currency risk. Throughout 2019 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 Company continues to monitor factors affecting investment markets. Despite ongoing volatility in investment fair values and currency exposure during 2019, the net impact on the Company's solvency cover has been relatively low.

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 Company 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 Company 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.

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

Credit risk concentration

The Company has risk appetite limits in place which limit exposure to any single reinsurer group. The largest individual reinsurance balance owed at 31 December 2019 was approximately £2m.

Credit risk mitigation

The Company has a wide, well-diversified panel of reinsurers, thereby diversifying the risk exposure. The Company only uses reinsurers with strong credit ratings and all those participating are approved and monitored regularly by the Group's Reinsurance Security Committee.
The Company carries out due diligence assessments for brokers that have credit facilities, with ongoing monitoring of the credit status and experience of making timely payments.

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

Credit risk sensitivity

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

C.4 Liquidity risk

Liquidity risk exposure

Liquidity risk is the risk that the Company, 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 Company 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 Company 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 Company 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 70% of the Company'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 Company'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 Company also maintains a well-diversified panel of strongly rated reinsurers to minimise the potential for over-reliance on any one reinsurer.

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 Company'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 our 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 Company's portfolio of assets to have confidence that all payments would continue to be met even in the most extreme outcomes. However, liquidity remains a key consideration when setting investment policy.

Expected profit in future premiums

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

The total amount of the expected profit included in future premiums is £6,348k.

C.5 Operational risk

Operational risk exposure

The Company 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 Company'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 continues to evolve across the industry.

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

Operational risk concentration

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

Operational risk mitigation

The Company 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 lessening its impact if it does. Detective controls also provide value in helping to flag that a risk exposure is changing or is impacting business activities in a particular way. This allows corrective actions to be taken or planned to ensure that the risk exposure will not threaten the achievement of the strategic objectives of the Company.

The Group Operational, Regulatory and Conduct Risk Committee provides oversight of the relevant risks across the Group.

The Company 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 and a proactive compliance function.

Conduct risk has long been considered an important risk, and part of the wider regulatory and legal risk universe. “Customer Promises” have been developed by all SBUs 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 Company. 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 Company has a dedicated Cyber Security Consultant.

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.

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

C.6 Other material risks

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

Strategic risk relates to risks associated with the effective development and ongoing implementation of the Company’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 Company is naturally exposed to the risk of failing to develop or implement an appropriate strategy for the business. This could arise from a failure to adequately identify or assess the threat presented by competitors, failure to fully understand our markets or setting a strategy without due regard to the capability within the Company.

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 Company 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 our 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. The ongoing IICSA inquiry and related PSA issues continue to be a key area of management focus. 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 Company'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 Company. 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 are:

- higher than planned attritional claims;
- deterioration in PSA reserves;
- reduction in GWP year on year;
- windstorm catastrophe event combined with reinsurer default;
- increase in operating expenses and broker commissions;
- market fall;
- sustained economic downturn; and
- market fall combined with a windstorm catastrophe event and a reinsurer default.

The impact of the single scenarios is in line with Company 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.

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 Company 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 Company and confirms the business model is sufficiently resilient.

D. Valuation for solvency purposes

All material asset and liability classes other than technical provisions have been valued in accordance with Article 75 of Directive 2009/138/EC ('the Directive') and Articles 7 to 16 of the Delegated Regulation (EU) 2015/35 ('the Delegated Act'), taking into account the European Insurance and Occupational Pensions Authority ('EIOPA') publication 'EIOPA-BoS-15/113 – *Guidelines on recognition and valuation of assets and liabilities other than technical provisions'*.

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

Material assets and liabilities are defined as assets and liabilities that are valued in excess of £5.2m (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 report and accounts. The financial statements have been prepared in accordance with international financial reporting standards (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 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 Company has adopted IFRS 16 using the modified retrospective approach, as permitted by the standard. On adoption of IFRS 16, the Company 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.

Further information regarding the adoption of IFRS 16 can be found in note 1 'Accounting Policies' of the Ecclesiastical annual report and accounts for 2019, which is available on the Company's website.

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 Company.

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	2019 As reported IFRS Basis	Reclassify to aid comparison	2019 Reclassified IFRS	Valuation difference	2019 Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	1,199,024	(88,564)	1,110,460	(25,866)	1,084,594
Total liabilities	674,268	(88,564)	585,704	(75,811)	509,893
Net assets	**524,756**	-	**524,756**	**49,945**	**574,701**
Breakdown of asset valuation					
Deferred acquisition costs	31,133	-	31,133	(31,133)	-
Intangible assets	11,914	-	11,914	(11,914)	-
Tangible fixed assets	16,700	-	16,700	-	16,700
Pension benefit surplus	8,505	-	8,505	-	8,505
Investments: Participations	49,729	-	49,729	59,642	109,371
Investments: Other	794,778	3,710	798,488	-	798,488
Loans & mortgages	792	40,660	41,452	2,052	43,504
Technical provisions - Reinsurance recoverables	106,701	(10,696)	96,005	(40,940)	55,065
Insurance & intermediaries receivables	77,633	(73,997)	3,636	-	3,636
Reinsurance receivables	3,923	(3,871)	52	-	52
Receivables (trade, not insurance)	11,729	(2,676)	9,053	(3,573)	5,480
Cash and cash equivalents	42,248	(1,034)	41,214	-	41,214
Any other assets	43,239	(40,660)	2,579	-	2,579
Total assets	**1,199,024**	**(88,564)**	**1,110,460**	**(25,866)**	**1,084,594**

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

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

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.

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.

Tangible fixed assets - 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	2019 £'000	2018 £'000
Property improvements, fixtures, fittings & computer equipment	5,928	3,991
Owner occupied property	2,045	2,045
Motor vehicles	24	1,336
Right of use assets - property	7,676	-
Right of use assets - motor vehicles	1,027	-
	16,700	**7,372**

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

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

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

This is assumed to be an acceptable approximation of fair value. A proportional approach has been taken as any discrepancy between their SII economic value and their IFRS value would not be material.

Motor vehicles are valued on an amortised cost basis in the financial statements. Their IFRS carrying value is assumed to be an acceptable approximation of fair value. A proportional approach has been taken as any discrepancy between their SII economic value and their IFRS value would not be material.

Following the adoption of IFRS 16, Motor vehicles held under finance leases previously shown as ‘motor vehicles’ have been reclassified as ‘right of use assets’ and valued accordingly.

Pension benefit surplus

The Company 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	2019 £'000	2018 £'000
Government bonds	4,027	3,861
Corporate Bonds	79,836	74,577
Listed Equity	158,999	138,455
Unlisted Equity	779	925
Investment funds	69,113	59,526
Collateralised securities	542	562
Cash and cash equivalents	19,546	20,387
Investment Property	43,659	44,702
Derivatives	2,396	(1,981)
Other	787	855
	379,684	**341,869**

Investments – participations (subsidiary undertakings)

The financial statements of the Company value shares in subsidiary undertakings at cost net of any impairment. For SII subsidiary undertakings must be recognised at fair value.

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

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

Key drivers for the differences in valuation are goodwill, which is included within the cost used in the financial statements but not recognised in SII, and the impact of accumulated un-distributed post-acquisition profits included within the SII valuation.

Investments other than participations

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 Company's functional currency and adjusted to reflect illiquidity where appropriate, with the fair values disclosed being directly sensitive to this input.

Accrued interest of £2,676k included within 'receivables (trade, not insurance)' in the financial statements have been moved to investments as investment valuations are valued inclusive of accrued interest for SII.

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 Company'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 (intra-group loans)

Non-current intra-group balances have been valued in the financial statements at £40,660k, their initial value net of any subsequent repayment or impairment, and included within other assets.

For SII these balances are reclassified as loans and 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. As the loans do not have specified maturity dates they are assumed to have a duration of 10 years from the reporting date to enable a valuation to be calculated. This duration has been chosen in light of the length of time some of the loans have been in force to date. The interest rate is as defined in the loan agreement, and is typically 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 EIOPA.

Reinsurance recoverables

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

Insurance & intermediaries receivables and reinsurance receivables

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

Receivables (trade, not insurance)

This comprises trade debtor balances. Due to the short-term nature of the outstanding balances, their amortised cost is assumed to approximate to their fair value. The valuation of non-insurance receivables for SII is the same as in the financial statements except for £3,573k 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 with the Company's subsidiaries and other entities 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.

D.2 Technical provisions

Solvency II valuation of technical provisions and assumptions used

Under SII the technical provisions are made up of:

- discounted best estimate claims provisions;
- discounted best estimate premium provisions; and
- risk margins (*unaudited*).

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

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

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

Modelling methodologies and assumptions

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

The following methods are used accordingly:

- Incurred Development Factor Method (DFM) used either in isolation for 'Fire and other property damage' classes or in combination with other methods for liability and latent classes;
- Bornhuetter Ferguson Method (BF) used primarily for more recent development years for the liability classes;
- Frequency-Severity approach, either deterministic for liability classes or stochastic for latent claims;
- scenarios framework for Events Not In Data (ENID), which generally would not have been foreseen at the time of writing the policies;
- simplified methods like scaling based on exposure measures for smaller territories; and
- discontinued and inwards reinsurance businesses are either a fixed percentage of case outstanding or a fixed amount.

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

The reinsurer's share of IBNR calculations are varied depending on the type of treaty. Proportional arrangements use assumptions on net to gross ratios and excess of loss arrangements incorporate stochastic modelling of net average costs where applicable.

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

Valuation

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

The two major contributors to the TPs are the 'general liability' (62% of TPs) and 'fire and other property damage' (35% of TPs) classes of business.

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

Fire & Other Property Damage

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

General Liability

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

Latent classes are particularly sensitive to changes in the discount rate. The EIOPA prescribed UK risk free rate decreased over 2019, which resulted in an increase in the discounted latent provisions.

Motor vehicle classes

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

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

Non-proportional reinsurances

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

Risk margin (unaudited)

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

The level of risk margin held is driven by the primary risks for the non-life insurance business, being General Liability reserve risk and catastrophe risk for fire and other property damage, and the term over which these risks run off. Under SII principles this margin is not allocated as gross and ceded, but is a single value based on the risk net of reinsurance.

Level of uncertainty

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 Results for Net TPs

Sensitivity Analysis is a technique used to understand the variability of possible outcomes. This is done by analysing the change in TPs as a result of adjusting a single input parameter.

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

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

The table below shows the results of several sensitivity tests, which have been selected to provide coverage of a broad range of risks, which it is foreseeable could materialise within the next 12 months. This is for illustrative purposes and does not represent an exhaustive list of possible events.

SII net best estimate sensitivities to future scenarios		EIO Solo
Risk	Sensitivity applied	£m
Bound business seasonality profile	Adjust Q4 bound business to Q3 profile	2.7
Discount rate shift (all currencies)	+/- 0.5% to spot rate at all durations	-/+ 12.6
Reinsurance default	All reinsurer ratings downgraded to BBB	0.3

The choice of yield curve shock is based on the assumption that if there are upward or downward rate cycles, the central bank in each territory will change the interest rates by 25 basis points (bps) at a time, with an assumption of two base rate changes per year translating to an equivalent up or down shift at all durations.

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

Net technical provisions	**2019 £'000**	**2018 £'000**
IFRS Technical Provisions net of deferred acquisition costs, debtors and creditors	373,536	364,133
Adjustment for risk margin (unaudited)	(7,021)	(10,536)
Adjustment for discounting	15,521	16,203
Adjustment for premium provision	(10,185)	(6,898)
SII Net technical provisions	371,851	362,902

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

The claims provision calculation (liability on earned business) may follow similar bases, methods and assumptions as IFRS, with the exception that the SII discount rate is prescribed by EIOPA and applied to the total reserves, whereas the discount rate used in the IFRS accounts currently includes an input for liquidity premium based on actual assets held, and discounts only the latent classes of claims.

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

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

Use of the matching adjustment, volatility adjustment and the transitional risk-free interest rate-term structure

The matching adjustment, volatility adjustment and transitional risk-free interest rate-term structure have not been applied to the non-life insurance TPs.

Use of the Directive's Article 308[d] transitional deduction

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

Recoverables from reinsurance contracts and special purpose vehicles

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.

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

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

D.3 Other liabilities

Solvency II valuation of other liabilities

A copy of the QRT 'S.02.01.02 – Balance sheet' is included in Appendix 1 and shows a list of liabilities by class as reported in the annual QRT of the Company.

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	2019 As reported IFRS Basis	Reclassify to aid comparison	2019 Reclassified IFRS	Valuation difference	2019 Solvency II Valuation
	£'000	£'000	£'000	£'000	£'000
Total Assets	1,199,024	(88,564)	1,110,460	(25,866)	1,084,594
Total liabilities	674,268	(88,564)	585,704	(75,811)	509,893
Net assets	524,756	-	524,756	49,945	574,701
Breakdown of liability valuation					
Technical provisions - non-life	556,272	(72,579)	483,693	(56,777)	426,916
Deferred commission income	16,981	-	16,981	(16,981)	-
Deferred tax liabilities	34,428	-	34,428	(1,982)	32,446
Insurance & intermediaries payables	1,418	(1,418)	-	-	-
Reinsurance payables	14,567	(14,567)	-	-	-
Payables (trade, not insurance)	29,557	-	29,557	(71)	29,486
Pension benefit obligations	5,998	-	5,998	-	5,998
Other provisions	4,695	-	4,695	-	4,695
Debts owed to credit institutions	10,328	-	10,328	-	10,328
Any other liabilities	24	-	24	-	24
Total liabilities	674,268	(88,564)	585,704	(75,811)	509,893

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 – non-life

The valuation of TPs and the differences in valuation methodology compared with the IFRS financial statements are 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 there is no fair value.

Deferred tax liabilities

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. The liabilities are mainly in relation to unrealised gains on financial investments.

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. As this timing difference is not expected to reverse in the foreseeable future, the tax rate used is 17%, being the future rate used in the annual report and accounts.

Insurance & intermediaries payables and reinsurance payables

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

Provisions other than technical provisions

Provisions are recognised when the Company 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 Company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when it is virtually certain that the reimbursement will be received.

Pension benefit obligations

The Company 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.

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 Company. Assets obtained under finance lease contracts are capitalised as right of use assets. Obligations under such agreements are recognised at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate.

Payables (trade, not insurance)

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

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

Any other liabilities

Intercompany creditor balances with the Company's subsidiaries and other entities within the wider Group are shown as any other liabilities. The balances are repayable on demand, and the amortised cost is assumed to approximate to fair value.

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 Company can use to meet its regulatory SCR and Minimum Capital Requirement (MCR) is called own funds. Off balance sheet items that can be called upon to absorb losses are called ancillary own funds - the Company does not hold any such items.

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

Basic Own Funds	2019 £'000	2018 £'000
Solvency II valuation of assets	1,084,594	1,046,520
Solvency II valuation of liabilities	(509,893)	(490,072)
Excess of assets over liabilities	574,701	556,448
Subordinated liabilities	-	-
Foreseeable distributions	(4,591)	(4,591)
Basic Own Funds	**570,110**	**551,857**

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 Company.

The policy provides a robust framework for the management and control of capital that underpins business performance and supports the strategic development across the Company. 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 Company 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 local subsidiaries and branches in order to satisfy local capital requirements (regulatory or otherwise);

- ensure that fungibility restrictions are carefully monitored and controlled to avoid having a detrimental impact on the Company's solvency position, regulatory or otherwise;
- ensure that the level of capital available in the Company, 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 capital requirements

- ensure all current and future capital requirements, regulatory or otherwise, are understood at all times;
- ensure the Company has an agreed definition of an 'Economic Capital Requirement', reflecting its own view of risk;
- ensure the Company 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 Company 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 Company 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 Company has an agreed return on capital target which is aligned to the expectations of all key stakeholders (i.e. Board, ATL);
- ensure there is an agreed approach to setting and monitoring the return on capital of the Company 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.

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

Business planning

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

Movement in own funds compared to prior period

A copy of the QRT ‘S.23.01.01 – Own Funds’ is included in Appendix 6. The table below is a summary of own funds by tier, with comparison to the prior year:

Analysis of Own Funds	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
2019	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Ordinary share capital	14,027	14,027	-	-	-
Preference share capital	106,450	-	106,450	-	-
Preference share premium	4,632	-	4,632	-	-
Reconciliation reserve	445,001	445,001	-	-	-
	570,110	**459,028**	**111,082**	**-**	**-**
2018					
Ordinary share capital	14,027	14,027	-	-	-
Preference share capital	106,450	-	106,450	-	-
Preference share premium	4,632	-	4,632	-	-
Reconciliation reserve	426,748	426,748	-	-	-
	551,857	**440,775**	**111,082**	**-**	**-**
Movement in own funds					
Ordinary share capital	-	-	-	-	-
Preference share capital	-	-	-	-	-
Preference share premium	-	-	-	-	-
Reconciliation reserve	18,253	18,253	-	-	-
	18,253	**18,253**	**-**	**-**	**-**

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 preference share capital is also called up, issued and fully paid, and is classified as restricted tier 1 capital in accordance with Articles 71 and 82 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. A high level analysis of the reconciliation reserve is included in Appendix 6.

The table below summarises the key movements in the reconciliation reserve between the current and prior year:

Movement in reconciliation reserve	£'000
Prior year balance	**426,748**
IFRS total comprehensive income	64,286
Group tax relief in excess of standard rate	(115)
Preference dividends paid	(9,181)
Charitable grant paid net of tax relief	(25,080)
Movement in SII revaluation of:	
Participations	(7,920)
Goodwill and intangible assets	(7,065)
Technical provisions	2,074
Deferred commission income and acquisition costs	(1,620)
Other SII deductions & revaluations	2,107
Deferred tax	767
Total movement for year	18,253
Current year balance	**445,001**

The £64,286k IFRS total comprehensive income is reported in the Company's financial statements and includes profit after tax of £70,150k, actuarial losses of £5,851k in respect of the Company's retirement benefit obligations and other amounts including currency translation giving a net loss of £13k.

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 £7,920k decrease in the valuation of participations is driven by £13,854k of dividends paid to the parent company, offset by £6,936k of profits after tax. In addition, currency exchange losses on the net assets of the Company's Australian subsidiary (£1,555k) also reduced the SII value of participations in 2019.

The increase in the deduction for goodwill and intangible fixed assets is due to the capitalisation during the year of intangible assets relating to the implementation of a new computer system, which has not been recognised in the SII valuation.

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

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

Analysis of eligible own funds available to cover SCR	2019 £'000	2018 £'000
Unrestricted tier 1 capital	459,028	440,775
Restricted tier 1 capital	111,082	110,194
Total eligible tier 1 capital	**570,110**	**550,969**
Restricted tier 1 relegated to tier 2	-	888
Other tier 2 capital	-	-
Total eligible tier 2 capital	**-**	**888**
Eligible tier 3 capital	**-**	**-**
Total eligible capital	570,110	551,857
Ineligible capital	-	-
Total own funds available	**570,110**	**551,857**

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

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

The table below summarises the own funds eligible to cover the MCR:

Analysis of eligible own funds available to cover MCR	2019 £'000	2018 £'000
Unrestricted tier 1 capital	459,028	440,775
Restricted tier 1 capital	111,082	110,194
Total eligible tier 1 capital	**570,110**	**550,969**
Restricted tier 1 relegated to tier 2	-	888
Other tier 2 capital	-	-
Total eligible tier 2 capital	**-**	**888**
Total eligible capital	570,110	551,857
Ineligible capital	-	-
Total own funds available	**570,110**	**551,857**

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 MCR.

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

Reconciliation from IFRS net assets to Solvency II own funds	2019 £'000	2018 £'000
Equity as reported in IFRS Financial Statements	**524,756**	**494,847**
Revalue participations	59,642	67,562
Revalue technical provisions	15,837	13,763
Remove deferred commission income and deferred acquisition costs	(14,152)	(12,532)
Revalue intra-group loans	2,052	139
Remove goodwill and intangible assets	(11,914)	(4,849)
Remove prepayments and other items with no fair value	(3,502)	(3,689)
Impact on deferred tax of revaluation	1,982	1,215
Other	-	(8)
Solvency II valuation of excess of assets over liabilities	**574,701**	**556,448**
Foreseeable dividends & distributions	(4,591)	(4,591)
Solvency II Valuation of own funds	**570,110**	**551,857**

Under IFRS, participations are valued at cost, whereas for SII participations are included on a SII net asset valuation basis.

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

Intra-group loans, valued at principal amount in the IFRS financial statements, but under SII are valued at the present value of the estimated future cash flows. This is covered in section D.1.

Goodwill and intangible assets are removed from the SII valuation as they are inadmissible for solvency purposes.

Prepayments and deferred income are removed from the SII valuation as they are inadmissible or deemed to have no measurable fair value.

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

Foreseeable dividends and distributions refers to the preference share dividend payable on 30 June 2020 and approved by the Board for payment on 17 March 2020.

Transitional arrangements

There are no own fund items that are subject to transitional arrangements. An internal assessment of the existing irredeemable, non-cumulative preference shares has been undertaken and it was concluded that they satisfied the requirements set out in Article 71 of the delegated act to qualify as restricted tier 1 capital.

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.

Items deducted from own funds and restrictions affecting the availability and transferability of own funds

No items have been deducted from basic own funds.

As at 31 December 2019, £47,253k of cash balances and deposits and £566,311k of highly liquid listed investments were held by the Company. Of these investments, £87,804k (C$150,838k) were vested with the Canadian Council of Insurance Regulators in respect of the Company's Canadian branch. As these assets are held to cover equivalent Canadian TPs there is not considered to be any significant restriction limiting the availability and transferability of own funds.

E.2 Solvency Capital Requirement (SCR) (unaudited) & Minimum Capital Requirement (MCR)

The SCR is the amount of capital that the Company is required to hold as required by the SII Directive. The Company uses an Internal Model, which has been approved for use by the PRA, to calculate the SCR.

The Internal Model is described in section E.4. A breakdown of the SCR elements applicable to the Company is given in the following section.

The MCR is the higher of the absolute floor (£3,187k) and the combined MCR.

The combined MCR is based on the linear MCR, subject to a cap (45% of the SCR) and floor (25% of the SCR). The Linear MCR is a simplistic calculation based on factors applied to net written premiums and net best estimate of TPs, analysed by class of business.

A copy of the QRTs 'S.25.01 – Solvency Capital Requirement' and 'S.28.01 – Minimum Capital Requirement' are reproduced in Appendices 7 and 8 respectively.

As at 31 December 2019 the SCR for the Company was £264,251k, and the MCR was £66,063k (unaudited as derived from the SCR). Both amounts are still subject to supervisory assessment.

Use of simplified calculations and Undertaking-specific parameters

The Company uses an Internal Model rather than the Standard Formula, therefore simplified calculations, undertaking-specific parameters and the duration-based equity sub-module are not applicable.

Inputs used in the calculation of the MCR

A copy of the QRT 'S.28.01.01 - Minimum Capital Requirement' showing the inputs used for the calculation of the MCR is included in Appendix 8.

Changes to the SCR and MCR compared to the prior period

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

Internal Model SCR *(unaudited)* and MCR	2019 £'000	2018 £'000	Movement £'000
Market risk	241,609	216,563	25,046
Counterparty default risk	9,799	9,939	(140)
Non-life underwriting risk	126,129	130,016	(3,887)
Operational risk	32,174	29,861	2,313
Other risks	26,076	21,860	4,216
Diversification	(144,837)	(134,385)	(10,452)
SCR before adjustments	290,950	273,854	17,096
Other adjustments	5,601	2,044	3,557
Loss absorbing capacity of deferred tax	(32,300)	(19,000)	(13,300)
SCR	**264,251**	**256,898**	**7,353**
MCR	**66,063**	**64,225**	**1,838**

Market risk has increased over the year, predominantly the result of increased equity exposure following growth in equity markets over 2019. The underlying view of the market (based on the ESG) has not changed materially.

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

Within non-life underwriting risk, there has been a reduction in exposure to prior year risks as liability reserves continued to run off favourably which has reduced the level of reserving risk. Premium risk has benefited from expected improvements in the underwriting result. This is partly offset by increases in natural catastrophe risk due to exposure growth across all territories.

The 2019 operational risk figure increased over the year following revaluation of the potential costs of an Information Security scenario.

Other risks mostly relates to the pension fund longevity risk, which increased during the year, largely due to an increase in the liabilities.

Diversification benefit is slightly higher than in 2018, owing to the increase in the underlying undiversified risks.

The 2019 LACDT adjustment has increased significantly following the removal of an adjustment previously used to remove deferred tax asset component balances within the overall closing net deferred tax liabilities. The removal of this conservative adjustment was subject to a major model change application and was approved by the PRA during 2019.

As the Company's MCR for both the current and prior year is the MCR floor, which is 25% of the SCR, the MCR has moved in direct proportion to the movement in the SCR.

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.

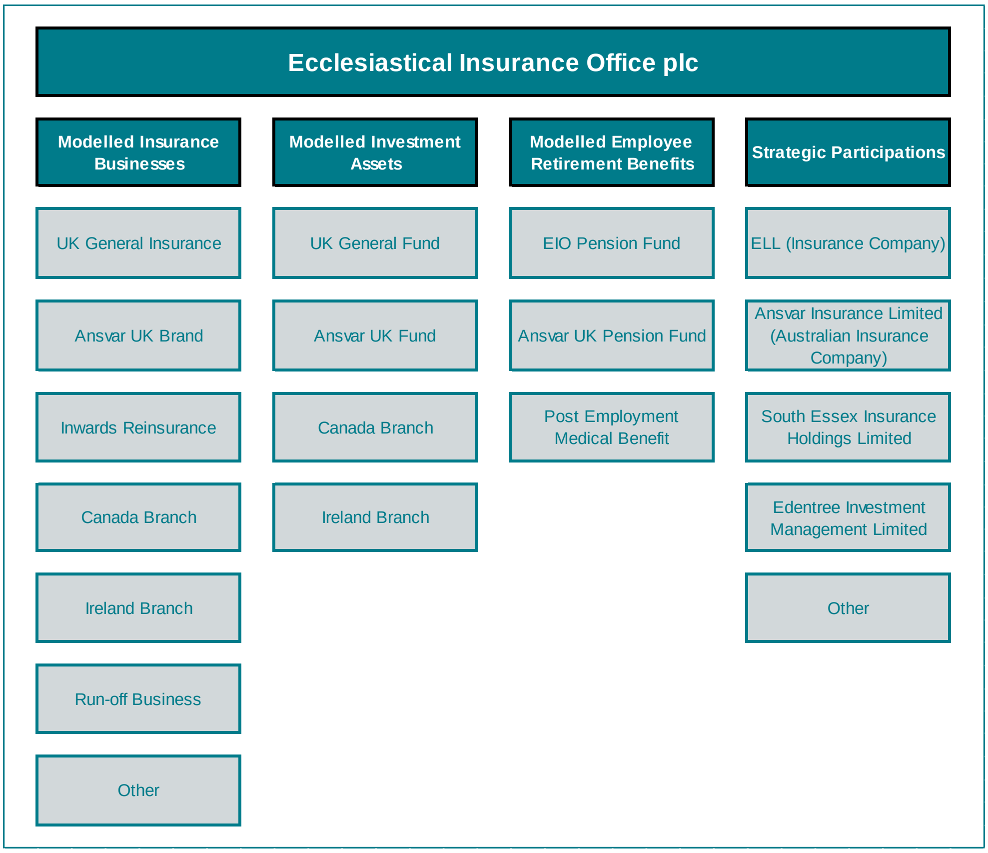
E.4 Differences between the standard formula and the internal model (unaudited)

For the purposes of calculating its SCR, the Company uses an Internal Model, as approved by the PRA. The following sections describe various aspects of the Internal Model.

Scope of the Internal Model

For the purposes of calculating the SCR, the Internal Model is defined as a 'Full Internal Model' under SII. This is because the model includes all relevant business units and all underlying risk types within its scope.

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

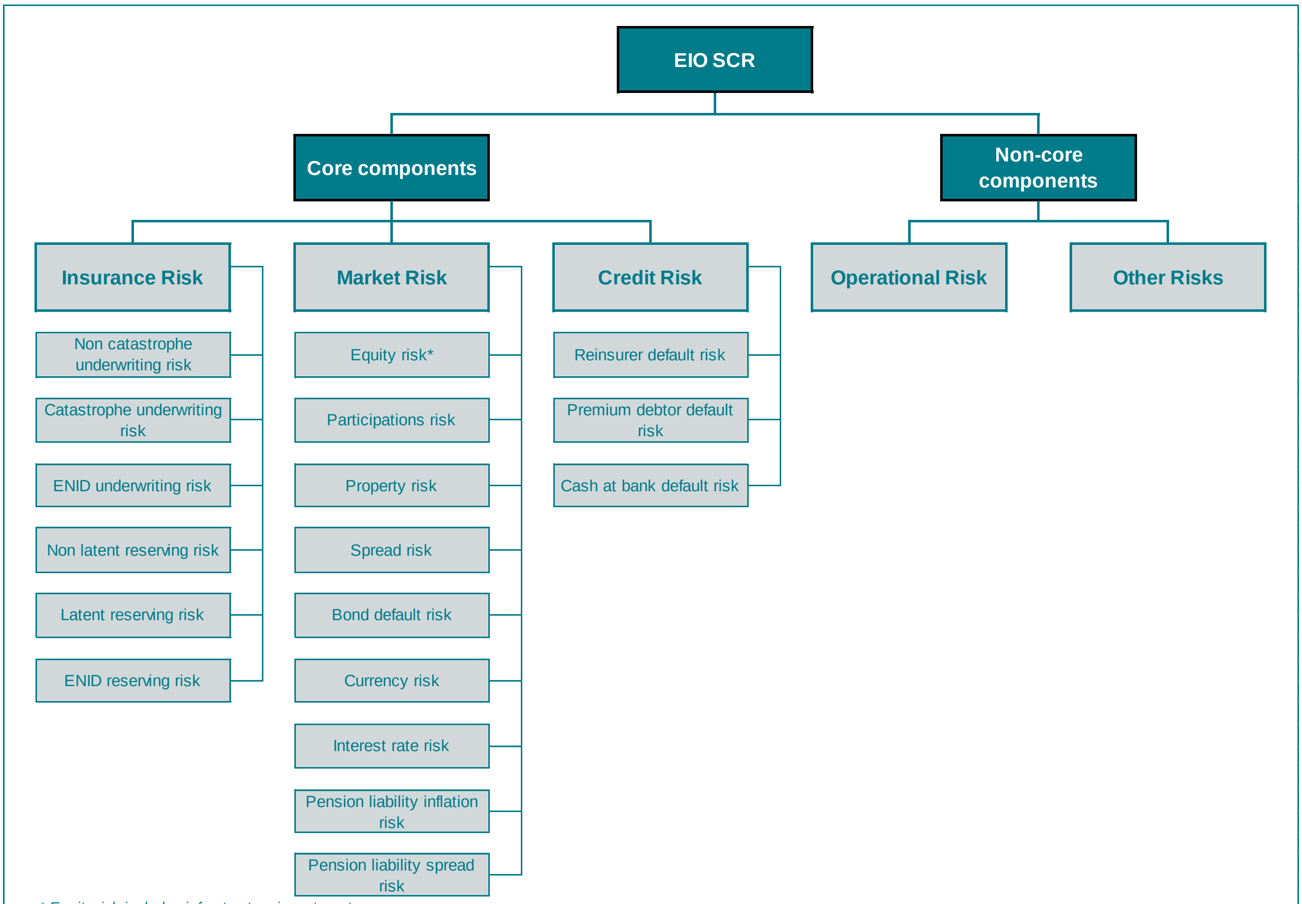


The Internal Model is intended to capture all the material financial risks within the Company. The most material risks relating to the General Insurance business and Market Risk are captured within a Core Stochastic Model.

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.

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

The diagram below illustrates the component risks:



** Equity risk includes infrastructure investments*

Use of the Internal Model

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

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

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

Methods used in the Internal Model

Calculation of the probability distribution forecast and the SCR

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

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

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

Risk measure and time period

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

Nature and appropriateness of the data used in the internal model

Calibration of the Internal 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 Company relies on the appropriateness of market-standard external models.

The Company 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 Company's stated risk appetite.

Differences in methodologies between the Internal Model and Standard Formula

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

Internal Model Risk Category	Standard Formula Sub-component(s)	Standard Formula	Internal Model
Non-Life Underwriting Risk	Premium & Reserve, Catastrophe and Lapse	• For premium & reserve risk, market average volatility factors are applied to a relevant volume metric, by line of business. • Net earned premiums provide the volume metric for premium risk, with net best estimate claims reserves providing the volume metric for reserve risk. • No account is taken of the relative scale or nature of business within each line, but geographical diversification is included. • Catastrophe losses are largely based on shocks applied to Sums Insured and Gross Premiums within different geographical zones. The reinsurance mitigation effect is calculated based on consideration of single events • Lapse risk is modelled based on lapsing a proportion of business where this is contributing profit to the opening reserves.	• Model classes are split to a lower level of granularity than the SII lines of business (e.g. to insurance niche), to better reflect the risk profile of particular territories, and where relevant, customer groupings. • For premium risk, for each class the model simulates uncertainty in premium rates, gross claims and expenses. Reinsurance contracts are applied to generate reinsurance recoveries in relation to the simulated claims. • Reserve risk is calibrated separately for non-latent and latent reserve risk within a class, where relevant. Non latent reserve risk calibrates future modelled claims in respect of exposure before the base date using past claims experience. Latent reserve risk uses frequency and severity modelling for abuse and asbestos related claims. • Gross catastrophe underwriting loss experience is calculated by applying simulated events from external vendor models to the Company's own exposure, taking into account the range of specific events and both single or accumulating losses. Reinsurance recoveries are calculated and the impact of reinstatement premiums included.

Internal Model Risk Category	Standard Formula Sub-component(s)	Standard Formula	Internal Model
			• 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.
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 Company'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. • Volatility adjustments are applied, where relevant, to infrastructure and strategic investments.

Internal Model Risk Category	Standard Formula Sub-component(s)	Standard Formula	Internal Model
			• No symmetric adjustment is applied however the ESG is updated at least annually and is designed to reflect current market conditions • Derivatives held to mitigate this risk are modelled based on assumed levels of protection that are supported by management actions.
	Participations	• Strategic Participations are modelled similarly to equities, with a lower shock.	• A beta parameter is calibrated and applied to the relevant economy's equity index to reflect relatively low volatility of participation returns. • In both the Internal Model and Standard Formula, the following business units are modelled as strategic participations: ELL (Life Insurance company), Ansvar Australia (General insurance company), South Essex Insurance Holdings and EdenTree (Investment company).
	Property	• A single instantaneous shock factor is applied to the value of all properties at the balance Sheet date.	• The ESG simulates property returns for each economy. A beta parameter is calibrated and applied to adjust the level of risk, which broadly aligns the resulting charge to the Standard Formula.
	Spread	• A stress is applied based upon both the bond credit quality and duration to maturity. This stress accounts for both the bond spread risk and the bond default risk. • The stress for this risk is not applied to Government bonds.	• Corporate bond returns are based on a discounted cashflow model, using market risk-free rates with an additional credit spread to account for risk, by term. The ESG simulates the credit spread applicable to corporate bonds, distinguishing by economy, credit rating and duration. • The model distinguishes bond default risk separately from spread risk by simulating losses from defaults which occur during the year, allowing for recoveries. The ESG provides a transition matrix which is applied to determine how bonds change credit rating and/or default during the year, with migration risk being captured within spread risk.
	Currency	• A single instantaneous shock is applied to the currency rates used to value the opening net asset value position for each foreign currency exposure (net of derivative protection at the opening date)	• This risk is quantified by applying the ESG's simulated exchange rate movements to opening net assets by currency, and therefore includes diversification between currencies. • Profits and/or losses from currency hedging contracts are also included

Internal Model Risk Category	Standard Formula Sub-component(s)	Standard Formula	Internal Model
	Interest Rate	• A prescribed upward and downward stress, by duration of cashflow, is applied to the EIOPA risk free yield curve. These stressed yield curves are then applied to aggregate net fixed interest opening cashflows with the Interest Rate risk defined as the larger decrease in net asset value resulting from the two calculations.	• The ESG simulates risk-free yield curves for each relevant economy. The opening and closing fixed interest asset and liability cashflows are valued by applying the appropriate yield curves to determine a change in net asset value. For insurance liabilities, the yield curve is aligned to the EIOPA curve. • The use of the closing cashflows therefore takes into account change in liabilities profile from insurance risk over the year, which is not captured by the Standard Formula module.
	Concentrations	• A formula based charge is derived from exposures, rating and total assets held.	• No separate risk type is required as the risks within each individual asset holding are captured via Counterparty risk and the diversification available between asset risks.
Market Risk: (Pension Risk)	N/A (combined with market risks above)	• The assets and liabilities relating to retirement benefit schemes are included in the relevant market risk modules.	• In addition to including Pension Fund assets and liabilities in the market risk modelling, Pension liabilities inflation risk is explicitly modelled using ESG inflation curves over the 1 year horizon • Risks associated with the allowable spread within pension liabilities discount rate are captured via an explicit adjustment to the ESG simulated spreads where appropriate. • The level of pension surplus recognised is restricted
Counterparty Default Risk	Type 1 and Type 2 exposures	• Type 1 (rated) exposures are calculated from probability of default and loss given default • Type 2 (unrated) exposures are given a % charge, distinguishing an increased charge for those which relate to balances > 3 months overdue.	• Three modules are used to capture different default risk characteristics relating to reinsurers, intermediaries and banks. • Reinsurer defaults consider the term to payment in addition to the simulated reinsurer balances, credit rating and loss given default. As a simplification this risk is all assumed to emerge in the first year. • Premium Debtor Default Risk is aligned with the Standard Formula Type 2 calculation, given the small magnitude of the underlying exposure and the low materiality of this risk. • Bank default is modelled similarly to reinsurers, but calibrated to the risk of default occurring within the first year.

Internal Model Risk Category	Standard Formula Sub-component(s)	Standard Formula	Internal Model
Operational Risk	N/A	• The higher of the charge derived from factors applied to premiums and reserves is added to the base SCR. • This represents the diversified Operational risk charge, with no separate quantification of an undiversified charge.	• Bespoke scenarios, covering the key operational risk exposures of the Company, such as data loss or systems failure, are constructed and quantified in consultation with business risk experts. • These are combined using correlations between the scenarios to produce on overall Operational risk distribution.
Other Risks	N/A	• N/A	• This category typically relates to smaller risks which are not integrated into the stochastic modelling or attributable to other categories. • This includes a deterministic scenario for longevity risk in the pension scheme, applied as a stress to current and future mortality rates.
Loss Absorbing Capacity of Deferred Tax	LACDT	• The tax adjustment is calculated based on an instantaneous loss represented by the diversified components making up the standard formula SCR.	• The movement in tax balances is calculated across the distribution to identify the after-tax SCR. • The LACDT is capped within each entity at the level of available net deferred tax liabilities and loss carryback.
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 MCR and non-compliance with the SCR (unaudited)

MCR non-compliance

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

SCR non-compliance

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

E.6 Any other information

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

Appendix 1 – QRT S.02.01.02 Balance Sheet

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	8,505
R0060	Property, plant & equipment held for own use	16,700
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	907,859
R0080	*Property (other than for own use)*	148,146
R0090	*Holdings in related undertakings, including participations*	109,371
R0100	*Equities*	112,898
R0110	*Equities - listed*	38,376
R0120	*Equities - unlisted*	74,521
R0130	*Bonds*	307,077
R0140	*Government Bonds*	116,535
R0150	*Corporate Bonds*	190,000
R0160	*Structured notes*	0
R0170	*Collateralised securities*	542
R0180	*Collective Investments Undertakings*	220,857
R0190	*Derivatives*	3,470
R0200	*Deposits other than cash equivalents*	6,039
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	43,504
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	43,504
R0270	Reinsurance recoverables from:	55,064
R0280	*Non-life and health similar to non-life*	55,064
R0290	*Non-life excluding health*	55,064
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*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,636
R0370	Reinsurance receivables	52
R0380	Receivables (trade, not insurance)	5,480
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	41,214
R0420	Any other assets, not elsewhere shown	2,579
R0500	**Total assets**	1,084,593

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	426,915
R0520	*Technical provisions - non-life (excluding health)*	426,915
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	375,798
R0550	*Risk margin*	51,117
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)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	4,695
R0760	Pension benefit obligations	5,998
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	32,446
R0790	Derivatives	0
R0800	Debts owed to credit institutions	10,328
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	29,486
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	24
R0900	**Total liabilities**	509,893
R1000	**Excess of assets over liabilities**	574,701

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							216,331	74,141		2,584	284	14,649					307,988
R0120	Gross - Proportional reinsurance accepted				136	126		13,315	2,560		98		885					17,120
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share							98,513	4,030		2,347	258	6,387					111,534
R0200	Net				136	126		131,133	72,672		335	26	9,147		0		0	213,574
	Premiums earned																	
R0210	Gross - Direct Business							203,965	71,175		2,411	238	15,202					292,990
R0220	Gross - Proportional reinsurance accepted				135	125		13,167	2,515		95		839					16,877
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share							94,114	3,993		2,192	219	6,311					106,829
R0300	Net				135	125		123,018	69,697		315	19	9,730		0		0	203,038
	Claims incurred																	
R0310	Gross - Direct Business				1	43		72,050	20,880		785	473	3,776					98,007
R0320	Gross - Proportional reinsurance accepted				40	37		5,593	-644				183					5,208
R0330	Gross - Non-proportional reinsurance accepted																34	34
R0340	Reinsurers' share							20,774	3,911		793	424	353					26,255
R0400	Net				41	80		56,869	16,325		-8	49	3,606		0		34	76,995
	Changes in other technical provisions																	
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net				0	0		0	0		0	0	0		0		0	0
R0550	**Expenses incurred**				81	59		61,081	39,136		833	76	4,538		13		37	105,853
R1200	**Other expenses**																	18,235
R1300	**Total expenses**																	124,089

Appendix 3 – 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				
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	229,621	64,457	13,911				307,988
R0120	Gross - Proportional reinsurance accepted	16,727	0	393				17,120
R0130	Gross - Non-proportional reinsurance accepted	0						0
R0140	Reinsurers' share	92,953	14,659	3,921				111,534
R0200	Net	153,394	49,797	10,382				213,574
	Premiums earned							
R0210	Gross - Direct Business	221,238	58,519	13,233				292,990
R0220	Gross - Proportional reinsurance accepted	16,485	0	392				16,877
R0230	Gross - Non-proportional reinsurance accepted	0						0
R0240	Reinsurers' share	89,652	13,334	3,843				106,829
R0300	Net	148,071	45,185	9,783				203,038
	Claims incurred							
R0310	Gross - Direct Business	70,597	22,460	4,944				98,001
R0320	Gross - Proportional reinsurance accepted	5,330	0	-122				5,208
R0330	Gross - Non-proportional reinsurance accepted	34						34
R0340	Reinsurers' share	22,062	3,718	472				26,252
R0400	Net	53,899	18,742	4,350				76,991
	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
R0550	**Expenses incurred**	76,530	24,252	5,070				105,852
R1200	**Other expenses**							18,235
R1300	**Total expenses**							124,088

Appendix 4 – QRT S.17.01.02 Non-life technical provisions

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		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	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**				0	0		0	0		0	0	0		0		0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross				6	8		32,576	3,184		-517	-13	2,069		0		0	37,313
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default							10,187	-1,979		-443	-15	415					8,165
R0150	**Net Best Estimate of Premium Provisions**				6	8		22,388	5,164		-74	2	1,654		0		0	29,148
	Claims provisions																	
R0160	Gross				1,783	0		85,793	239,688		0	5	4,638		1,639		4,940	338,485
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				0			30,528	13,528			0	1,429				1,414	46,899
R0250	**Net Best Estimate of Claims Provisions**				1,783	0		55,265	226,160		0	5	3,209		1,639		3,526	291,586
R0260	**Total best estimate - gross**				1,789	8		118,368	242,872		-517	-8	6,707		1,639		4,940	375,798
R0270	**Total best estimate - net**				1,789	8		77,653	231,323		-74	7	4,863		1,639		3,526	320,734
R0280	**Risk margin**				23	0		4,540	45,026		13	2	288		1,203		20	51,117
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**				1,812	9		122,909	287,899		-504	-7	6,995		2,842		4,960	426,915
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				0	0		40,715	11,549		-443	-15	1,844		0		1,414	55,064
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				1,812	9		82,193	276,350		-61	8	5,151		2,842		3,546	371,851

Appendix 5 – QRT S.19.01.21 Non-life insurance claims (unaudited)

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020 Accident year / underwriting year: Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	C0010 0	C0020 1	C0030 2	C0040 3	C0050 4	C0060 5	C0070 6	C0080 7	C0090 8	C0100 9	C0110 10 & +	C0170 In Current year	C0180 Sum of years (cumulative)
R0100	Prior											4,625	4,625	4,625
R0160	2010	55,613	75,935	25,038	17,699	10,151	5,432	1,615	3,631	1,149	1		1	196,265
R0170	2011	56,629	47,025	15,304	12,064	10,297	4,990	1,414	1,269	362			362	149,354
R0180	2012	65,279	60,839	20,394	18,004	13,803	7,627	2,889	2,228				2,228	191,063
R0190	2013	46,960	58,099	15,944	13,958	6,784	5,045	1,134					1,134	147,924
R0200	2014	42,261	35,609	8,416	5,366	7,164	1,854						1,854	100,670
R0210	2015	31,050	51,995	13,578	5,463	3,720							3,720	105,806
R0220	2016	37,263	38,105	8,885	4,252								4,252	88,505
R0230	2017	34,099	38,229	9,210									9,210	81,538
R0240	2018	43,086	39,255										39,255	82,341
R0250	2019	35,573											35,573	35,573
R0260												Total	102,214	1,183,663

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200 0	C0210 1	C0220 2	C0230 3	C0240 4	C0250 5	C0260 6	C0270 7	C0280 8	C0290 9	C0300 10 & +	C0360 Year end (discounted data)
R0100	Prior											131,402	119,542
R0160	2010	0	0	0	0	0	0	10,284	7,467	8,646	8,019		7,351
R0170	2011	0	0	0	0	0	10,630	7,331	5,963	5,846			5,315
R0180	2012	0	0	0	0	23,406	13,490	11,191	8,494				7,897
R0190	2013	0	0	0	33,338	18,717	11,492	7,859					7,179
R0200	2014	0	0	34,197	26,614	14,662	10,173						9,387
R0210	2015	0	96,409	32,535	23,090	16,751							15,744
R0220	2016	85,580	45,868	24,625	18,939								17,336
R0230	2017	83,812	41,007	28,971									26,834
R0240	2018	86,687	43,768										41,362
R0250	2019	84,105											80,538
R0260												Total	338,485

Appendix 6 – QRT S.23.01.01 Own funds

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	14,027	14,027		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
R0070	Surplus funds	0	0			
R0090	Preference shares	106,450		106,450	0	0
R0110	Share premium account related to preference shares	4,632		4,632	0	0
R0130	Reconciliation reserve	445,001	445,001			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	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**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	570,110	459,028	111,082	0	0
	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				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	570,110	459,028	111,082	0	0
R0510	Total available own funds to meet the MCR	570,110	459,028	111,082	0	
R0540	Total eligible own funds to meet the SCR	570,110	459,028	111,082	0	0
R0550	Total eligible own funds to meet the MCR	570,110	459,028	111,082	0	
R0580	**SCR**	264,251				
R0600	**MCR**	66,063				
R0620	**Ratio of Eligible own funds to SCR**	215.75%				
R0640	**Ratio of Eligible own funds to MCR**	862.98%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	574,701
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	4,591
R0730	Other basic own fund items	125,109
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	445,001
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	6,348
R0790	**Total Expected profits included in future premiums (EPIFP)**	6,348

Appendix 7 – QRT S.25.03.21 Solvency Capital Requirement (unaudited)

S.25.03.21

Solvency Capital Requirement - for undertakings on Full Internal Models

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
1	50100I	Non-life underwriting risk: Premium risk	94,411
2	50200I	Non-life underwriting risk: Reserving risk	77,506
3	59900I	Diversification within non-life underwriting risk	-45,788
4	10000I	Market risk: excluding Pension risk	172,124
5	10000P	Market risk: Pension risk	81,598
6	19900	Diversification within market risk	-12,113
7	30000I	Life underwriting risk	0
8	20000I	Counterparty default risk	9,799
9	70100I	Operational risk	32,174
10	80100	Other risks and adjustments: Other risks	26,076
11	80300	Other risks and adjustments: Loss-absorbing capacity of deferred tax	-32,300
12	80400	Other risks and adjustments: Other adjustments	5,601

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	409,088
R0060	Diversification	-144,837
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	264,251
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	264,251

	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	-32,300
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	

Appendix 8 – QRT S.28.01.01 Minimum Capital Requirement

S.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	53,651

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	0	0
R0030	Income protection insurance and proportional reinsurance	0	0
R0040	Workers' compensation insurance and proportional reinsurance	0	0
R0050	Motor vehicle liability insurance and proportional reinsurance	1,789	136
R0060	Other motor insurance and proportional reinsurance	8	126
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	77,653	131,355
R0090	General liability insurance and proportional reinsurance	231,323	72,672
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	335
R0120	Assistance and proportional reinsurance	7	37
R0130	Miscellaneous financial loss insurance and proportional reinsurance	4,863	8,914
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	1,639	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	3,526	0

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	53,651
R0310	SCR	264,251
R0320	MCR cap	118,913
R0330	MCR floor	66,063
R0340	Combined MCR	66,063
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	66,063

Appendix 9 – Glossary of abbreviations

The Board	The Board of Directors of the Company
The Chairman	The Chairman of the Board
The Company	Ecclesiastical Insurance Office PLC
The Group	Ecclesiastical Insurance Group PLC
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

ATL	Allchurches Trust Limited
CF	Control Function
CFO	Group Chief Financial Officer
CRO	Group Chief Risk Officer
CRSA	Control Risk and Self-Assessment process
EIG	Ecclesiastical Insurance Group PLC
EIOPA	European Insurance and Occupational Pensions Authority
ENID	Events Not in Data
ESG	Economic Scenario Generator
EU	European Union
FCA	Financial Conduct Authority
GAC	Group Audit Committee
GIA	Group Internal Audit
GMB	Group Management Board
GPP	Group Personal Pension
GRC	Group Risk Committee
IAS	International Accounting Standards
IBNR	Incurred But Not Reported
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IM	Internal Model
IMGG	Internal Model Governance Group
KFH	Key Function Holder
LIBOR	London Inter-Bank Offer Rate
LTIP	Long-Term Incentive Plan
MCR	Minimum Capital Requirement
MLRO	Money Laundering Reporting Officer
NEDs	Non-Executive Directors
ORSA	Own Risk and Solvency Assessment
OCR	Outstanding Case Reserves
PRA	Prudential Regulation Authority
PSA	Physical and Sexual Abuse
QRT	Quantitative Reporting Template
SBU	Strategic Business Unit
SCR	Solvency Capital Requirement
SIMR	Senior Insurance Managers Regime
SFCR	Solvency and Financial Condition Report
SID	Senior Independent Director
SII	Solvency II
TPs	Technical Provisions
UKGI	United Kingdom General Insurance
UPR	Unearned Premium Reserve