

Solvency and Financial Condition Report

Ecclesiastical Insurance Office plc

For the year ended 31 December 2016

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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 SFCR will be published on or before 30 June 2017 covering the SII requirements of the Group.

Our business

The Company is part of an independent, specialist financial services group and is a commercial business with a charitable owner and purpose. This sets us apart from others in our sector. Our purpose is to deliver growing financial returns to our shareholder and owner, which are then distributed to charitable causes and communities, contributing to society's greater good. We do this by using our distinctive proposition to create competitive advantage.

Our charitable purpose drives our strategic goal of being the most trusted and ethical business in our chosen markets. It also shapes the way we do business, particularly our focus on doing the right thing for our customers and business partners.

We can do this because we manage a global portfolio of successful businesses. Worldwide, we insure over £275bn of property and in the UK we're the leading insurer of Grade I listed buildings, insure more than 40,000 charities, 22,000 churches and over 40% of 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

2016 has been an outstanding year for the Company where it delivered increased pre-tax profit and underwriting results for the third year running. These profits saw the Company's capital position remain strong on all measures.

These results were delivered against an uncertain external environment. Both the UK vote to leave the European Union and the outcome of the US presidential election were unexpected by many, increasing political uncertainty and potentially increasing other types of risks, for example investment market and currency instability.

The volatility experienced during 2016 did have an impact on the Company's results and capital position, but hasn't fundamentally changed its risk profile. The Company took the opportunity to put currency hedging in place towards the end of the year which has reduced its exposure to currency risk over the year.

The governance of the business was also stable, and apart from the impact of the change in solvency regulation at the start of the year, the solvency position and overall capital strength of the business remained consistent.

Solvency and financial condition

On 1 January 2016, the Company transitioned into the Solvency II regime following many years of preparatory work to be ready for the significant level of change in measuring and monitoring capital requirements for insurance groups.

The Company currently uses the standard formula to calculate its solvency capital requirement (SCR); however, it intends to replace this with an internal model once approval is received from the Prudential Regulation Authority (PRA).

As noted above, the environment continued to be challenging during 2016. Low interest rates, volatile investment markets, the weakening of sterling and ongoing political uncertainty all had an impact on the current and potential future capital position of the Company.

A summary of the Company's solvency position at the end of 2016 and the change over the year is shown below:

Summary Solvency position	2016	2015 *(unaudited)*	Movement *(unaudited)*
	£'000	£'000	£'000
Own Funds	**476,945**	**483,509**	**(6,564)**
Standard Formula SCR			
Market risk	197,864	218,881	(21,017)
Counterparty default risk	27,148	23,193	3,955
Non-life underwriting risk	162,992	161,134	1,858
Diversification	(88,522)	(89,646)	1,124
Operational risk	13,038	13,358	(320)
Loss absorbing capacity of deferred tax	(34,366)	(41,436)	7,070
	278,154	**285,484**	**(7,330)**
Coverage ratio	**171%**	**169%**	**2%**

The Company's regulatory solvency position has remained very strong. Own funds decreased by £6.6m in the year mainly due to an increase in the value of technical provisions driven by lower discount rates. This is explained in more detail in section E.1 below.

The Company's SCR also decreased in the year (by £7.3m) due mainly to reductions in market risk following the introduction of currency hedging as explained in section C.2. More detail on the changes in SCR during the year are given in section E.2 below.

Outlook for 2017

Global insurance markets continue to be competitive and price focused. The economic environment is characterised by positive as well as negative factors. Fundamental macro-economic data is solid with mostly positive data being reported in all major regions. However, uncertainty prevails as a result of political events, in particular the UK's Brexit negotiations and the outcome of elections in the US and Europe.

The Company anticipates continued investment market volatility and a continuing low interest rate environment. As described in section C.2 below, the Company is exposed to market risk, particularly interest rate, spread and equity risk, and this could lead to capital volatility in the future. However, the Company's

capital position is very strong and it is well placed to weather continuing market volatility and currency instability, supported by its unique ownership which allows it to take a long-term view and ride out periods of market turbulence.

Statement of Directors' responsibilities

Ecclesiastical Insurance Office Plc

Financial year ended 31 December 2016

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: 18 May 2017

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 2016:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the SFCR of the Company as at 31 December 2016, ('the Narrative Disclosures subject to audit'); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01 ('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:

- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the SFCR;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR ('the Responsibility Statement').

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2016 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 and Ireland) (ISAs (UK and Ireland)), and ISA (UK) 800 and ISA (UK) 805. 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 APB's Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required 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.

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.

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 this regard.

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 are 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 and Ireland) 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 Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities The same responsibilities apply to the audit of the SFCR.

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.

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 this regard.



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

18 May 2017

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

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

- *The following elements of template S.17.01.02*
  - *Rows R0290 to R0310 – Amount of transitional measure on technical provisions*
- Elements of the Narrative Disclosures subject to audit identified as 'unaudited'.

A. Business and performance

A.1 Business details and Group structure

Name and legal form of the Company

Ecclesiastical Insurance 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
Hill House
1 Little New St
London
EC4A 3TR

Qualifying holdings

Qualifying holdings are a direct or indirect holding in the Company which 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.

EIG holds 350,677,850 ordinary £0.04 shares. The only other 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.

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:

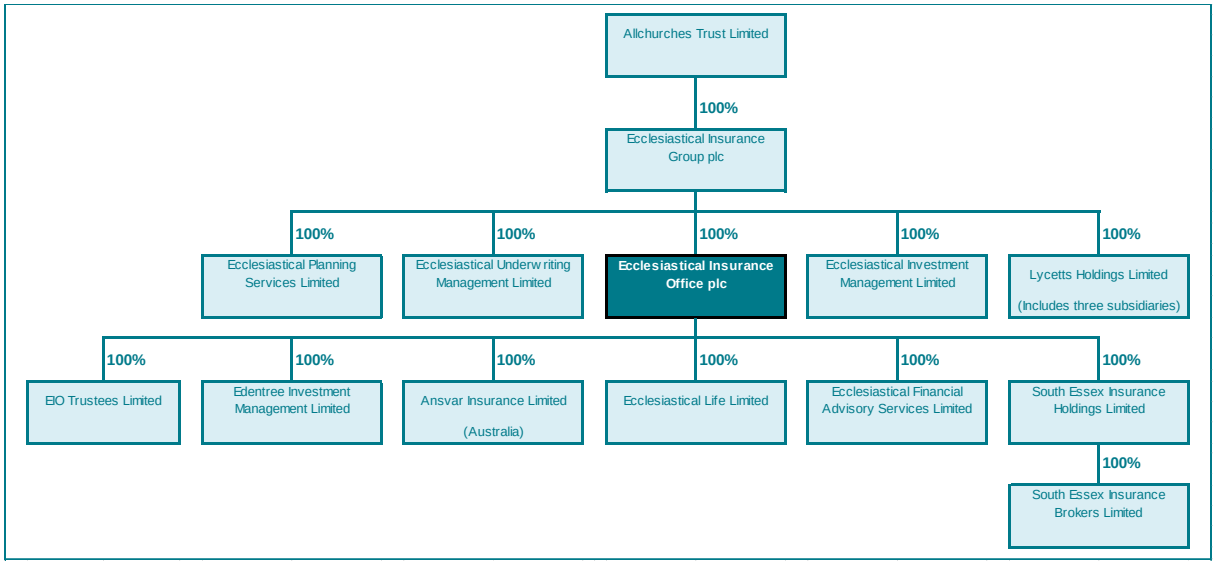
- Ecclesiastical Financial Advisory Services Limited
- Ecclesiastical Life Limited *(insurance undertaking)*
- EdenTree Investment Management Limited
- South Essex Insurance Brokers Limited
- South Essex Insurance Holdings Limited

Incorporated in Australia:

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

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

Below is a simplified representation of the Ecclesiastical Group and the position of the Company within that Group:



Lines of business

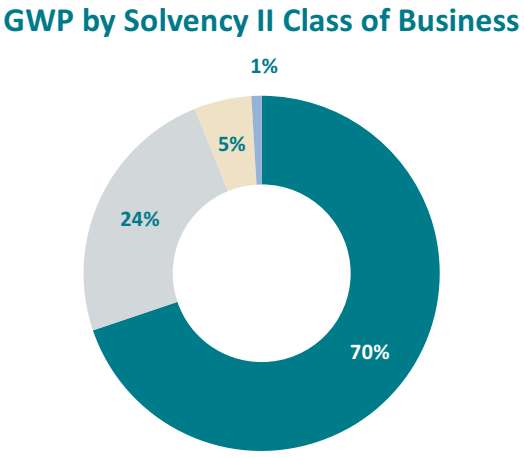
The Company currently operates in the United Kingdom, Republic of Ireland and Canada.

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:



Property	70%
Liability	24%
Miscelleneous financial loss	5%
Other	1%

Significant events

On 23 June 2016, the United Kingdom voted to leave the European Union (the Brexit vote). The weakening of sterling and reduction in gilt yields following the Brexit vote had both positive and negative impacts on the Company's solvency position and the Company's regulatory capital position has remained very strong throughout the year. The reasons for movements in own funds and SCR are explained in more detail in sections E1 and E2 below.

Following the weakening in sterling, the Company chose to put currency hedging in place which reduces its exposure to currency risk in the future.

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

A.2 Performance from underwriting activities

Overall underwriting performance

The Company's underwriting performance for the year was a profit of £18.4m (2015: £13.1m). The relatively benign weather in the UK and Ireland and favourable development of prior year claims on the Group's liability business has meant that, despite some significant catastrophe events in Canada, we have delivered a third consecutive year of improvement in underwriting performance.

Performance by material class of business

A summary of underwriting performance by material line of business during the current and prior year is shown below:

Underwriting performance by Solvency II line of business	General Liability		Fire and Other Damage to Property	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Net Earned Premium	60,662	47,729	108,100	92,613
Net Claims Incurred	(17,279)	(15,012)	(48,197)	(50,764)
Operating Expenses	(29,748)	(20,793)	(54,799)	(40,195)
Investment Expenses	(2,120)	(2,337)	(388)	(427)
Underwriting Performance	**11,515**	**9,587**	**4,716**	**1,227**

General Liability

The liability account maintained its strong performance following actions taken to restore the account to profitability. Current year claims performance was better than expected, and results also benefited from reserve releases as historical claims have been settled at amounts that were less than anticipated.

In February 2017, the Lord Chancellor and Secretary of State for Justice made an announcement in relation to decreasing the Ogden discount rate from 2.5% to -0.75%. This change in discount rate had a minimal impact on our 2016 results as our liability portfolio is less sensitive to the level of the rate due to low frequency of catastrophic injury cases, and our discontinued UK Motor business is at an advanced stage of run-off.

Fire and other damage to property

Relatively benign weather was experienced across most of the year in the UK & Ireland, with December also being drier and warmer than the long-term average. The flash floods in June, although unexpected, were significantly less costly than the weather events at the end of 2015. The number of fire-related losses also returned to more normal levels in 2016 which contributed to the increase in profits.

Canada was affected by large property losses from the Fort McMurray wildfire in Alberta and two severe weather catastrophe events during the year.

Canada also experienced higher than normal large loss experience in 2016 in addition to a deep freeze in February which led to an overall underwriting loss in the prior year.

Performance by geographical region

A summary of underwriting performance by material geographical region during the current and prior year is shown below:

Underwriting performance by Geograpical Region	UK & Ireland		Canada	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Net Earned Premium	145,681	154,341	33,564	29,376
Net Claims Incurred	(47,053)	(68,463)	(19,038)	(13,028)
Operating Expenses	(73,379)	(70,664)	(17,973)	(15,330)
Investment Expenses	(2,620)	(2,892)	(23)	(21)
Underwriting Performance	**22,628**	**12,323**	**(3,470)**	**996**

UK & Ireland

The benign weather and favourable liability performance described above contributed to the positive underwriting performance. The change on the Ogden discount rate had a minimal impact on the 2016 result.

Canada

Canada was affected by large property losses from the Fort McMurray wildfire in Alberta and two severe weather catastrophe events during 2016.

A.3 Performance from investment activities

Investment performance by asset class

	Investment income			Fair value gains/losses			Total return		
	2016 £'000	2015 £'000	Growth %	2016 £'000	2015 £'000	Growth %	2016 £'000	2015 £'000	Growth %
Debt	12,197	14,690	(17%)	(1,600)	(9,941)	(84%)	10,597	4,749	123%
Equities	14,183	11,196	27%	24,965	13,401	86%	39,148	24,597	59%
Property	6,368	4,977	28%	(1,116)	4,935	(123%)	5,252	9,912	(47%)
Cash	762	1,114	(32%)	-	-	-%	762	1,114	(32%)
Derivatives	-	-	-%	1,272	2,270	(44%)	1,272	2,270	(44%)
Exchange	2,871	(1,403)	(305%)	-	-	-%	2,871	(1,403)	(305%)
Discount rate				(7,226)	2,834	(355%)	(7,226)	2,834	(355%)
Other	578	778	(26%)	-	-	-%	578	778	(26%)
Total investments	**36,959**	**31,352**	**18%**	**16,295**	**13,499**	**21%**	**53,254**	**44,851**	**19%**

Investment returns, which fell sharply after the EU referendum result, rebounded strongly in the second half of 2016.

This investment performance reflects the rise in UK stock markets, in December, to an historic high and the positive effect of the low pound on the value of our overseas investments held both directly and indirectly through collective investment schemes.

The small and mid-cap bias in our equity portfolio dampened returns in 2016. The weakness of the pound following the Brexit vote provided a favourable tailwind for the larger-cap international dollar-earners of the FTSE 100 where total returns of 19% were achieved. By contrast, the more UK domestically focused FTSE 250 only achieved 6%.

Falling bond yields in 2016 had a positive effect on the values of longer dated bonds. The shorter duration of our bond investments resulted in underperformance relative to the broader FTSE Allstock index, and reflects our strategy of favouring capital protection over marginal increases in returns. When measured against the shorter duration FTSE Gilts 0-5 year index of 2.6%, our fixed income portfolio returns were comparable.

Our direct property investments outperformed the broader Investment Property Databank (IPD) All Properties Index over the year. This was, in part, due to its greater exposure to the industrial property segment which outperformed the office and retail segments. The portfolio's limited exposure to the weak Central London property market was also beneficial. The level of investment income generated in the year rose in line with the size of our holding in this class of assets.

The downward movement in yields also reduced the discount rate applied in calculating the present value of certain long-tail general business insurance liabilities (shown in the table above as discount rate).

Investment administration expenses amounted to £2.6m, a 9% decrease from 2015.

Gains and losses recognised directly in equity

During the year the Group designated certain derivatives as a hedge of its net investments in foreign subsidiaries and branches. These generated a gain of £0.1m in the current year (2015: £nil) which was recognised directly in equity.

Investments in securitisation

The Company has no material holdings in securitisations.

A.4 Performance from other activities

Other material income and expenses are shown below:

Other activities	2016 £'000	2015 £'000	Movement %
Corporate costs	(10,134)	(7,341)	38%
Actuarial losses on retirement plans	(27,279)	(4,770)	472%
Gains/(losses) on currency translation differences	6,425	(3,913)	(264%)

Corporate costs are costs incurred in managing the Company and its subsidiaries and certain company-wide strategic investments. They increased in the year due to additional strategic investment in the business.

Actuarial losses on retirement plans relates to the impact of changes in financial assumptions used in the IAS 19 valuation. The higher losses reported in 2016 were mainly due to the fall in discount rate which followed the Brexit vote.

The weakened pound following the Brexit vote resulted in gains in the value of the Company's investment in its Canadian business, in comparison to a fall in the prior year where the pound strengthened in relation to the Canadian dollar.

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 risk which the Group faces to be assessed and managed.

The Board is responsible for: culture and values, strategy and direction, leadership and organisation, governance, risk management and controls, financial expectations and performance and communication.

A formal schedule of matters reserved for the Board's decision is in place and includes strategy and management, structure and capital, financial reporting and controls, internal controls, contracts, communication, board membership and other appointments, remuneration, corporate governance and policies.

Chairman

The Chairman's responsibilities include the active leadership of the Board, ensuring its effectiveness in all aspects of its role, maintaining an appropriate balance on the Board as regards the numbers of Executive and Non-Executive Directors (NEDs) and their skills, knowledge, experience and diversity.

Group Chief Executive Officer (CEO)

The Group CEO is responsible for ensuring delivery of the strategy determined by the Board. The Group CEO may delegate any of the limits or authorities, but not responsibility, to any other executive director, function holder or Committee.

Non-Executive Directors (NEDs)

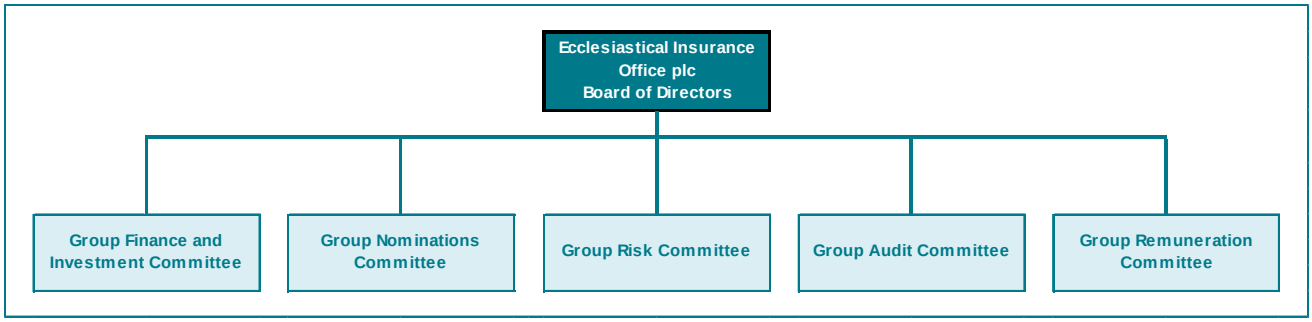
The NEDs have a responsibility to uphold high standards of integrity and probity, including acting as both internal and external ambassadors of the Company. As part of their role, the NEDs should constructively challenge and help develop proposals on strategy.

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 four independent NEDs, its responsibilities include:

- overseeing of the Company's financial reporting processes;
- overseeing the Company's risk management systems and internal controls;
- reviewing the Company's whistleblowing arrangements;
- overseeing the internal audit function;
- managing the relationship with the external auditor, including in relation to the auditor's appointment, reappointment and resignation, terms and remuneration, independence and expertise, non-audit services and the audit cycle; and
- reporting to the Board on how it has discharged its responsibilities.

Group Finance and Investment Committee

Comprising three independent NEDs and an Executive Director, its main purpose is to ensure that the management of the Company's financial assets, including its investment portfolio, is properly governed, controlled and performing as expected. The Committee reviews and advises on any major financial decisions on behalf of the Board and reports to the Board on how it has discharged its responsibilities.

Group Risk Committee (GRC)

Comprising three independent NEDs and an Executive Director, 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, the Committee is responsible for recommending to the Board the Remuneration Policy for executive directors and for setting the remuneration packages for each executive director, members of the Group Management Board, Remuneration Code staff and heads of strategic business units. The Committee also has overarching responsibility for the Group-wide Remuneration Policy.

Group Nomination Committee

Comprising the Chairman and three independent NEDs its role is to ensure that there is an appropriate balance of skills, knowledge and experience on the Board, its committees and within the 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 remains compliant with its obligations under the regulatory system 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 objective assurance to the Board that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks to the Company. The Director of Group Internal Audit is accountable to the Chairman of the GAC.

Group Risk

Group Risk derives its authority from the CEO and provides Group level oversight of the prudent management of risk including but not limited to conduct risk, in relation to each entity within the Group and, on an aggregated basis, of risk across the Group. The Group Chief Risk Officer 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. In March 2017, the Company's Chairman, Edward Creasy, resigned from the Board and John Hylands, the Company's Deputy Chairman, was appointed as Chairman. In April 2017, Andrew McIntyre was appointed as a NED of the Company and Chair of the GAC (a role previously held by Mr Hylands).

Assessment of the adequacy of the system of governance

The Board, through the 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 August 2016.

In addition, the performance of the Board and its Committee is regularly reviewed and it is the Board's policy for its evaluations to be externally facilitated every two years. At the end of 2016, the Group Nominations Committee led an external evaluation of the Board and Committees, assisted by the Company Secretariat. An external board evaluation provider conducted this evaluation and all Board and Committee members were required to complete a bespoke assessment. The outcome of the evaluation will be considered by the Board in May 2017.

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.
- The Company is committed to ensuring all employees, both men and women, have a fair and equal pay opportunity.

Entitlement to share options, shares or variable components of remuneration

The elements of variable remuneration are delivered in the following ways:

Cash annual bonus

A proportion of variable remuneration is delivered in the form of a cash annual bonus which is paid to participants following the end of the financial year. Annual bonuses are subject to a range of challenging financial and non-financial performance conditions linked to key strategic priorities. Awards for senior management roles and employees within the investment management function are subject to deferral, providing alignment with shareholder interests and promoting retention.

Cash Long-Term Incentive Plans

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 2016 Annual Report & Accounts.

Supplementary pension or early retirement schemes for the members of the Board and other key function holders

UK-based executive directors and key function holders employed in the UK after April 2006 are eligible to participate in the Group Personal Pension (GPP) plan. Contributions are made by the employee and employer. Any contributions to the UK Defined Contribution Scheme that are above the annual or lifetime earnings limit are paid in cash, net of National Insurance (NI) contributions charge.

Where an employee is eligible to retire early, the pension entitlement will be calculated subject to the scheme rules and no enhanced early retirement terms other than those applicable in general under the scheme rules will apply. Early retirement is permitted within the scheme; however, the fund available to the member would be reduced in the case of early retirement.

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

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

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 including key function holders within the Company. persons are subject to a competency-based interview following an analysis of their CV.

The competency-based interview is intended to explore the candidates' experience and qualifications and for a key function holder would as appropriate explore:

- Market knowledge
- Business strategy
- Financial analysis
- Governance
- Oversight and controls
- Regulatory framework.

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 Company will also check the Financial Conduct Authority (FCA) register where persons have previously been a key function holder to check that no disciplinary actions have occurred against them. References are also taken from previous employers. For very senior positions, two further interviews may be conducted, one through our HR department and another by a subject matter expert.

The fitness and propriety process for assessing key function holders (KFH's) mirrors the above approach to Senior Insurance Managers Regime (SIMR) and Control Function (CF) Functions. The one exception to the process for KFH's is that regulatory pre-approval is not required, so once the process is complete a notification is forwarded to the regulator for review. Although pre-approval is not required, the regulator may query any points of clarification.

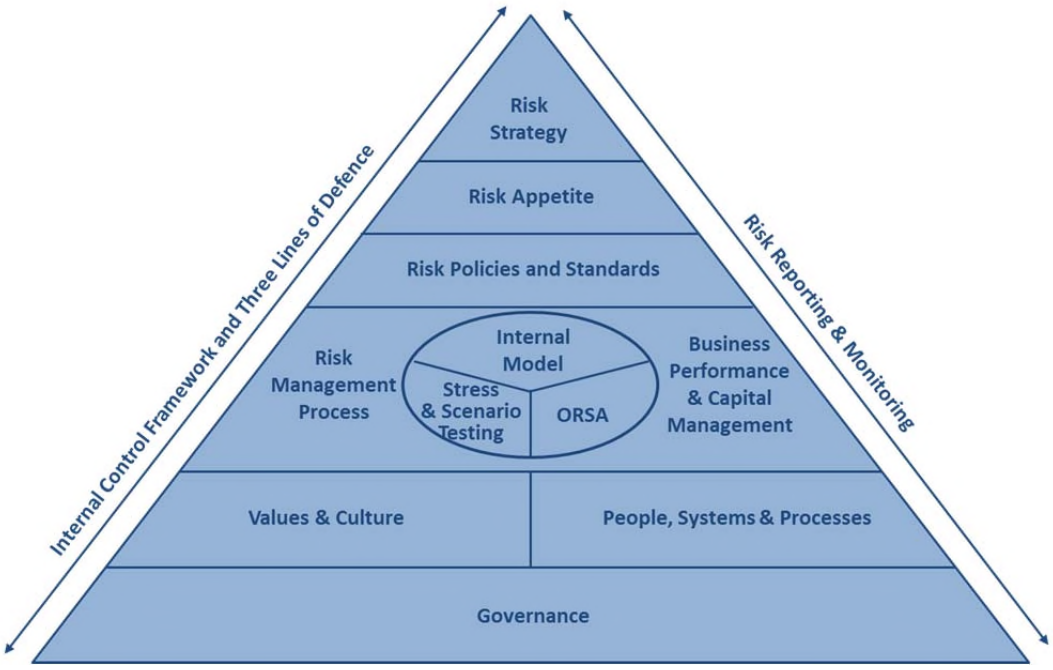
Post-appointment, persons are required to commit to a personal development plan to ensure ongoing competence and are also subject to the Company's performance management system. Fit and proper persons are subject to an ongoing fit and proper test every one to three years dependent on role.

B.3 Risk management system including the ORSA

Overview of the risk management system

An enterprise-wide Risk Management Framework is embedded across the 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 the achievement of its strategy and is therefore committed to the effective identification, assessment and, where appropriate, mitigation of those risks.

A key component of the governance of the Company is a formalised policy framework covering all important elements of managing its business. This contains a set of overarching policies, each with a number of more detailed policies below. This policy framework provides the cornerstone for embedding strong risk management principles and a risk culture across all aspects of the Company's operations and businesses.

As part of the policy framework, specific risk policies provide high-level instructions around the Company's risk-taking expectations with regard to insurance risk, financial risk and operational risk. Risk policies are reviewed annually by the relevant Risk Committee and aligned with the process which sets the Company's risk appetite.

The risk management process is integrated into the culture of the Company and is led by the Group Management Board (GMB), which is supported by three executive committees:

- *The Insurance Risk Committee* - which includes oversight of reinsurance counterparty risk;
- *The Market and Investment Risk Committee;* and
- *The Group Operational, Regulatory and Conduct Risk Committee* - which supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.

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 executive responsibility for each one to an individual member of the Company's executive management.

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

Effectiveness of identifying and managing risks

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

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

Group Risk Appetite

The Company monitors the degree to which it is operating in line with the Board's mandate for risk taking via its risk appetite framework. This sets limits, by risk category, across all significant areas of risk faced by the Company in relation to achieving its business objectives. Business Units maintain their own risk appetite limits, which are aligned to the overall risk appetite. This helps to ensure that individual entity risk taking is aligned with Company expectations with respect to the level of risk individual business units should be taking as well as in aggregate across the Company and its subsidiaries. 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, including each major business area within the UKGI business, carries out a regular business risk review. They use a Group defined risk management process to formally identify, assess and record the most significant risks to their objectives. Management will employ the tool used to record details of these risks – the risk profile – to also note the mitigations or other responses agreed to appropriately manage these exposures and report to appropriate stakeholders across the organisation. The risk profile is a living document which is continually updated to reflect changes. The Group Risk Function facilitates this process and provides the methodology and tools used.

Loss and Near Miss Process

An operational risk loss and near-miss process is in place across the 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. Recorded data relating to these is regularly reviewed by the local business units who will work to ensure that any required internal control remediation is made. Group Risk also review the data recorded and ensure appropriate reporting to the Group Operational, Regulatory and Conduct Risk Committee.

Risk Reporting to Group Executive Risk Committees and Board Risk Committees

A business unit risk Committee will report to the appropriate Group executive risk Committee where a current risk exposure has the potential to impact its ability to achieve its objectives. The Group executive risk Committee will report to the GRC where they believe that a current risk exposure has the potential to impact the Company's ability to achieve its objectives. The Group Risk team assess the similar risks across a number of business units and report to the GRC any of those risks which, in aggregate, could adversely impact the 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 is also a standing agenda item for all risk oversight committees. The assessment made at that risk review meeting will help determine the nature of any actions resulting, which may include for example, continued monitoring, a deep dive analysis of the risk, or stress and scenario testing of the risk to better understand the range of potential impacts. The GMB also review new and emerging risks on a quarterly basis. 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 how effective the system of governance and risk management is, 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, 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, but also extends to external audit.

An embedded risk management process that is integrated as part of the day-to-day activities across all areas of the business ensures that risk management is a central consideration in the decision-making process. All

business areas across the Company maintain risk profiles that contain up to date information about the key risks associated with that area's ability to achieve its objectives.

These include information around:

- The significance of the risk, as assessed by the business area both before the operation of the existing controls and with the current controls in place;
- The effectiveness of current controls and measures in place to respond to each risk; and
- Any actions that are needed to ensure each risk is being managed in a way that aligns with the Company's appetite and does not threaten achievement of its objectives.

This process is owned by each business area with Group Risk providing a second line challenge and assurance role.

The risk management process is an ongoing process with formal regular assessments of the various risk profiles. As risks are identified in the context of business objectives; actions arising directly impact and influence regular business decision making. 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, it's most significant risks and that the most appropriate actions are in place in response to them.
Group Risk Committee	Responsible for making recommendations to the Board on risk management strategy, risk appetite and other key risk management elements. They review the effectiveness of the 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 relating to the appropriate risk types for which they have responsibility, including overseeing cross SBU risks and ensuring that coordinated organisation-wide responses are in place to respond to such risks.
SBU Management and Risk committees (First Line of Defence)	Local SBU Management and risk committees have responsibility for ensuring that they are aware of the key risks relating to that SBU and are satisfied with the way in which they are being managed. They are responsible for ensuring that appropriate actions are in place and risks with an organisation-level impact are escalated to the appropriate executive risk committees.

Role	Responsibilities
Business Units and Functions (First Line of Defence)	Responsible for maintaining their own local risk profiles, which detail the most significant risks faced by the business unit or function. This is part of the process whereby management ensure that there is an ongoing process for the identification, assessment, management and reporting of the risks identified to their business objectives.
Group Risk Function (Second Line of Defence)	Provide oversight, expert advice and propose standards and guidance ensuring a consistent and robust approach to risk management across the organisation. Facilitates the management and ongoing effectiveness of the Risk Management Framework by providing the tools, training and support to all levels of the business so stakeholders can effectively discharge their responsibilities.
Internal Audit (3rd Line of Defence)	Provide independent assurance over the design and operational effectiveness of the Risk Management Framework.

Own risk and solvency assessment process

The objective of the ORSA is to demonstrate that a firm has, or can access, the resources to carry out a 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.

As part of Solvency II Regulations, the Company is required to have an ORSA policy framework to regulate and manage the ORSA process. This wider ORSA process operates alongside the annual business planning and investment strategy processes. Preparation of the formal ORSA report occurs at least annually and is timed to follow annual financial reporting.

Each ORSA report covers the solvency position at the reference date of the end of each calendar year, but looks forward over the period of the business plan. In doing so it considers all changes in the business and risk profile during the year and is calibrated to the business plan approved by the Board each year. An ORSA report is required no less than annually to demonstrate this objective through:

- Assessing the liquidity, funding, capital and other critical resources required to execute the business plan;
- Assessing 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
- Demonstrating that the firm 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.

Roles and Responsibilities

In accordance with Article 45 of the Solvency II Directive, the Board takes an active role in the ORSA, particularly the forward-looking assessment of risk. The Board executes its ORSA responsibilities primarily through the actions of the GRC, which is responsible for:

- approving the ORSA policy, standards and guidance no less than annually;
- taking an active part in assessment of the forward looking risks faced by the firm;
- engaging with the Group Risk team to determine the stress tests and scenario analysis to be carried out;
- review, challenge and, when appropriate, approve the ORSA proposed to it by the Group Chief Executive and Chief Risk Officer. The GRC will then recommend approval of the ORSA report when it is presented to the Board; and
- advising the Board, as appropriate, on matters arising with the ORSA when the Board considers the business plan for approval and subsequently for performance.

The Group Chief Executive is accountable for implementation of this policy, including requesting the Chief Risk Officer to execute the ORSA process and prepare an ORSA report for consideration by the Group Chief Executive, the GMB and, subsequently, the GRC and the Board on at least an annual basis.

The Group Chief Executive is responsible for requesting the ORSA process be executed annually, or upon the occurrence of any trigger events outlined below in the section 'Frequency of review'. The Chief Risk Officer will lead a process to, no less than annually:

- establish and maintain risk policy and risk appetite;
- carry out stress-testing and scenario analysis (including reverse stress tests);
- review forward-looking risks and their implications for business strategy with the executive and GRC;
- assess the adequacy of the risk management environment to support the business plan;
- carry out the ORSA process and prepare an ORSA report for the Group Chief Executive and the GRC and Board; and
- give the Group Chief Executive and the GRC confidence in the quality of all internal models used to compute and forecast requirements, particularly those for regulatory and economic capital requirements, funding and liquidity, through a process of independent validation.

Group Management Board

The GMB will review the ORSA report prior to submission to the GRC and review and challenge the risk assessments of the SBUs on an ongoing basis. The GMB has specific responsibility for agreeing the capital requirements and ensuring that the ORSA is considered when making any strategic decisions.

Group Capital Team

The Group Capital Team is responsible for the development and ongoing maintenance of the internal model that is used in the quantification of the material risks. The internal model is used to calculate the capital requirements for the business planning period.

Internal Model Governance Group (IMGG)

The GMB has authorised an IMGG who provide oversight, challenge and approval of all elements of the internal model. The Group is chaired by the Group CFO and comprises members of Group Risk, Group Capital and the Actuarial Function.

Their responsibilities include providing support, challenge and a level of authorisation for model development, use, Change, Validation and Data.

Business Unit Leaders

The heads of each SBU are responsible for the local management of risks which is evidenced by the maintenance of their risk profiles. 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 posed to their business objectives. They have responsibility for ensuring that they are aware of the key risks relating to their SBU and to the Company and that they are being appropriately managed – with risks having an organisation-level impact being appropriately escalated to the relevant risk committees.

Group Internal Audit

Group Internal Audit will include the ORSA process and report within the Company risk universe and audit the process at a frequency appropriate to the risks offered.

External Review

External bodies will be requested to carry out a review of the ORSA process in its entirety or the individual contributing processes, and report as required by the Board.

Frequency of review

The ORSA process will be carried out at least annually. The ORSA will also be re-run, either in full or partially, upon the occurrence of any of the following events:

- major changes to the Company's internal model or business plan;
- material changes to the Company's risk profile;
- material changes to the business strategy and business model;
- external events that have a material impact on the Company's ability to deliver its business plans;
- a material change in the liability portfolio of the Company;
- a reduction in solvency ratios or a reduction of solvency levels below the early-warning levels set out in the risk appetite;
- any other event deemed applicable by the Group Chief Executive, Chief Risk Officer, GMB or the GRC; and
- implementation of a major change to the internal model.

Material is defined as something which could have a significant impact on our business decision making and should be interpreted consistently with the Company's Materiality Policy. This is both for one factor in isolation and when aggregated. The business and Group Risk will assess materiality and implement a mechanism for identifying when breaches occur.

The ORSA will be updated quarterly on an approximate basis and an update provided to the Board within the CRO Report. An 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.

Each ORSA report is reviewed and approved by the GMB and GRC, who make a recommendation for final approval by the Board.

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:

- establishing and maintaining the operation of the Group's Risk Management Framework, including policies and the risk appetite;
- assessment of the current risk profile of the business and monitoring of tolerances and limits to ensure adherence to the risk appetite. This provides a context for business planning;
- a forward-looking risk assessment, including identification of emerging risks;
- a business plan for the chosen time horizon that has been derived with reference to the risk appetite, the risk profile of the business and optimal use of capital;
- identification of the impact of the proposed business plan on the risk profile of the business over the plan horizon. This should cover all risks in the business, both short-term and long-term, and include any risks not covered in the capital models;
- 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 ensure that the Company will continue to meet regulatory and internally assessed capital requirements at all times over the plan period;
- assessment of the risk profile in comparison to the assumptions underlying the calculation of the regulatory capital requirements;
- consideration of how any shortfall in capital 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

Internal control is defined as the system, implemented by the Board and GMB, which 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 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; and
- 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.

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;
- *Control Standards*: a policy framework that establishes the Board and GMB's minimum standards for the mitigation of risk within the stated Appetite;
- Control Activities: business processes that include control activities designed to mitigate risks to the level required to meet the control objectives;
- *Monitoring Activities*: establish and maintain periodic and regular monitoring of controls aligned to their materiality, to ensure that they are fit for purpose both in design and operation. This includes monitoring of individual controls by business owners and oversight and assurance activities undertaken by second and third line functions (Risk, Compliance and Internal Audit);
- *Training and Communication*: effective communication of required control standards and adequate training to ensure those operating or monitoring controls can do so effectively;
- *Recording*: certain controls are documented to ensure the process could be replicated if required, and a person undertaking monitoring or oversight could understand the design and intended operation of the control. Documentation could take the form of a specific control or process document, or might be included in the risk register; and
- *Reporting*: open and complete reporting of material control effectiveness to allow appropriate decision-makers to understand whether control objectives are being met and whether actions need to be taken to strengthen the control environment, which could include removing ineffective or inefficient controls as well as adding new ones.

Compliance function

The Company is overseen by the Group 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 legal and regulatory change and monitoring the appropriateness of compliance procedures; and
- assisting, supporting and advising the Company in fulfilling its responsibilities to manage compliance risks.

The activities and responsibilities undertaken and 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
- Security & data governance

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

- production and performance of an annual Compliance Monitoring Plan;
- production and review of compliance-related Policies and Standards;
- delivery of compliance induction training, completion of annual compliance themed e-learning modules, and thematic training for all levels of staff including the Board;
- identifying emerging legal and regulatory obligations and keeping up to date the Legal & Regulatory Library;
- production and performance of thematic reviews and compliance benchmarking;

- delivery of periodic reporting and MI to 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.

The Group Compliance Function 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 Group Audit Committee (GAC), which is a Committee established to review the work of the internal audit functions of the Company and the wider Group and to evaluate the adequacy and effectiveness of all controls operating in the Group, including financial, operating, compliance, and risk management controls.

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

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

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

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

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

- Risk-based internal audits - GIA's standard audit response, this methodology will also be used to respond to most management requests for assurance and focuses on assessing the adequacy and effectiveness of Key Controls mitigating High and Very High risks.
- Programme & Project Assurance - A series of risk-based assurance responses to programmes and projects. This differs from standard risk-based audits in that it focuses on key controls as well as the commercial aspects of the programme, such as benefits realisation.

- 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 could potentially compromise the independence of the GIA function.

The above are communicated through the following methods:

- Reporting to the GAC, including thematic reporting. Quarterly reporting is provided to the GAC, where the Director of GIA attends GAC meetings to summarise the output within the reporting period and provide an opinion on a number of key risk themes.
- Internal audit reports. In addition to the audit client, internal audit reports are issued to all executive management and members of the GMB and the external auditor. Reporting of issues focuses on describing the control breakdown or failure, who was responsible and the risk that has materialised or could potentially materialise.

In response to the issues raised by GIA, management are required to document the steps they are taking to address the issue, provide a realistic timescale and, importantly, the action is assigned a single owner to enhance accountability.

Independence of the internal audit function

To provide for the independence of GIA, the Director of Group internal audit is accountable to the EIG GAC Chairman, reports administratively to the Group CEO and has access to the Chairman of the EIG Group 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.

The Director of Group Internal Audit 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.

Persons transferred to or temporarily engaged by GIA are not assigned to audit those activities they previously performed until a reasonable period of time (at least one year) has elapsed. Furthermore, the demarcation between the third line of defence and the first two lines must be preserved to enable GIA to provide an independent overview to GAC and the Board on the effectiveness of all risk management and assurance processes in the organisation. Should any blurring of the roles of the three lines of defence take place, it should be exceptional, and approved by the GAC.

B.6 Actuarial Function

Implementation of Actuarial Function

The Actuarial Function is headed by the Actuarial Function Director, who is an experienced qualified actuary holding an Institute of Actuaries Chief Actuary certificate, accountable for the delivery of the Actuarial Function's objectives.

The Actuarial Function resides within the Group Finance area of the Group, and as such reports to the Chief Financial Officer. 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's key areas of responsibility are:

- to provide oversight and co-ordinate the calculation of the technical provisions (the "reserves"), ensuring appropriateness of data, assumptions, methodologies and underlying models used
- to give an opinion on the Technical Provisions 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
- to contribute to the effective implementation of the risk management system.

B.7 Outsourcing

Outsourcing policy

The Company's policy is to only outsource services on an exceptional basis. Outsourcing is considered when reviewing the operational effectiveness and business requirements of meeting the needs of customers and whether these can be better delivered from outside the organisation by specialist providers, subject to maintaining the integrity of the Company's compliance with financial and other regulation.

The Company remains responsible and accountable for any activities it has outsourced and a defined framework and detailed processes and controls are in place for the appointment and management of contracting parties.

A detailed specification and risk assessment is carried out before inviting tenders, critical assessment of the capacity and ability of shortlisted suppliers takes place and their business continuity and information security practices are assessed against the Company's risk appetite.

Comprehensive written contracts are entered into with accountability for managing the delivery against the contract being clearly assigned to an individual manager within the Company along with a Senior Executive

as ultimate owner. Exit and contingency plans are documented as part of the selection and appointment process.

Outsourcing of critical or important functions or activities

The Company has outsourced services in respect of the provision of legal expense and motor claims handling, medical and travel insurance services and equipment breakdown cover.

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

All outsourced 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 Insurance risk (underwriting risk)

Insurance risk exposure

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

- *Reserving Risk* – the risk that claims payments exceed the amounts held in claims reserves; this is currently the most significant insurance risk for the Company.
- *Underwriting Risk* – the risk of claims and expenses exceeding premium income for exposure during the next accident year.

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 risk assessment and measurement is carried out on an ultimate basis, including allowance for all future deterioration.

Latent reserving risk (such as PSA and asbestosis claims) has a high level of uncertainty, particularly relating to volumes of future claims arising from historic periods of exposure, giving potential to affect the future profits and capital position, though conversely it might give releases to enhance profits.

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.

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

Underwriting risk

The underwriting risk for the Company 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 most material non-catastrophe underwriting risk is driven by an aggregation of liability losses where reinsurance cover is in place only for the very largest of claims. Other key risks include poor premium rates, poor weather experience and the occurrence of several large property losses.

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

The Insurance Risk Committee, chaired by the Group Underwriting Director, is responsible for the oversight of the non-life insurance risks of the Company. The Committee reports to the GRC and provides challenge on the management of their insurance risks and monitors overall risk exposure. There are also Centres of Excellence which aim to disseminate best practice and ensure a consistency of approach where appropriate.

Insurance risk concentration

The Company 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, does give 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.

Insurance risk mitigation

Reinsurance is a key tool for the Company in mitigating insurance risk. Reinsurance programmes are arranged at both local and Group levels.

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.

Insurance risk sensitivity

Stress tests have been carried out to assess the impact of the following:

- Claims Deterioration - Several large property claims plus an unexpected increase in attritional liability claims causes deterioration to both current year experience and prior year reserves
- PSA Claims - claims volumes deteriorate
- Reinsurance Rates – A global catastrophe (or other reason) causes a significant reduction in capacity increasing reinsurance costs across the board
- Catastrophe – A large December windstorm followed by several smaller ones disproportionately affecting the Company.

Each of the scenarios were run at the level of the wider group and stressed the base position of the 2015 year-end balance sheet and the 2015-16 plan outcomes and looked at the stressed position at the end of 2016 and 2017. The stresses were calibrated to a level believed to represent approximately a 1-in-20 likelihood.

These scenarios have a generally modest impact with increasing reinsurance rates having the least impact on our short to medium term solvency. The conclusion is that our solvency coverage is resilient to these adverse scenarios.

C.2 Market risk

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;
- *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;
- *Spread risk* - arising from the possibility of changes in market spreads of corporate bond yields over risk-free rates and also default risks for such stocks;
- *Interest rate risk* – while liabilities are generally well matched by duration with fixed-interest stocks, there is a risk of falls in value of stocks held in surplus funds in the event of rises in interest rates; and
- *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.

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

Although the impact of the 'Brexit' decision caused a fluctuation in investment fair values and currency exposure, the net impact on the Company's solvency cover was not material. Throughout the year, there has been no material change in the Company's gross exposure to market risk.

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.

Limits are placed on the proportions of assets that can be invested in the various asset classes, countries and industry sectors, exposure to single counterparties and quality of issuers. These limits are tracked regularly. No investments in non-standard assets are permitted without approval by the Finance & Investment Committee of the Board. The level of such investments is currently only 4% of overall assets.

Assets to cover all liabilities and any local capital requirements are held in the relevant matching currencies and held in those countries. The assets are managed so that a notional portfolio backing technical provisions is held which has appropriate levels of liquidity and durations appropriate 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, overseen by the Group Market and Investment Risk Committee and reported to the GRC of the Board as appropriate.

Market risk concentration

The majority of market risk exposure is located in the UK. The largest exposure is to the UK Government, with 7% of total investments being in UK gilts. There are no other material concentrations of market risk as the portfolio is well diversified.

Market risk mitigation

The Company has used derivatives to mitigate equity risk by reducing the effective exposure to equity markets when the assessment of market conditions has resulted in a temporarily reduced appetite for bearing this risk. At the end of 2016, the Company held short positions on futures, linked to both the FTSE 100 and FTSE 250, to protect against falls in those indices. The regular investment performance and risk reports provide information that allows assessment of the effectiveness of these 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.

All liabilities are matched with assets in the same currency, so mitigating currency risk. During the year, currency futures were purchased to further mitigate the risk exposures to foreign currency arising from investments in overseas equities and the value of surplus assets held in overseas operations. These derivatives were held at the year-end and it is intended that such risk mitigation will continue going forward.

Market risk sensitivity

Stress-tests have been carried out to assess the effect of adverse changes in market conditions on the profits and solvency position of the Company. This includes falls in equity markets, changes in interest rates, widening of spreads on corporate bonds and defaults of the largest counterparty.

In addition a scenario has been investigated that considers the impact of an economic downturn which includes adverse impacts on all asset classes and consequent effects on the Company's business. This concluded that while the Company is able to remain comfortably solvent in the event of such stress, actions would need to be taken to protect the Company's business model.

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. The assessment of this risk is measured using the Company's internal model that applies 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 Company's internal model.

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

Credit risk concentration

The largest individual reinsurance balance owed at 31 December 2016 was less than £1m. The Company's exposure to a single reinsurer group in the event of a 1 in 250 catastrophe event is below its risk appetite limit of 10% of total expected reinsurance recoveries.

Credit risk mitigation

The Company has a wide, well-diversified panel of reinsurers, so 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

A stress-test has been carried out to identify the impact of the default of a major reinsurer resulting in the Company being unable to recover 10% of reinsurance claims during a year. While this would harm underwriting profit for a year and cause a small reduction in solvency cover it would not cause severe or sustained damage to the Company.

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.

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

In the event of a catastrophe event 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 on the understanding that they will make payment of their proportion of the claim in advance of or simultaneously with payment to policyholders.

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. A scenario analysis has been carried out that demonstrates that in an extreme event of two large catastrophe events occurring within a short period, with delays in recovering payments from reinsurers, the Company's liquidity position remains robust.

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 £3,680k

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

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.

The key operational risks identified include people, systems, regulatory, legal, financial crime, cyber and conduct of business. These risks have not changed significantly during the year although the level of external threat from cyber continues to evolve across the industry.

Operational risk concentration

With respect to operational risk concentration, there are a number of key systems that support business operations, specifically 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 is being regularly monitored.

Operational risk mitigation

The Company accepts operational risk as a natural consequence of doing business. Mitigation techniques with respect to operational risk centre on the use of preventative and detective controls. Preventative controls are sought to either avoid a particular risk materialising or lessening its impact if it does. Detective controls also provide value in helping to flag that a risk exposure is changing or is impacting business activities in a particular way. This allows corrective actions to be taken or planned to ensure that the risk exposure will not threaten the achievement of the strategic objectives of the Company.

An Operational, Regulatory and Conduct Risk Committee has been established to provide oversight of the relevant risks across the Company.

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

Conduct risk has long been considered an important risk, and part of the wider regulatory and legal risk universe. Customer promises have been developed and a robust proposition review process ensures that the customer is at the heart of all activities and that products and services are developed, distributed and maintained ethically, transparently and offering value for money.

Information security risk and specifically cyber risk are also key operational risks for the Company. Cyber risk is a critical risk due to the ever changing types and increased levels of malicious attack seen in all industries. This risk is managed by a wide-ranging set of preventative and detective controls which are under constant review and the Company has a dedicated 2nd line Cyber Security Officer.

Operational risk sensitivity

Stress-testing and scenario analysis is used to identify the qualitative and quantitative impact of various operational risks crystallising that could have an adverse impact on the achievement of divisional or corporate objectives.

Each scenario is designed to be as realistic as possible and may examine individual or multiple stresses occurring simultaneously. Each scenario examined is extreme but also reasonably foreseeable as part of future developments, e.g. within the 1 in 200-year range of probability as consistent with calibration of insurance companies' regulatory capital requirements.

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

C.6 Other material risks

Other Material risk exposure

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

Strategic risk relates to risks associated with the effective development and ongoing implementation of the 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 the Company being part of a Group. One particular risk that applies due to being part of a group is contagion risk, the impact of an event in another part of the Group impacting the Company.

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

These risks have remained largely unchanged over the reporting period.

C.7 Any other information

There is no further material information regarding the risk profile of the Company.

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 £4.3m (equivalent to 1% of IFRS net assets).

As permitted by Article 9 of the Delegated Act, the valuation of assets and liabilities are based, where appropriate, on the valuation method used in the preparation of the annual financial statements. The financial statements have been prepared in accordance with 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.

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 2 and shows a list of assets by class as reported in the annual QRT of the Company.

The table below shows a summary of assets held:

Summary of Assets		Solvency II value
		2016
		£'000
Reinsurance recoverables		75,133
Pension benefit surplus		144
Property, plant & equipment held for own use		7,735
Investments:	Property (other than for own use)	125,284
	Participations	110,348
	Equities, Bonds, investment funds & other investments	638,554
	Deposits other than cash equivalents	17,273
Loans & mortgages		26,734
Insurance & intermediaries receivables		2,510
Reinsurance receivables		108
Receivables (trade, not insurance)		4,217
Cash and cash equivalents		52,307
Any other assets, not elsewhere shown		14,462
Total assets		**1,074,809**

Reinsurance recoverables

The valuation of reinsurers' share of technical provisions is covered in section D.2.

Pension benefit surplus

The Company is entitled to a share of the residual balance of a pension fund. This balance is in the form of a cash deposit with a bank, and as cash balances are not subject to a significant risk of change in value, is considered to be held at fair value.

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	Solvency II value
	2016
	£'000
Property improvements, fixtures and fittings & computer equipment	4,122
Owner occupied property	2,190
Motor vehicles	1,423
	7,735

Property improvements, fixtures and fittings and computer equipment are valued in the annual financial statements on an amortised cost basis. As these assets pass impairment reviews and continue to deliver an economic benefit to the 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 annual financial statements. As any change in value through using a more frequent annual valuation would not be material, no adjustment to this value is made for the SII valuation.

Motor vehicles are valued on an amortised cost basis in the annual financial statements. There are currently approximately 100 vehicles and it would be onerous to have every vehicle independently revalued annually.

To establish if there is a material variance between economic value and amortised cost, a sample of 20 cars of varying age and type has been valued using an independent on-line valuation service.

Although the size of difference between the two valuation bases varied from vehicle to vehicle, in total the sample valuation was within 5% of the amortised cost. Considering proportionality, it was felt that the discrepancy arising from using amortised cost rather than fair value for motor vehicles was immaterial, and therefore it was acceptable to conclude that amortised cost was an acceptable approximation of fair value, and include motor vehicles in the SII balance sheet on that basis.

Investments - overview

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.

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 – participations (subsidiary undertakings)

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).

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)

For SII, intra-group loans are classified as 'loans and mortgages' 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 LIBOR. The discount rate used is taken from the risk-free curves published by EIOPA.

Insurance & intermediaries receivables and reinsurance receivables

This 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.

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.

Comparison of Solvency II assets with valuation in annual financial statements

The table below summarises the difference between the financial statements' net asset value prepared in accordance with IFRS and the SII valuation, with a breakdown of the differences in the valuation of assets:

Reconciliation from IFRS to Solvency II valuation	2016 As reported IFRS Basis	Reclassify to aid comparison	2016 Reclassified IFRS	2016 Solvency II Valuation	Net valuation difference
	£'000	£'000	£'000	£'000	£'000
Total Assets	1,141,792	(52,851)	1,088,941	1,074,809	(14,132)
Total liabilities	707,943	(52,851)	655,092	593,273	(61,819)
Net assets	433,849	-	433,849	481,536	47,687
Breakdown of asset valuation differences					
Technical provisions - Reinsurance recoverables	119,960	(3,176)	116,784	75,133	(41,651)
Deferred acquisition costs	25,673	-	25,673	-	(25,673)
Investments: Participations	50,065	-	50,065	110,348	60,283
Other	769,902	11,216	781,118	781,111	(7)
Intangible assets	4,053	-	4,053	-	(4,053)
Insurance & intermediaries receivables	56,129	(53,619)	2,510	2,510	-
Reinsurance receivables	8,121	(8,013)	108	108	-
Receivables (trade, not insurance)	10,516	(3,605)	6,911	4,217	(2,694)
Loans & mortgages	14	27,057	27,071	26,734	(337)
All other assets	97,359	(22,711)	74,648	74,648	-
Total assets	1,141,792	(52,851)	1,088,941	1,074,809	(14,132)

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 annual financial statements, are included within the valuation of reinsurance recoverables for Solvency II 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. Assets that have no significant valuation difference are not itemised and are included within 'All other assets'

Technical provisions – reinsurance recoverables

The difference in valuation methodology of technical provisions is covered in detail in section D.2.

Deferred acquisition costs

For general insurance business, a proportion of commission and other acquisition costs relating to unearned premiums is carried forward as deferred acquisition costs. Deferred acquisition costs are 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.

Investments – participations

The financial statements of the Company value shares in subsidiary undertakings at cost net of any impairment. As noted in the previous section, each subsidiary undertaking's assets and liabilities are valued on a SII basis and 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

Accrued interest of £3,605k 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. This is a presentational difference only with no change in 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.

Insurance & intermediaries receivables and reinsurance receivables

Only amounts past their due date are included in insurance and intermediaries receivables and reinsurance receivables under SII as amounts not past their due date form part of technical provisions (See section D.2).

Receivables (trade, not insurance)

The valuation of non-insurance receivables for SII is the same as in the financial statements except for £2,694k of prepayments which have no economic value.

Loans and mortgages (intra-group loans)

Non-current intra-group balances have been valued in the annual financial statements at £27,057k, 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.

D.2 Technical provisions

Solvency II valuation of technical provisions and assumptions used

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

An overview of the building blocks and methods of the TPs calculation is as follows:

Category	Building block	Description	Summary method
Claim provision – future cash flows on earned business	OCR	Outstanding Case Reserves (OCR) for reported claims.	Amounts are booked as recorded in the system data at the period end based on internal claims handlers estimates, plus amounts sourced from external parties where applicable (e.g. where claims handling is outsourced).
	IBNR	Incurred But not Reported reserves to cover late reported claims (after the accident date) and future development in OCR to ultimate settlement. The mean ultimate cost includes Events Not in Data (ENID), which generally would not have been foreseen at the time of writing the policies.	A range of standard actuarial techniques are employed for IBNR 'best estimate' modelling of the average outcome based on relevant available data. The final method selected varies by the nature of the class and availability of reliable input assumptions, as described further below. Scenario analysis conducted with business experts is used to ensure sufficient ENID allowance considering the cover provided by policies and wider industry knowledge over potential emerging risks.
	ULAE	Unallocated Loss Adjustment Expense, being expenses that will be incurred to manage the settlement of all claims relating to obligated business, where not already included in the OCR or IBNR projections	Where claims-related expenses are not directly attributable to individual claims these are not included in the data used to project IBNR. Such costs, including related overheads, are allocated by class of business based on activity analysis and used to project the expenses relating to future claim payments.
	Expenses	Predominantly investment expenses payable to the investment manager over the life of	The contractual investment management charge is applied to the projected portfolio for each relevant future year.

Category	Building block	Description	Summary method
		managing the portfolio which supports the run-off of the TPs.	
	Inflation and discount	The economic assumptions used to adjust future cash flows to real values at the future payment date and to adjust them to reflect their present value.	Future claims and expense inflation is included either implicitly, or explicitly where material, in arriving at the expected cash flows per future year. 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. No transitional arrangements or adjustments are applied for the non-life TPs relating to matching / volatility adjustment.
	RI	Reinsurance cash flows.	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.
Premium provision – future cash flows on unearned or bound business	Unearned business	All the above building blocks of future cash flow items, as they apply to the business held as Unearned Premium Reserve ('UPR') in the financial accounts. This also includes the administration expense relating to servicing the policies for the remainder of	Best estimate business planning assumptions are used to derive the inputs to each relevant building block. E.g. OCR and IBNR are replaced by the frequency-severity or loss ratio modelled ultimate claims costs, applied to the appropriate unearned exposure adjusted for the relevant period if necessary. ENID is allowed for based on the profile of unearned business and is also used to capture adjustments to business planning assumptions if appropriate such as alignment to the capital model

Category	Building block	Description	Summary method
		the earnings period, and outward reinsurance premiums relating to all contracts expected to cover the unearned business.	mean catastrophe loss assumptions. Reinsurance is allowed for following the correspondence principle, with a floor value being the contractually bound minimum premium.
	Bound policies	Allowance for expected future profits or losses on business that is contractually bound but not yet incepted, taking account of expected cancellations.	System and non-system data is captured relating to bound premium, together with expected premium from bound inwards reinsurance contracts, and then considering all relevant building blocks as above. In addition, acquisition costs relating to this business is allowed for within TPs where this has not been recognised elsewhere in the financial accounts.
	Insurance debtors & creditors	Insurance balances in the course of payment.	These balances are identified through the accounting process and reallocated to TP cash flows.
Risk margin	Cost of capital on projected future SCR's	The theoretical transfer value for TPs in excess of the best estimate liability taking account of the present value cost of capital for a reference undertaking which uses the Solvency II standard formula for calculating the SCR.	The initial standard formula SCR is calculated in relation to the obligated business, excluding avoidable market risk. The projection method of this SCR to future years varies by risk category, and allows for changes in diversification. The run-off of gross, ceded and net TPs is used to inform the run-off of SCR components where appropriate.

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 table below is a high-level summary of the reserving models used for the claim provision, and the internal classification of risk, by territory for the material Solvency II classes of business.

Methodology	Internal Classification	Territory / Business Unit	Class of Business
Incurred Development Factor Method (DFM)	Commercial Property	All applicable territories	Fire & Other Property Damage
	Household Property		Fire & Other Property Damage
	Pecuniary Loss		Miscellaneous financial loss
Bornhuetter Ferguson Method (BF)	Motor	All applicable territories	Motor Third Party Liability, Motor Other
	Personal Accident	All applicable territories	Miscellaneous financial loss
	Total Liability	All applicable territories	General Liability
Frequency-Severity Approach (Deterministic)	Asbestos-related disease	UKGI	General Liability
	Employers Liability	UKGI, Southern Ireland	General Liability
	Public Liability	UKGI, Southern Ireland	General Liability
	Periodic Payment Orders (PPO's) - Motor and Liability	All applicable territories	Motor Third Party Liability, General Liability
Frequency-Severity Approach (Stochastic)	Physical and Sexual Abuse (PSA)	UKGI, Canada and Australia (for occurrence based exposure), Methodist Adverse Development Cover	General Liability, Non-proportional Casualty Reinsurance
Simplified methods	PSA (scaled from UKGI model using exposure metrics)	Smaller territories occurrence based exposure, all relevant territories claims	General Liability

Methodology	Internal Classification	Territory / Business Unit	Class of Business
		made exposure	
	Non-modelled	Other discontinued and inwards reinsurance business	Fire & Other Property Damage, General Liability, Non-proportional Property Reinsurance

Valuation

Claims provisions, premium provisions and risk margin by class are reported on 'QRT S.17.01.02 – Non-life technical provisions' which is included in Appendix 5.

The two major contributors to the TPs are the 'General Liability' and 'Fire and Other Property Damage' classes of business. The level of risk margin held is driven by the primary risks for the non-life insurance business, being General Liability reserve risk and catastrophe risk for Fire and Other Property Damage. Under Solvency II principles this margin is not allocated as gross and ceded, but is a single value based on the risk net of reinsurance.

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 (F&O)

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 (GL)

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 2016 which resulted in an increase in the discounted latent provisions.

Motor vehicle classes (MV)

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 or settlement on a periodic payments basis, for which reserves are held.

Non-proportional reinsurances (NP)

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

Risk margin

The SCR used for calculating the risk margin is a subset of the full standard formula calculated on a 1-year view of risk, reflecting only those risks on already obligated future business as at the balance sheet date.

The risk margin is calculated at a total level then allocated to the classes of business and territories based on risk characteristics of the best estimate TP's.

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/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.

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

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

Claims provision

The claims provision calculation (liability on earned business) may follow similar bases, methods and assumptions as IFRS, with the exception that the Solvency II discount rate is prescribed by EIOPA (the accounts discount rate currently includes an input for liquidity premium based on actual assets held). Other than this difference, there are three material areas for which different methods have currently been selected:

TP claim provision building block	IFRS accounts approach	Solvency II TPs approach
Discount scope	Only latent classes claims and related expenses have been discounted	All cash flows are discounted
Investment expenses	An implicit allowance is made by deducting the investment charge rate (using the rate allocated to bonds management) from the yield curve applied.	An explicit allowance is made in every future year for all categories of TP held, based on the actual active management expense rate applied to the projected fund required to back the average liabilities for that year.
ENID	An allowance for future uncertainty is applied as a stable percentage loading on total reserves for earned business (Liability and Motor classes). The classes of liabilities which have ENID loading applied exclude PSA liabilities, due to the previous emergence of this latent exposure that is separately modelled together with associated uncertainty.	A scenario analysis has been carried out. The resulting loading is applied to best estimate TPs to uplift to a mean outcome.

The Solvency II ENID scenarios are determined on the following basis:

- Identify events/threats which the business is potentially exposed to (on all business written to date or in the pipeline).
- This involves looking at both 'known-unknowns' and a brainstorming session internally to generate 'unknown unknowns' (e.g. new category of latent claims).
- Once the events are identified, the exposure on an event or loss year basis is estimated and the range of outcomes generated.
- A consideration of the likelihood and impact of each of the outcomes enables a high-level expected value to be derived.
- This is then used as the mean claims reserve for ENID, after also considering payment patterns, applicable reinsurance arrangements and size of earned and unearned exposure to determine the effect on the claim and premium provisions.

At the balance sheet date, there are no material undiscounted best estimate claim provision differences by class. After applying discounting there is a material valuation difference of +£17m which affects the General Liability class due to the SII prescribed rate being lower and no liquidity premium allowance being adopted for SII.

Premium liability

The net premium provision under Solvency II is £5m lower than recorded in the financial statements (Unearned Premium Reserve less: Deferred Acquisition Costs and net insurance debtors which are valued at total level rather than line of business) because although additional bound contracts are in scope for SII, profit is recognised at the contractually bound date.

Total including uncertainty margins

The financial accounts uncertainty margin is targeted to meet at least 75% probability of sufficiency to ultimate, with additions made where deemed appropriate by management. This is not directly comparable to the Solvency II risk margin concept. At total level, including all allowances for risk, uncertainty and discounting, consideri ng valuation differences only rather than presentational changes, the net technical reserves held in the statutory accounts are £8m lower than the Solvency II TP equivalents.

Use of the matching adjustment

The matching adjustment is not applied to the non-life insurance TPs.

Use of the volatility adjustment

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

Use of the transitional risk-free interest rate-term structure

The transitional risk-free interest rate-term structure is not 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 premium provision, which remain aligned to business plans. The scope of future profit contracts was extended to include inwards reinsurance arrangements.

For the claims provision, the frequency and severity of non-latent liability claims has decreased over the year while the severity of asbestos-related disease claims has increased.

For the risk margin calculation, the standard formula SCR run-off pattern has been closely replicated by recalculating the t1 SCR and then applying the proportional method, and extending the run-off period to fully reflect the impact of low discount rates in the current market.

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 2 and shows a list of liabilities by class as reported in the annual QRT of the Company. The table below shows a summary of liabilities held:

Summary of Liabilities	Solvency II value
	2016
	£'000
Technical provisions - non-life	486,791
Provisions other than technical provisions	5,324
Pension benefit obligations	32,377
Deferred tax liabilities	25,115
Derivatives	718
Debts owed to credit institutions	1,417
Payables (trade, not insurance)	29,672
Any other liabilities, not elsewhere shown	11,859
Total liabilities	593,273

Technical provisions – non-life

The valuation of TPs 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 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	2016 £'000
Government bonds	16,278
Corporate Bonds	68,574
Listed Equity	147,113
Unlisted Equity	743
Investment funds	32,613
Collateralised securities	4,535
Cash and cash equivalents	14,077
Investment Property	42,121
Derivatives	2,143
Other	1,197
	329,394

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.

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.

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 the same as that used in the financial statements.

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

Derivatives

The valuation methodology for derivatives is covered in investments in section D.1.

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 property, plant and equipment and are depreciated over the period of the lease. Obligations under such agreements are included within liabilities net of finance charges allocated to future periods.

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.

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.

Comparison of Solvency II other liabilities with valuation in annual financial statements

The table below summarises the variance between the financial statements prepared in accordance with IFRS and the Solvency II valuation, with a breakdown of the differences in the valuation of liabilities:

Reconciliation from IFRS to Solvency II valuation	2016 As reported IFRS Basis	Reclassify to aid comparison	2016 Reclassified IFRS	2016 Solvency II Valuation	Net valuation difference
	£'000	£'000	£'000	£'000	£'000
Total Assets	1,141,792	(52,851)	1,088,941	1,074,809	(14,132)
Total liabilities	707,943	(52,851)	655,092	593,273	(61,819)
Net assets	433,849	-	433,849	481,536	47,687
Breakdown of liability valuation differences					
Technical provisions - non-life	585,844	(52,895)	532,949	486,791	(46,158)
Deferred commission income	12,873	-	12,873	-	(12,873)
Deferred tax liabilities	27,801	-	27,801	25,115	(2,686)
Insurance & intermediaries payables	724	(724)	-	-	-
Reinsurance payables	11,189	(11,189)	-	-	-
Payables (trade, not insurance)	29,774	-	29,774	29,672	(102)
All other liabilities	39,738	11,957	51,695	51,695	-
Total liabilities	707,943	(52,851)	655,092	593,273	(61,819)

The table includes reclassification of certain IFRS assets and liabilities to aid comparability. This has been done as items such as debtors arising from insurance contracts, which are included within other debtors in the annual financial statements, are included within the valuation of TPs for Solvency II provided they are not past their due date. Moving this balance from assets to liabilities removes the need to disclose the same difference in both assets and liabilities. Liabilities that have no significant valuation difference are not itemised and are included within 'All other liabilities'

Technical provisions – non-life

The difference in valuation of TPs is covered in detail 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

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.

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 (Section D.2).

Payables (trade, not insurance)

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

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	2016 £'000
Solvency II valuation of assets	1,074,809
Solvency II valuation of liabilities	(593,273)
Excess of assets over liabilities	481,536
Foreseeable distributions	(4,591)
Basic Own Funds	**476,945**

Foreseeable distributions are future expense items such as dividends that have been approved for payment by the Board. The Company has no subordinated debt.

E.1 Own funds

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 fungiblity 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.
- 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 (solvency)

- 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.
- Ensure that future capital requirements and projected solvency positions throughout the period of the business plan are assessed in the ORSA process.

Principles around the distribution and raising of capital

- Ensure there is a clearly defined process for assessing level of dividends and grants prior to any payment being made.
- Ensure there is a clearly defined process for monitoring market conditions and future capital needs in order to assess the requirement and benefit of capital raising or redemptions.
- Ensure the appropriateness for raising or redeeming capital is assessed against all other principles outlined in this policy (e.g. solvency coverage, capital quality).

Principles around the allocation and use of capital

- Ensure there is an agreed approach for allocating Economic Capital to different business units and risks.
- Ensure the 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.
- Ensure that each such decision considers the impact on solvency, capital allocation, return on capital and any other principles included in this policy.

Reporting

The Board will continue to monitor and maintain the integrity of the Capital Management Policy, Standards and Guidance to ensure they reflect the culture of the business and the regulatory environment in which it operates.

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

Business planning

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

Movement in own funds compared to prior period

A copy of the QRT 'S.23.01.01 – Own Funds' is included in Appendix 7. The table below is a summary of own funds, with comparison to the prior year:

Analysis of Own Funds	Total	Tier 1		Tier 2	Tier 3
		Unrestricted	Restricted		
2016	**£'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	351,836	351,836	-	-	-
	476,945	**365,863**	**111,082**	**-**	**-**
2015	***(unaudited)***				
Ordinary share capital	14,027	14,027	-	-	-
Preference share capital	106,450	-	106,450	-	-
Preference share premium	4,632	-	4,632	-	-
Reconciliation reserve	358,400	358,400	-	-	-
	483,509	**372,427**	**111,082**	**-**	**-**
Movement in own funds	***(unaudited)***				
Ordinary share capital	-	-	-	-	-
Preference share capital	-	-	-	-	-
Preference share premium	-	-	-	-	-
Reconciliation reserve	(6,564)	(6,564)	-	-	-
	(6,564)	**(6,564)**	**-**	**-**	**-**

No ancillary own funds have been recognised.

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. An analysis of the reconciliation reserve is included in Appendix 7.

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 *(unaudited)*	**358,400**
IFRS total comprehensive income	33,324
Group tax relief in excess of standard rate	(217)
Preference dividends paid	(9,181)
Charitable grant paid net of tax relief	(19,200)
Movement in SII revaluation of: *(unaudited)*	
Participations	7,950
Technical provisions	(18,554)
Deferred commission income and acquisition costs	(395)
Group loans	1,080
Other SII deductions & revaluations	66
Deferred tax	3,154
Foreseeable dividends & distributions	(4,591)
Total movement for year *(unaudited)*	(6,564)
Current year balance	**351,836**

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 solvency capital requirement	2016 £'000
Own funds eligible to cover SCR:	
Unrestricted tier 1 capital	365,863
Restricted tier 1 capital	91,466
Total eligible tier 1 capital	**457,329**
Restricted tier 1 relegated to tier 2	19,616
Other tier 2 capital	-
Total eligible tier 2 capital	**19,616**
Eligible tier 3 capital	**-**
Total eligible capital	476,945
Ineligible capital	-
Total own funds available	**476,945**

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 minimum capital requirement	2016 £'000
Own funds eligible to cover MCR:	
Unrestricted tier 1 capital	365,863
Restricted tier 1 capital	91,466
Total eligible tier 1 capital	**457,329**
Restricted tier 1 relegated to tier 2	13,908
Other tier 2 capital	-
Total eligible tier 2 capital	**13,908**
Total eligible capital	471,236
Ineligible capital	5,709
Total own funds available	**476,945**

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. The ineligible capital represents the element of own funds classified as tier 2 that is in excess of 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	2016 £'000
Equity as reported in IFRS Financial Statements	**433,849**
Revalue participations	60,283
Revalue technical provisions	4,507
Remove deferred commission income and deferred acquisition costs	(12,833)
Revalue intra-group loans	(337)
Remove goodwill and intangible assets	(4,053)
Remove prepayments and other items with no fair value	(2,566)
Impact on deferred tax of revaluation	2,686
Solvency II valuation of excess of assets over liabilities	**481,536**
Foreseeable dividends & distributions	(4,591)
Solvency II Valuation of own funds	**476,945**

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 Solvency II 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 2017 and approved by the Board for payment on 15 March 2017.

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 2016, £69,580k of cash balances and deposits and £597,823k of highly liquid listed investments were held by the Company. Of these investments, £68,759k (C$113,940k) *(unaudited)* 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 and are less than the Company's minimum capital requirement there is not considered to be any significant restriction limiting the availability and transferability of own funds.

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

SCR and MCR

The SCR is the amount of capital that the Company is required to hold as required by the SII Directive. The Company uses the standard formula SCR calculation which is defined in the SII Delegated Act. This is formula based and consists of modules for each risk type, and adjustments for diversification and the loss absorbing capacity of deferred tax. A breakdown of the SCR elements applicable to the Company is given in the following section.

The MCR is determined by comparing the linear MCR with the SCR and absolute floor (£3.3m). It is the higher of the absolute floor and the combined MCR.

The combined MCR is calculated using three elements, the MCR cap (45% of the SCR), the MCR floor (25% of the SCR) and the linear MCR. 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.

If the linear MCR is above the cap, the combined MCR is the MCR cap. If the linear MCR is below the floor, the combined MCR is the MCR floor. If the linear MCR is between the cap and the floor, the combined MCR is the linear MCR.

A copy of the QRTs 'S.25.01 – Solvency Capital Requirement' and 'S.28.01 – Minimum Capital Requirement' are reproduced in Appendices 8 and 9 respectively.

As at 31 December 2016 the SCR for the Company was £278,154k, and the MCR was £69,538k. Both amounts are still subject to supervisory assessment.

SCR by risk module

Standard Formula Solvency Capital Requirement	2016 £'000
Market risk	197,864
Counterparty default risk	27,148
Non-life underwriting risk	162,992
Diversification	(88,522)
Operational risk	13,038
Loss absorbing capacity of deferred tax	(34,366)
	278,154

Use of simplified calculations

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

Undertaking-specific parameters

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

Use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC

As no capital add-on has been applied, and no undertaking-specific parameters have been utilised, no illustration of their impact is necessary and use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC has not been made.

Impact of using undertaking specific parameters

No undertaking-specific parameters have been used to calculate the standard formula SCR and no capital add-on has been applied. It is therefore not necessary to disclose the impact of any undertaking-specific parameters used in accordance with Article 110 of that directive and the amount of any capital add-on applied to the SCR.

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 9.

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:

Movement in Capital Requirements	2016 £'000	2015 *(unaudited)* £'000	Movement *(unaudited)* £'000
Market risk	197,864	218,881	(21,017)
Counterparty default risk	27,148	23,193	3,955
Non-life underwriting risk	162,992	161,134	1,858
Diversification	(88,522)	(89,646)	1,124
Operational risk	13,038	13,358	(320)
Loss absorbing capacity of deferred tax	(34,366)	(41,436)	7,070
SCR	**278,154**	**285,484**	**(7,330)**
MCR	**69,538**	**71,371**	**(1,833)**

Market risk has fallen with the introduction of currency hedging, which has reduced the currency risk module from £49,440k *(unaudited)* to £19,468k. Additionally, in the prior year, the transitional rate of 22% on equity exposures was only applied to type 1 equities *(unaudited)*, whereas in the current year this lower rate had been applied to both type 1 and type 2 equities as permitted by the commission amendment published on 1 April 2016.

The counterparty exposure resulting from the introduction of the currency hedging has increased counterparty default risk *(unaudited)*.

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

As the Company's MCR for both the current and prior year *(unaudited)* 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

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

E.4 Differences between the standard formula and the internal model

An internal model has not been used in the calculation of the Company's SCR.

E.5 Non-compliance with the MCR and non-compliance with the SCR

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.01.02 General Information *(unaudited)*

General information

Undertaking name	Ecclesiastical Insurance Office Plc
Undertaking identification code	213800E5HL2O1FU4I690
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

Appendix 2 – 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	144
R0060	Property, plant & equipment held for own use	7,735
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	891,458
R0080	*Property (other than for own use)*	125,284
R0090	*Holdings in related undertakings, including participations*	110,348
R0100	*Equities*	87,459
R0110	*Equities - listed*	51,944
R0120	*Equities - unlisted*	35,514
R0130	*Bonds*	362,469
R0140	*Government Bonds*	142,266
R0150	*Corporate Bonds*	218,029
R0160	*Structured notes*	0
R0170	*Collateralised securities*	2,175
R0180	*Collective Investments Undertakings*	183,410
R0190	*Derivatives*	5,216
R0200	*Deposits other than cash equivalents*	17,273
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	26,734
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	26,734
R0270	Reinsurance recoverables from:	75,133
R0280	*Non-life and health similar to non-life*	75,133
R0290	*Non-life excluding health*	75,133
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	2,510
R0370	Reinsurance receivables	108
R0380	Receivables (trade, not insurance)	4,218
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	52,307
R0420	Any other assets, not elsewhere shown	14,462
R0500	**Total assets**	1,074,809

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	486,791
R0520	*Technical provisions - non-life (excluding health)*	486,791
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	434,591
R0550	*Risk margin*	52,200
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	5,324
R0760	Pension benefit obligations	32,377
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	25,115
R0790	Derivatives	718
R0800	Debts owed to credit institutions	1,417
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	29,672
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	11,859
R0900	**Total liabilities**	593,273
R1000	**Excess of assets over liabilities**	481,536

Appendix 3 – 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				0	0		174,332	62,195		2,068	130	12,640				251,364	
R0120	Gross - Proportional reinsurance accepted				122	113		12,910	2,268		113	0	1,361				18	16,887
R0130	Gross - Non-proportional reinsurance accepted																	18
R0140	Reinsurers' share				1	1		81,360	3,364		1,864	131	4,961				0	91,681
R0200	Net				121	112		105,882	61,099		317	-1	9,040		0		18	176,589
Premiums earned																		
R0210	Gross - Direct Business				0	0		177,503	61,812		2,122	129	13,825					255,391
R0220	Gross - Proportional reinsurance accepted				123	114		13,292	2,166		111	0	1,295				18	17,101
R0230	Gross - Non-proportional reinsurance accepted																18	18
R0240	Reinsurers' share				1	1		82,695	3,316		1,901	130	5,223				0	93,266
R0300	Net				122	113		108,100	60,662		333	-1	9,897		0		18	179,244
Claims incurred																		
R0310	Gross - Direct Business				-31	-2,535		70,748	18,674		710	44	2,475					90,085
R0320	Gross - Proportional reinsurance accepted				-350	-274		3,372	293		0	0	508				795	3,548
R0330	Gross - Non-proportional reinsurance accepted														-651			143
R0340	Reinsurers' share				136	-1,780		25,923	1,688		700	46	115		0		0	26,827
R0400	Net				-517	-1,028		48,197	17,279		10	-2	2,868		-651		795	66,950
Changes in other technical provisions																		
R0410	Gross - Direct Business																	0
R0420	Gross - Proportional reinsurance accepted																0	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																0	0
R0500	Net				0	0		0	0		0	0	0		0		0	0
R0550	**Expenses incurred**																	
R1200	**Other expenses**																62	93,886
R1300	**Total expenses**																	9,909
																		103,796

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

S.05.02.01

Premiums, claims and expenses by country

Non-life

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
		Home Country	Top 5 countries (by amount of gross premiums written) - non-life obligations			Top 5 countries (by amount of gross premiums written) - non-life obligations		Total Top 5 and home country
R0010			CA	IE				
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	196,871	45,470	9,024				251,364
R0120	Gross - Proportional reinsurance accepted	16,498	0	389				16,887
R0130	Gross - Non-proportional reinsurance accepted	18						18
R0140	Reinsurers' share	77,865	11,027	2,789				91,681
R0200	Net	135,522	34,442	6,624	0	0	0	176,589
	Premiums earned							
R0210	Gross - Direct Business	202,485	44,323	8,583				255,391
R0220	Gross - Proportional reinsurance accepted	16,704	0	398				17,101
R0230	Gross - Non-proportional reinsurance accepted	18						18
R0240	Reinsurers' share	79,788	10,759	2,719				93,266
R0300	Net	139,419	33,564	6,262	0	0	0	179,244
	Claims incurred							
R0310	Gross - Direct Business	56,387	32,429	1,269				90,085
R0320	Gross - Proportional reinsurance accepted	3,191	0	197				3,388
R0330	Gross - Non-proportional reinsurance accepted	-555						-555
R0340	Reinsurers' share	13,339	13,391	97				26,827
R0400	Net	45,684	19,038	1,369	0	0	0	66,092
	Changes in other technical provisions							
R0410	Gross - Direct Business							0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0	0	0	0	0	0	0
R0550	**Expenses incurred**	72,366	17,995	3,634				93,995
R1200	**Other expenses**							9,909
R1300	**Total expenses**							103,904

Appendix 5 – 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				Total Non-Life obligation
		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	
		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				-23	-21		27,949	6,928		-373	11	2,255		0		-3	36,723
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				0	0		9,875	-1,800		-258	17	686		0		0	8,519
R0150	**Net Best Estimate of Premium Provisions**				-23	-21		18,073	8,729		-114	-6	1,569		0		-3	28,204
	Claims provisions																	
R0160	Gross				11,168	48		82,740	286,349		0	5	5,141		1,128		11,289	397,868
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default				5,759	41		34,151	20,581		0	0	2,506		0		3,576	66,614
R0250	**Net Best Estimate of Claims Provisions**				5,409	7		48,588	265,769		0	5	2,635		1,128		7,713	331,254
R0260	**Total best estimate - gross**				11,145	27		110,689	293,278		-373	15	7,396		1,128		11,285	434,591
R0270	**Total best estimate - net**				5,386	-14		66,662	274,497		-114	-1	4,204		1,128		7,710	359,458
R0280	**Risk margin**				690	1		12,804	36,675		37	3	862		144		984	52,200
	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**				11,836	28		123,493	329,952		-336	18	8,258		1,272		12,270	486,791
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**				5,759	41		44,027	18,780		-258	17	3,192		0		3,576	75,133
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**				6,077	-13		79,466	311,172		-77	2	5,066		1,272		8,694	411,658

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010 Accident year / underwriting year: Accident Year

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

	Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
		Development year											In Current	Sum of years
		0	1	2	3	4	5	6	7	8	9	10 & +	year	(cumulative)
R0100	Prior											4,849	4,849	4,849
R0160	N-9	57,894	71,329	22,278	12,291	9,317	7,591	4,192	1,319	678	615		615	187,504
R0170	N-8	49,019	49,105	17,852	10,351	9,721	4,953	1,231	1,100	-572			-572	142,759
R0180	N-7	44,684	56,643	30,089	19,854	12,231	3,571	1,451	3,018				3,018	171,540
R0190	N-6	55,706	76,084	25,078	17,725	10,149	5,438	1,621					1,621	191,801
R0200	N-5	56,790	47,195	15,357	12,107	10,306	4,990						4,990	146,746
R0210	N-4	65,414	60,943	20,414	18,026	13,815							13,815	178,611
R0220	N-3	47,184	58,444	16,014	14,019								14,019	135,661
R0230	N-2	42,371	35,875	8,490									8,490	86,737
R0240	N-1	31,267	51,932										51,932	83,198
R0250	N	37,678											37,678	37,678
R0260												Total	140,456	1,367,085

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
		Development year											Year end (discounted
		0	1	2	3	4	5	6	7	8	9	10 & +	data)
R0100	Prior											150,329	136,160
R0160	N-9	0	0	0	0	0	0	0	0	0	6,680		6,201
R0170	N-8	0	0	0	0	0	0	0	0	8,359			7,767
R0180	N-7	0	0	0	0	0	0	0	9,003				8,262
R0190	N-6	0	0	0	0	0	0	15,194					14,155
R0200	N-5	0	0	0	0	0	10,630						9,613
R0210	N-4	0	0	0	0	24,592							22,484
R0220	N-3	0	0	0	33,531								30,558
R0230	N-2	0	0	34,197									31,437
R0240	N-1	0	52,485										49,602
R0250	N	85,580											81,629
R0260												Total	397,868

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		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	351,836	351,836			
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**	476,945	365,863	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	476,945	365,863	111,082	0	0
R0510	Total available own funds to meet the MCR	476,945	365,863	111,082	0	
R0540	Total eligible own funds to meet the SCR	476,945	365,863	91,466	19,616	0
R0550	Total eligible own funds to meet the MCR	471,236	365,863	91,466	13,908	
R0580	**SCR**	278,154				
R0600	**MCR**	69,538				
R0620	**Ratio of Eligible own funds to SCR**	171.47%				
R0640	**Ratio of Eligible own funds to MCR**	677.66%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	481,536				
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**	351,836				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	3,680				
R0790	**Total Expected profits included in future premiums (EPIFP)**	3,680				

Appendix 8 – QRT S.25.01.21 Solvency Capital Requirement

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	197,864		
R0020	Counterparty default risk	27,148		
R0030	Life underwriting risk			
R0040	Health underwriting risk			
R0050	Non-life underwriting risk	162,992		
R0060	Diversification	-88,522		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	299,482		
	Calculation of Solvency Capital Requirement	C0100		
R0130	Operational risk	13,038		
R0140	Loss-absorbing capacity of technical provisions	0		
R0150	Loss-absorbing capacity of deferred taxes	-34,366		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200	**Solvency Capital Requirement excluding capital add-on**	278,154		
R0210	Capital add-ons already set			
R0220	**Solvency capital requirement**	278,154		
	Other information on SCR			
R0400	Capital requirement for duration-based equity risk sub-module			
R0410	Total amount of Notional Solvency Capital Requirements for remaining part			
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds			
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
R0440	Diversification effects due to RFF nSCR aggregation for article 304			

Appendix 9 – 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	54,515

		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	5,386	121
R0060	Other motor insurance and proportional reinsurance	0	112
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	0
R0080	Fire and other damage to property insurance and proportional reinsurance	66,662	105,882
R0090	General liability insurance and proportional reinsurance	274,497	61,099
R0100	Credit and suretyship insurance and proportional reinsurance	0	0
R0110	Legal expenses insurance and proportional reinsurance	0	317
R0120	Assistance and proportional reinsurance	0	0
R0130	Miscellaneous financial loss insurance and proportional reinsurance	4,204	9,040
R0140	Non-proportional health reinsurance	0	0
R0150	Non-proportional casualty reinsurance	1,128	0
R0160	Non-proportional marine, aviation and transport reinsurance	0	0
R0170	Non-proportional property reinsurance	7,710	18

	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	54,515
R0310	SCR	278,154
R0320	MCR cap	125,169
R0330	MCR floor	69,538
R0340	Combined MCR	69,538
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	69,538

Appendix 10 – 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
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
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