Personal Assurance Plc

Solvency and Financial Condition Report

31 December 2020

Personal Group

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About this document

This document is Personal Assurance Plc's Solvency and Financial Condition Report ("SFCR") as at the year ended 31 December 2020. This SFCR covers Personal Assurance Plc ("PA") on a solo basis.

The Company's reporting and presentational currency is GBP.

The contents of the SFCR are prescribed by EU regulation and must contain the following sections:

Section heading	Description of contents
Business and performance	Provides basic information on the Company and gives a summary of business performance over the reporting year.
System of governance	Provides organisational information on the Company including committee structure, responsibilities of those committees and details of the processes used to manage risks in the Company.
Risk profile	Provides qualitative and quantitative information regarding the risks that face the Company.
Valuation for Solvency purposes	Provides values for the Company's assets and liabilities calculated in accordance with accounting rules and solvency rules, gives details on the assumptions used to calculate these valuations and provides information on differences between them.
Capital management	Provides details on the regulatory capital requirements that the Company must hold in line with Solvency II rules and information on the Company's excess assets not required to meet its liabilities.

Directors' Responsibility Statement

We acknowledge our responsibility for preparing the SFCR in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:
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 Company: and
b) it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued to comply subsequently and will continue to comply in future.

D.K. Frost

Deborah Frost
Chief Executive
7th April 2021

Executive Summary

Background

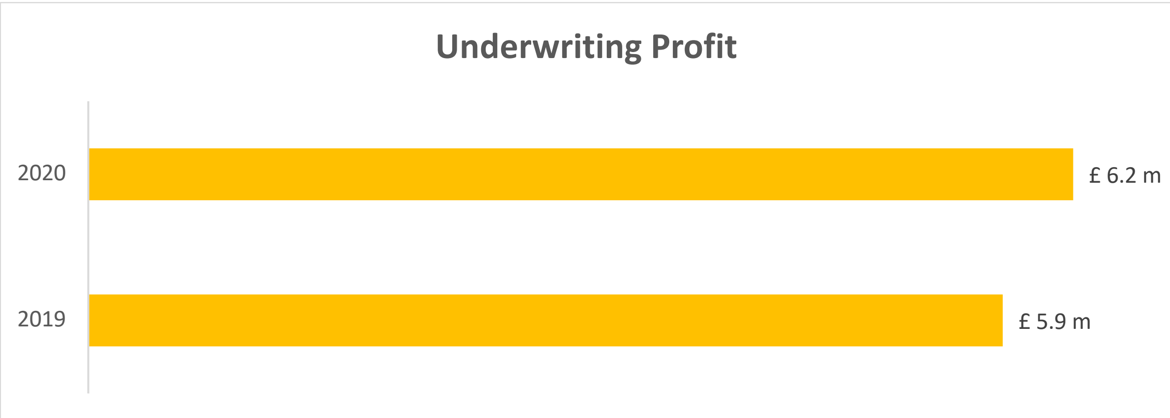
Personal Assurance Plc ("PA") was established in 1984 and commenced trading as a general insurance company in the same year. It is part of a Group headed by a Mixed Activity Insurance Holding Company ("MAIHC"), Personal Group Holdings Plc ("PGH"), which is listed on AIM, a market operated by the London Stock Exchange. The company's immediate parent is Personal Group Limited ("PGL") an intermediary holding company.

PGH is an employee services business which works with employers to build employee engagement and drive productivity. As part of the offering, it provides its own insurance products, primarily hospital cash plans and convalescence plans, which are underwritten by PA and are sold to individuals at their place of work. While an increasing number of premiums are being collected via direct debit, the majority of premiums are collected by the employer via payroll deduction and the policies have a short contract duration of either a week or a month in line with the payroll frequency.

2020 business performance

The hospital cash plans, and convalescence plans underwritten by PA, have been PA's core products since 1984 and represented the vast majority (99%) of its gross written premiums in 2020. As a long-established product, retention rates and claims ratios are well understood, with both having remained consistent over a number of years. Performance in 2020 was in line with expectations, with PA making an underwriting profit of £6.2m and pre-tax profit of £6.2m.

The COVID-19 pandemic has had an impact on the 2020 performance and, while the overall claims was largely consistent due to reduced volumes of non-emergency NHS treatments offsetting COVID-19 claims, face-to-face communications were not possible and writing new business proved difficult.



As part of a wider group, the profits made by PA are used to support the Group's progressive dividend policy, albeit the PA Board has the ability to restrict dividend payments through the Group should it be required in order to maintain the desired Solvency Ratio of at least 200%. In 2020, PA paid dividends of £3.25m to its immediate parent company, PGL.

Section A has more information on our business and performance.

Systems of governance

PA employs systems of governance, commensurate with regulatory requirements, the simplicity of its products and risk profile, through a combination of internal and external knowledge and resources.

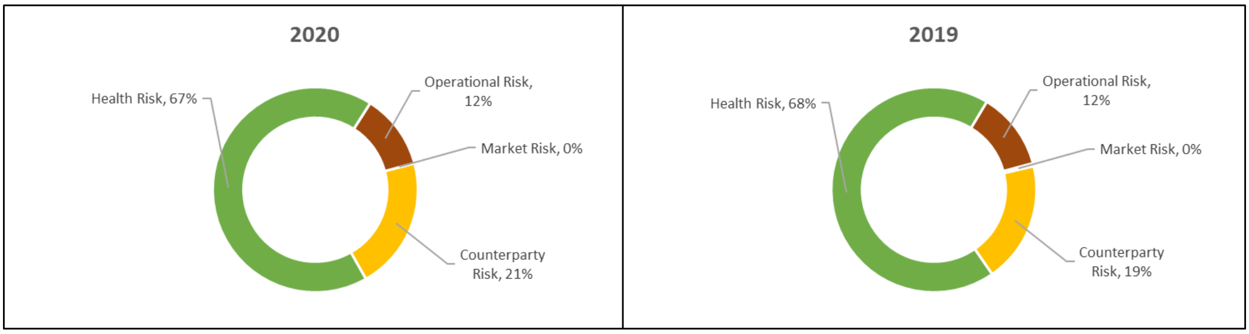
We have a robust governance and risk management system in place to identify, measure, monitor, manage and report on the risks to our business strategy and delivery of our objectives. We operate a 'three lines of defence' governance model to ensure appropriate segregation of risk ownership, oversight and assurance responsibilities.

- First line: business management is accountable for implementing and using the risk management framework.
- Second line: The Risk and Compliance functions are accountable for providing an independent and forward-looking view of the risk profile to the Board, as well as to provide the necessary oversight and challenge to the first line.
- Third line: Internal Audit is accountable for providing independent assurance on the adequacy and effectiveness of risk management and control. Independent assurance is also provided by the external audit provider function.

Section B has more information on our system of governance.

Risk profile

In its capacity as an underwriter of general insurance products, the Company is exposed to the liabilities it incurs in relation to the hospital cash plans and convalescence plans which are sold by other companies in the wider Personal Group ("PG") of companies. The COVID-19 pandemic and potential knock-on effects on the UK economy has inherently increased the risks presented to PA. This has been discussed in detail in section C.2. Underwriting risk, counterparty risk and operational risk remain key risks.

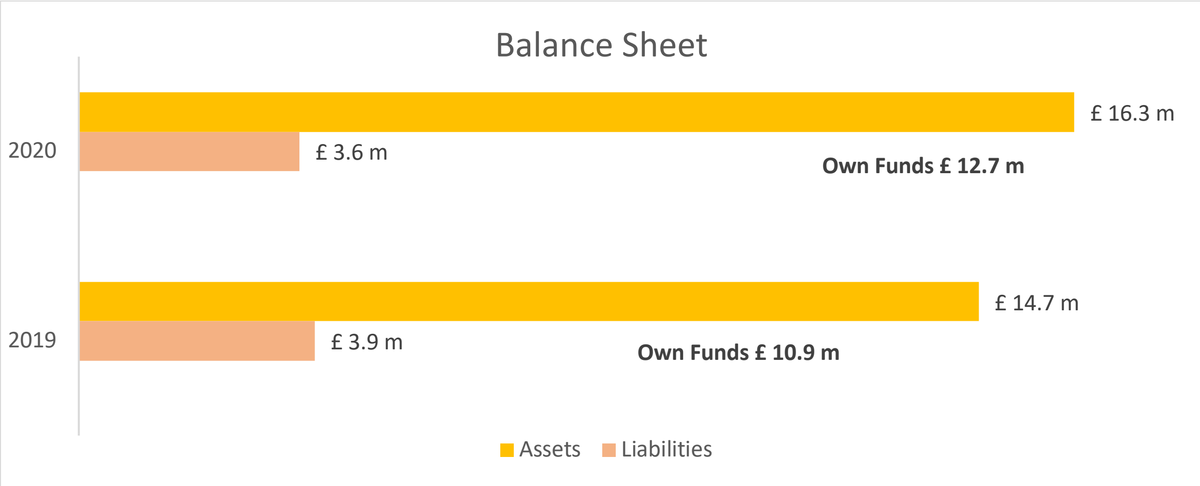


However, PA has identified, and it considers, the complete suite of risks it is exposed to and which are managed under the enterprise risk management framework.

Section C has more information on our Risk Profile.

Valuation for Solvency Purposes

Our own funds (excess of assets over liabilities valued in accordance with Solvency II regulations) have increased by £1.8m as a result of dividends paid during the year being withheld whilst the impact of COVID-19 on PA was fully understood.



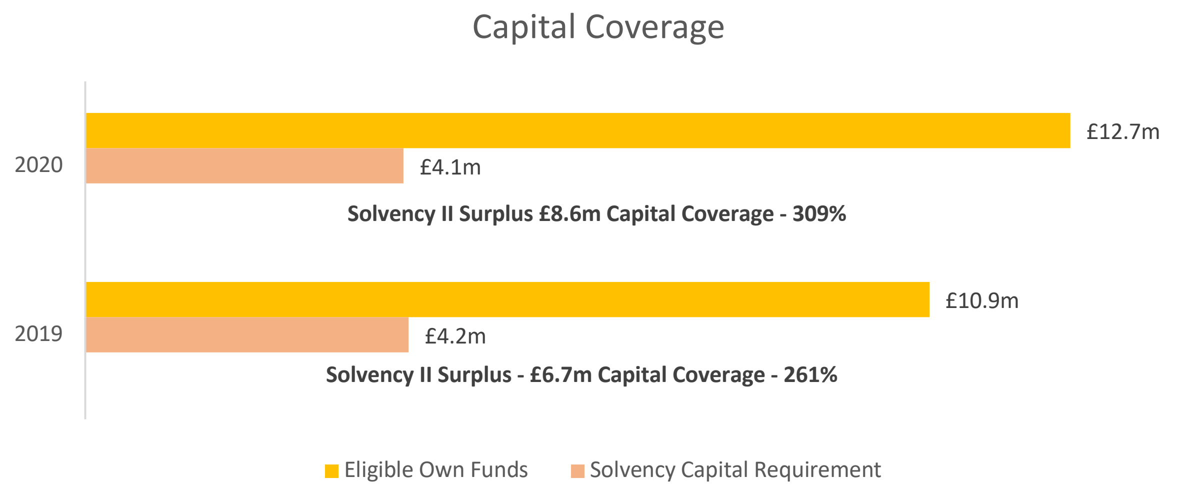
The above includes paid dividends of £3.25m in 2020 (2019: £5.2m).

Further information on assets and liabilities is provided in Section D.

Capital management

As at 31 December 2020, PA had a Solvency Capital Requirement (SCR) of £4.1m (2019: £4.2m) and a Minimum Capital Requirement ("MCR") of £2.2m (2019: £2.1m), as calculated using the standard formula, recommended by the European Insurance and Occupational Pensions Authority ("EIOPA"), with no variations applied. These were covered by Own Funds totalling £12.7m.

As at 31 December 2020, PA's Solvency Ratio was 309% (2019: 261%) of its SCR, in line with its long-term prudent approach of maintaining capital well in excess of its solvency requirements and the level of risk appetite set by PA's Board. Also, in line with this prudent approach, PA holds the majority of its assets in short term fixed interest deposits and, as such, its income from investment activities in 2020 was minimal at £0.1m.



PA has also assessed and completed projections of its capital and solvency positions on a Solvency II basis based on its 3-year business plan and has stressed these to identify any significant risks. However, despite the severe stress and scenario testing, PA's solvency requirements remain over 100% at all times. The Board of PA and the Senior Leadership Team (SLT) will continuously monitor any changes to business performance and any changes to currently projected results.

Section E contains further information on capital management.

Impact of COVID-19

The business operations and solvency requirements for PA, which have been consistent for a number of years, have been affected by the COVID-19 pandemic.

As a result of the pandemic, and the varied government measures put in place throughout the year, face to face selling has been impossible for most of 2020. This has had a detrimental impact on new business sales generated by the intermediary firm.

The pandemic has also had an impact on claims in 2020. While there has been a noted claims experience surrounding COVID-19 related hospital visits, the cancellation of routine or non-emergency NHS procedures has resulted in a reduced claims ratio throughout 2020.

As a result, Covid -19 has impacted underwriting performance in the year. However, the majority of the impact will be seen in the form of a reduced insurance premium income in 2021.

In addition to this, as the pandemic continues and the government's support for furloughed workers comes to an end, there may be an additional loss of policyholders as a result of the economic recession and increased policyholder redundancies in 2021 and beyond.

There is also an expectation of a potential increase in the claims ratio in 2021 and beyond, as previously cancelled surgeries and outpatient care go ahead.

Conclusion

PA is a well-established underwriter, with an appropriate management structure which is supported by an effective Enterprise Risk Management ("ERM") framework. Performance in 2020 was directly impacted by the pandemic and the risks encountered, particularly in the ability to write new insurance policies were increased when compared to the prior years. In spite of this, based on the historically stable underwriting profits and claims ratios, the Board of PA has a high level of confidence that it will be able to maintain a Solvency Ratio of greater than 200%, reflecting its risk appetite, going forward.

A Business and Performance (unaudited)

A.1 Business and external environment

A.1.1 Company information for Personal Assurance Plc ("PA"):

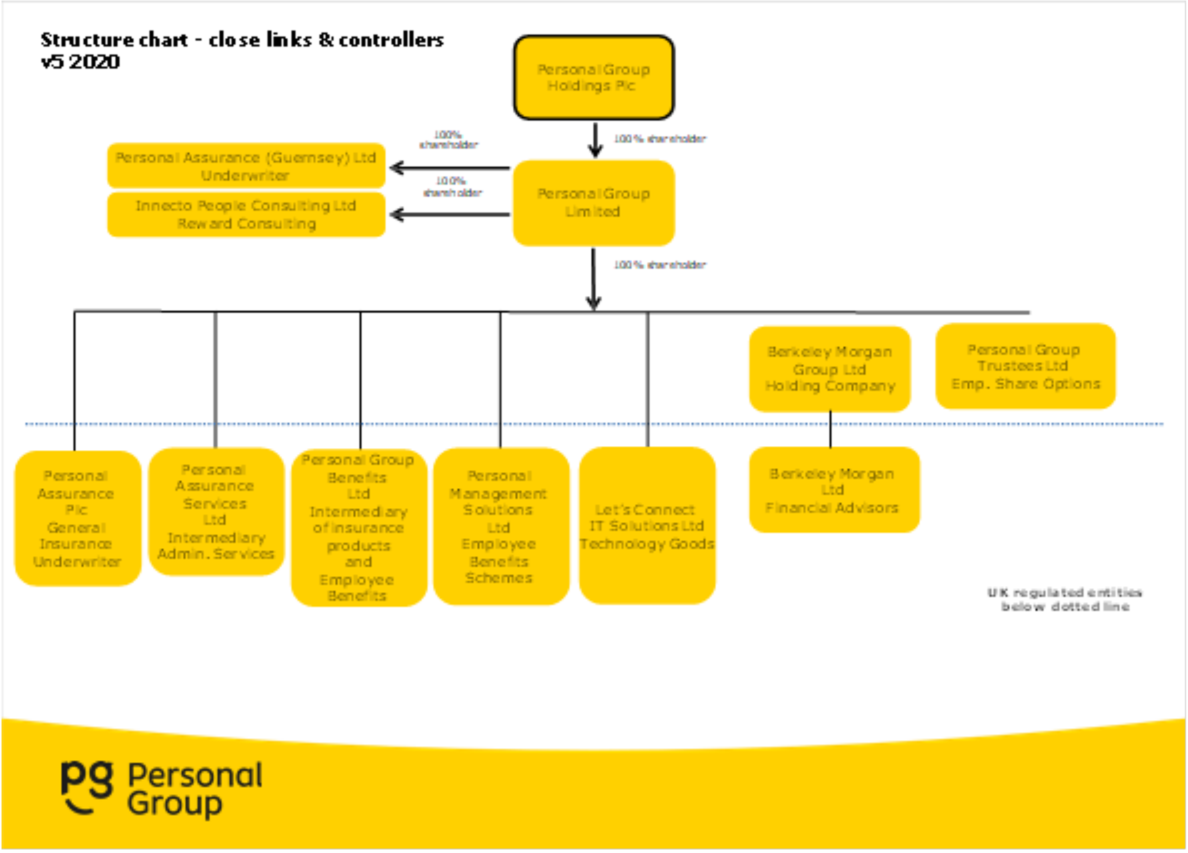
Registered Office:	John Ormond House 899 Silbury Boulevard Central Milton Keynes MK9 3XL
Company Registration Number:	1832067
Legal Entity Identifier:	213800NNUP5MMPUSHD77
External Auditor:	EY LLP 25 Churchill Place Canary Wharf London E14 5EY
Regulator (financial supervision):	Prudential Regulation Authority (Smaller Insurers Supervisory Group) Bank of England Threadneedle Street London EC2R 8AH **PRA.FirmEnquiries@bankofengland.co.uk**
Regulator (conduct supervision):	Financial Conduct Authority 25 The North Colonnade London E14 5HS
Parent Undertaking:	Personal Group Limited ("PGL") – 100% ownership.
Ultimate Parent Undertaking:	Personal Group Holdings Plc ("PGH").

PA is regulated as a solo insurance entity as the Group is considered to be a *Mixed Activity Insurance Group.*

PA is principally engaged in the underwriting of hospital cash plans and convalescence cover in the United Kingdom ("UK").

PA's functional and presentational currency is GBP.

A.1.2 Group Structure and Overview:



Personal Group Holdings Plc is the ultimate parent of PA and is listed on AIM.

Personal Group Holdings Plc is an employee services business which works with employers to build employee engagement and drive productivity. As part of the offering, it provides insurance products, primarily hospital plans and convalescence plans which are underwritten by PA, as well as death benefit policies which are underwritten by another group subsidiary, Personal Assurance (Guernsey) Limited ("PA(G)L").

The diagram above shows the composition of the Group and the activity undertaken by each company.

The insurance policies which PA underwrites are sold only by intra-group companies, predominantly by Personal Group Benefits Limited ("PGB"). This means PA's success, financial performance and reputation is dependent upon the quality and quantity of business it is introduced to by the intra-group companies. During 2020 the sales performance of the intra-group companies has been severely impacted by COVID-19 pandemic.

The preferred sales channel of PGB is face-to-face, activity which has not been available since the middle of March 2020. In light of this, PGB has developed telephone and virtual processes which can operate in line with Government guidance produced as a result of the COVID-19 pandemic. However, because of the external environment, the volume of business written was significantly reduced during the year and premium income in 2020 is £1.2m lower than 2019. The lack of new business will have a more significant knock-on effect to earned premium income in 2021 and beyond. New introducers of insurance business are being considered to start working with the Group in 2021. The concept of introducers passing warm leads to PGB is currently being explored. PGB will then have the opportunity to discuss the customers' needs and, if appropriate, write them an insurance policy. In the longer term, the introducers may be able to do this directly to their customer base.

Insurance policies are administered by Personal Assurance Services Limited ("PAS"). The services provided by these intermediary companies are carried out under formal Terms of Business Agreements.

Personal Management Solutions Limited ("PMS") has no contractual relationship with PA. It sells employee benefit schemes to employers operating in PA's target market and this will often include a contractual clause to allow PGB to present insurance products to its employees as part of the offering.

As well as receiving premium payments, PA also receives and passes on the premium payments for PA(G)L.

As discussed above, due to an inability to operate face-to-face, very little new business was written in 2020. While this had a negative impact in 2020 itself the ongoing detrimental impact on income will likely be felt for the next three years.

PA's claims experience during the pandemic has not changed significantly, largely because routine hospital appointments have been cancelled. This does mean that a backlog of case work for the NHS is potentially building up, which may increase the claims experience and loss ratio in 2021 after the NHS returns to normal service. This is, however, dependent on the overall NHS capacity to treat a substantially increased volume of patients. PA is supporting financially vulnerable customers by offering, where it is appropriate, a period of 3 months free cover as a means of retaining the cover and with the expectation that premium payment would re-commence at the end of the 3-month period. This is expected to be cost neutral overall, as the short-term loss in premiums will be offset by greater retention of policies that would otherwise be lost.

While the claims paid experience has fallen through 2020 for the reasons mentioned above, the Company has increased its claims technical provisions as a prudent measure to account for the spike in coronavirus hospitalisations at the end of 2020. The limited experience of COVID-19 claims suggests that these claims are reported significantly later than typical hospital claim meaning that an increase in the Incurred But Not Reported ("IBNR") provision was required. Looking retrospectively in 2021, in the light of claims notified and settled post 31 December 2020, it is possible that the claims provisions at 31 December 2020 were prudent but ongoing retrospective assessment is required to confirm and quantify this.

The impact on the business has been specifically discussed in further detail in section C.2.

Details of the PA's Board and Committee structures, as well as further detail on the roles undertaken by key individuals, are set down in section B - System of Governance.

A.1.3 Summary of business performance over the reporting period

The Company prepares its financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

The business performance information given in this section is on an FRS 101 basis as shown in the PA Financial Statements.

The profit and loss account for the year ended 31 December 2020 is set out below:

	2020 £000	2019 £000
Earned premiums net of reinsurance	22,464	23,716
Claims incurred	(5,031)	(5,626)
Operating expenses	(11,199)	(12,191)
Balance on technical account for general business	**6,234**	**5,899**
Net investment return	58	94
Share-based payment expenses	(1)	(6)
Charitable donations	(100)	(102)
Profit before tax	**6,191**	**5,885**

PA predominantly underwrites hospital cash plan and convalescence cover policies sold to employees working for large enterprises, with monthly or weekly premiums collected by the employer via payroll deduction. The policies are short term in nature, usually monthly or weekly rolling cover in line with the payroll frequency. These policies accounted for 98.8% of gross premiums written in 2020 (2019: 98.7%).

In addition, PA also underwrites a small amount of voluntary group income protection ("VGIP") policies. These accounted for 1.2% of gross written premiums in 2020 (2019: 1.3%). The VGIP policies are no longer actively marketed and the book of business is slowly running off.

A.2 Performance from underwriting activities

PA's underwriting performance is laid out within this section. Underwriting performance in both 2019 and 2020 was within risk appetite tolerances, despite COVID-19.

PA's net earned premiums for the year ended 31 December 2020 were lower than the prior year, at £22.5m (2019: £23.7m).

The decrease in premiums is the result of a decline in policyholder number due to the difficulty in face-to-face contact under government COVID restrictions. Actions were taken to mitigate this, and the team immediately switched to different distribution methods through phone, and later, virtual visits, connecting with policyholders via video calls in their workplace. However, due to the closure of many office sites with employees working from home a large number of clients were unable to allow us to use these sales channels in 2020 and so the top line insurance sales were adversely affected.

The claims incurred amount decreased by £0.6m; this decrease is predominantly down to the lockdown causing the NHS to delay or cancel a large volume of "non-critical" care services during the year, offset by COVID claims and an increased IBNR provision at the year end.

Underwriting profit for the year was £6.2m (2019: £5.9m) and was generated from business written in the UK only.

For more details on PA's underwriting performance please refer to S.05.01.02 annual reporting information at the end of this document.

A.2.1 Acquisition costs

Under Solvency II, and within the statutory accounts, all expenditure on acquisition costs is immediately incurred in full and written off.

A.3 Performance from investment activities

A.3.1 Investments by Asset Class

PA adopts a prudent approach of maintaining the majority of its investments in short term bank deposits.

As at 31 December 2020, PA's investment portfolio comprised the following assets:

Asset type	2020		2019	
	Valuation £000	%	Valuation £000	%
Deposits other than cash equivalents	2,587	20%	2,564	23%
Cash and cash equivalents	10,196	80%	8,640	77%
Total	**12,783**	**100%**	**11,204**	**100%**

For the year ended 31 December 2020, the investment portfolio made an investment return of £58k (2019: £94k), net of management fees as detailed below.

	Asset type	Gross investment income £000	Investment expenses £000	Total Investment Return £000
2020	Bank deposits	58	-	**58**
	Equities	-	-	**-**
	Total	**58**	**-**	**58**
2019	Bank deposits	94	-	**94**
	Equities	-	-	**-**
	Total	**94**	**-**	**94**

Investment income decreased during 2020 due to the general decrease in interest rates offered on deposit accounts during the year.

PA had no investment in securities in the financial year ending 31 December 2020.

A.4 Operating/other expenses

The non-underwriting expenses and distributions are detailed below:

	2020 £000	2019 £000
Share-based payments expense	(1)	(6)
Other charges – charitable donations	(100)	(100)

Share-based payment expenses represent the amount charged to the profit and loss account in respect of employees who are participants in the Group's Company Share Ownership Plan and Long-Term Incentive Plans.

Charitable donations represent amounts paid to Personal Assurance Charitable Trust ("PACT").

A.5 Any other disclosures

Dividends paid to the immediate parent undertaking are as follows.

	2020 £000	**2019 £000**
Dividends to parent	(3,250)	(5,200)

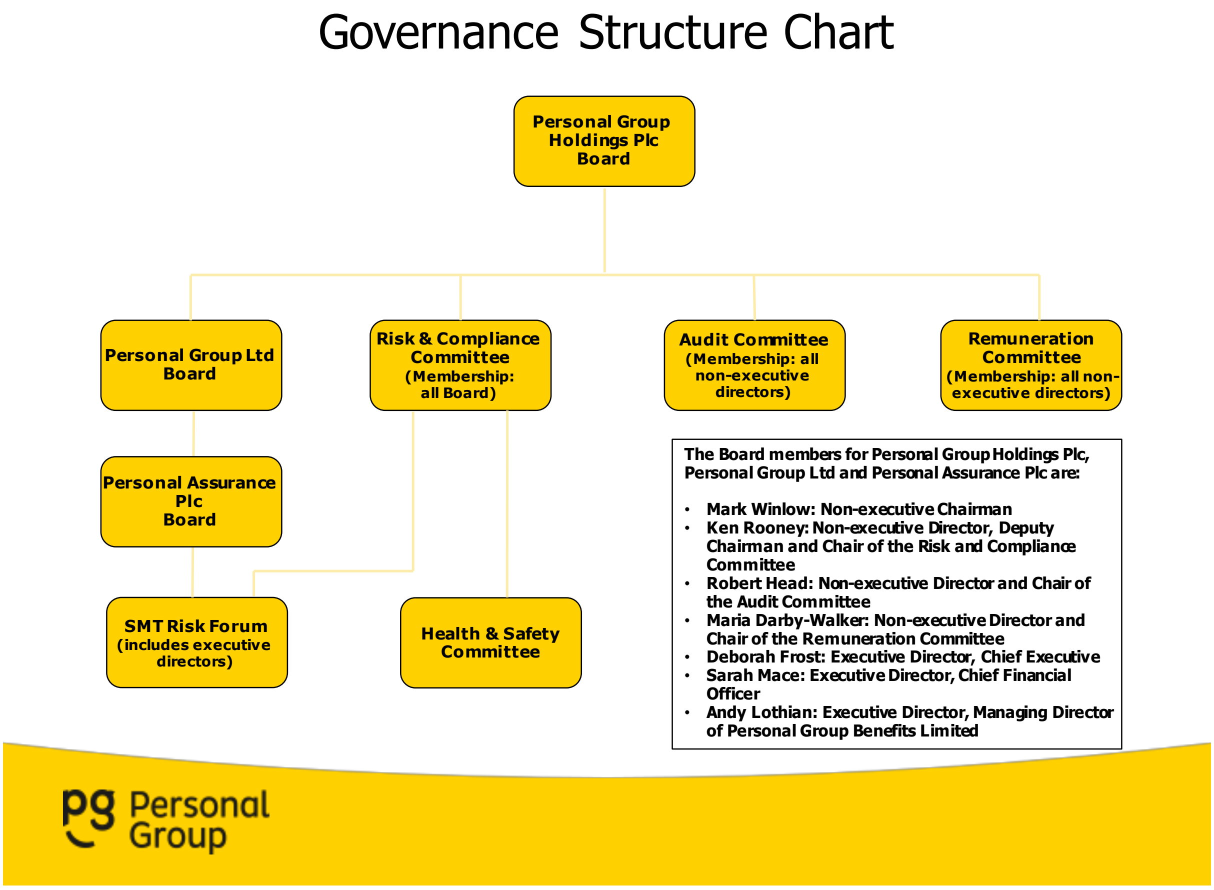
PA does not have any investments in securitisation. There is no other information to report.

B Systems of Governance (unaudited)

B.1 General Governance arrangements

PA's governance structure reflects its membership of the PGH Group of companies, whilst ensuring that it maintains robust insurance entity governance arrangements.

Governance is carried out, and reported by, the Boards and Committees shown below as at 31 December 2020.



The Governance Structure of PGH includes a number of Committees which have delegated authorities as described in the relative Terms of Reference. Each of the Committees shown in the chart above are Committees of PGH and maintain ultimate responsibility for overseeing the running of PA. The roles and responsibilities of these Committees are set out below. While there has been no material change in the governance structure in the 12 months ended 31 December 2020, there have been some changes to the Board of Directors both in 2020 and at the start of 2021. CFO Mike Dugdale retired in September and was replaced by Sarah Mace (formerly Group Financial Controller and Company Secretary). Andy Lothian stepped down as an Executive Director in December and took a role as a Non-Executive from the start of 2021. Mark Winlow will step down as Chairman in May 2021 to be replaced by Martin Bennett, former CEO of HomeServe UK, who joined the board in January 2021. Also, in January 2021, Ken Rooney, Deputy Chair of the PGH Board, retired as a director of PGH. While Ken remains a director on the PA board, his retirement from his role in PGH means that he no longer participates in the Committees above.

Board of Directors

The Board of PA consists of three Executive and four Non-Executive Directors. It meets on a monthly basis and is responsible for the strategy and development of PA and the efficient management of its resources. It is supplied in a timely manner prior to meetings with information from the SLT of the wider Personal Group of companies on financial, business and corporate matters, which enables it to discharge its duties.

The Board of PGH, being the ultimate parent of PA, maintains ultimate responsibility for overseeing the running of PA. Its responsibilities include:

- setting business strategy and monitoring performance against its business plan;
- implementing risk appetite and setting local tolerances applicable to PA;
- monitoring compliance with relevant laws and regulation; and
- reviewing and maintaining the effectiveness of the corporate governance framework and the PA's internal control framework.

All Directors of PA and of PGH have access to the advice and services of the Company Secretary and appropriate training is given as and when required. There are also procedures in place for the Non-Executive Directors to obtain independent legal or other professional advice at the Group's expense. The Board will have access to services of external consultants or specialists where necessary or appropriate, subject to due procedures for the appointment and dismissal of such consultants or specialists.

PGH has a formal schedule of matters which are reserved for decision by the Board of the Holding company. In addition, the Board of the Holding company has established Committees with written Terms of Reference to fulfil specific functions (including the activities of PA), as set out below. The matters reserved for the Board of PGH include the appointment of Directors and Senior Executives, in consequence of which a separate Nominations Committee is considered unnecessary at the present time.

Audit Committee

The Audit Committee is comprised of the independent Non-Executive Directors and is chaired by Bob Head. It meets at least twice a year, with the Chief Executive ("CEO"), the Chief Financial Officer ("CFO") and external and internal auditors usually in attendance. Its key responsibilities are to review accounting matters, financial reporting and internal controls (including the internal audit function), together with the interim and annual results announcements. It also agrees the scope of services provided by the internal audit function, reviews the external audit strategy and considers whether the auditors' risk log is complete.

Remuneration Committee

The Remuneration Committee comprises the independent Non-Executive Directors with the CEO in attendance and is chaired by Maria Darby-Walker. It meets when required, but not less than once a year. Its key responsibilities are to review and make recommendations to the Board for the terms and conditions of employment of the Executive Directors (including performance-related bonuses, share options and incentive plans), and to set the framework for the remuneration of other Senior Executives.

The remuneration of the Non-Executive Directors is fixed by the Board as a whole, but Non-Executive Directors do not participate in discussions about their own remuneration.

It also reviews appropriate remuneration of front-line sales in the insurance business.

Risk and Compliance Committee ("RCC")

The RCC comprises four Non-Executive Directors, the CEO the CFO with the Head of Risk and the Company Secretary normally in attendance. It was chaired by Ken Rooney in 2020 and will be chaired by Bob Head from 1 January 2021. It meets as required, not less than four times per year. It is responsible for overseeing the risk management and compliance function of the Group, and reports to the Board on a range of compliance and operational activities of the Group as a whole.

SLT Risk Forum

The forum comprises members of PG's SLT members. It meets monthly to consider a range of management information which evidences compliance standards. Within the forum, the compliance standards of PA are considered.

PA's governance structure is deemed to be adequate and in line with the nature, scale and complexity of the business.

B.1.1 Remuneration Policies

PA has a policy which applies to all aspects of the remuneration of its Board Members, including the Company Secretary, and SLT, irrespective of in which Group company they are employed.

The Board confirms that in structuring, implementing and reviewing the Company's Remuneration Policy, the decision-making process identifies and manages conflicts of interests and is properly documented.

The Remuneration Policy is supported by practices and procedures which promote sound and effective risk management, treating customers fairly and do not encourage risk-taking that exceeds the level of tolerated risk of PA.

The key factors that underpin the Company's reward policy, rewards structures and individual rewards are:

- Ensuring all executive remuneration decisions are governed by the Remuneration Committee,
- Offering pay packages that are competitive in the market to attract and retain the right people;
- Keeping performance rewards at the heart of PA's remuneration philosophy – exceptional performance is recognised and rewarded;
- Being non-discriminatory – all remuneration practices are free from unfair discrimination based on race, gender, age, religion, marital status and ethnic or social origin; and
- Ensuring pay designs comply with all tax and regulatory requirements.

The Remuneration Policy is intended to recruit and retain employees whose values are aligned to the Company's culture and core purpose.

B.1.2 Material Transactions with Shareholders

During the year PA paid dividends to its immediate parent of £3.25m.

B.1.3 Adequacy of System of Governance

PA employs an Enterprise Risk Management ("ERM") approach with an embedded structured framework of processes, controls and governance implemented across the business.

Ownership of various risk categories resides with individual Executive Directors and Managers.

The Board believes that the systems of governance in place are adequate for the nature scale and complexity of risks inherent to the business and in line with SMCR regime.

B.1.4 Governance Key Functions

Risk Management

Risk Management is led by the Head of Risk, who is responsible for the overall management and day-to-day leadership of PA's ERM framework and reports directly to the CFO. The Head of Risk also has a reporting line to the chair of the RCC and attends all RCC meetings.

The Head of Risk liaises with all areas of the business to understand and quantify the relationships among multiple risks and to ensure implementation of ERM best practices.

The purpose of Risk Management function is to provide the management of PA with an ERM framework that supports the identification, measurement, monitoring, management and reporting on a continuous basis the risks to which PA may face or to which it could be exposed.

The function is responsible for ensuring risks are managed and controlled by line management in alignment with PA's set tolerances, business plan and strategic objectives. All business units are deemed to be within the scope of PA's Risk Management function and the successful execution of its responsibilities.

Internal Audit

PA's internal audit function has been outsourced to RSM. These individuals maintain an independent reporting line to the Audit Committee and to the Board. The internal audit outsourcing relationship is managed by the Finance Director. Each year the audit strategy and plan are reviewed, modified and approved as being fit for purpose by the Audit Committee. The Audit Committee also monitors progress against the plan on an ongoing basis.

Compliance

PA seeks to conduct its business operations in accordance with the highest level of business ethics and in compliance with the applicable governing laws.

PA's compliance function is within PGB's Risk Monitoring Team at First Line and the Risk Team at Second Line. Management information from both Teams is reported on a monthly basis to the SLT Risk Forum and quarterly to the Board and the RCC.

Actuarial

The purpose of the actuarial function is to provide actuarial support for underwriting, pricing, reserving, capital modelling, planning and budgeting, business analysis, including rate monitoring, statements of actuarial opinion and regulatory filings. Due to the simplistic and short-tailed nature of the insurance policies underwritten, this function is performed internally by the Company with external expertise sought as and when required.

B.2 Fit and Proper Requirements

PA implements policies and procedures to ensure persons who effectively run the Company, or have responsibility for key functions, are fit and proper to do so in line with requirements of the SMCR regime which came into effect on 10 December 2018.

Individuals holding Senior Manager Functions are required to receive prior approval from the PRA and/or FCA before they can perform their role. Appointments are subject to background and good repute checks.

The HR Director for all the PG Companies ensures that PA maintains a Board Skills Matrix detailing the collective qualifications, experience and knowledge of the PA Board members.

The PA Board carries out regular effectiveness reviews and continuing professional development plans are in place updated at least annually. These reviews consider the balance of skills, experience, independence and knowledge of the company on the board, its diversity, including gender, how the board works together as a unit, and other factors relevant to its effectiveness.

PA processes ensure that all Controlled Function holders, Key Function holders, individuals who perform Key Functions and Notified Non-Executive Directors (NED's) are at all times fit and proper persons.

If any Controlled Function or Key Function is outsourced, PA applies this Fit and Proper Policy in assessing the person(s) responsible for performing that function on behalf of the service provider.

PA designates a person with overall responsibility for the outsourced function who is themselves fit and proper and possesses sufficient knowledge and experience regarding the outsourced function to be able to challenge the performance and results of the service provider.

Any breaches of the Fit and Proper requirements are internally reported to the Head of Risk for the PG Companies, the HR Director of the PG Companies and the Audit and Risk and Compliance Committees. The Head of Risk is responsible for notifying the relevant regulator(s) of the change in circumstances and what remedial action is being undertaken by the company.

The members of the PA Board in place on 31 December 2020 are all PRA/FCA approved persons:

Board member	Controlled Function(s) allocated
Mark Winlow	SMF9 – Chairman
Ken Rooney	SMF10 – Chair to the Risk Committee
Maria Darby-Walker	SMF12 – Chair of the Remuneration Committee
Deborah Frost	SMF1 – Chief Executive
Bob Head	SMF11 – Chair to the Audit Committee
Andy Lothian	SMF3 - Executive Director
Sarah Mace	SMF2 – Chief Finance Function SMF 23 – Chief Underwriting Officer Function

The members of PA's other Committees are also PRA/FCA approved persons:

Executive Committee member	Controlled Function(s) allocated
Ashley Doody	SMF3 Executive Director

Executive Committee member	Controlled Function(s) allocated
Rebekah Tapping	SMF3 Executive Director

Sarah Mace has oversight of the outsourced contract with RSM for the provision of internal audit services.

The above individuals possess the qualities required to discharge their prescribed responsibilities and respective duties; collectively they are able to provide for the sound and prudent management of PA.

In addition to the above, Carolyn Ager, Head of Risk, has assumed responsibility for the SMF4 – Head of Risk Management following the retirement of Mike Dugdale in 2020.

Assessing "Fit and proper"

PA has established processes for ensuring Senior Managers and Certification functions maintain the qualities needed for the effective and prudent operation of the Company. Qualities considered include both professional and technical competence, as well as an assessment of the person against the regulatory and internal "fit and proper" requirements. Professional competence is based on the individual's experience, knowledge and professional qualifications, and also whether the individual has demonstrated due skill, care, diligence and compliance with relevant standards in the area that has been working in. The individual should also be of good repute, and the assessment includes taking relevant references.

PA assesses "fit and proper" requirements on an ongoing basis. This evaluation is performed at least annually and consists of, as a minimum, a performance assessment. PA employees are also expected to abide by the "Code of Conduct", which sets out standards of ethics and behaviours in line with SMCR Conduct Rules

Apportionment and oversight

Apportionment refers to the framework of delegated responsibilities to individuals within PA. A key component of this is consideration of the PRA/FCA's Controlled Functions and Key Functions, including those Key Functions that amount to "effectively running the firm".

PA's Training and Competency framework ensures PA employs personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.

PA actively encourages staff to further develop and pursue professional qualifications. Development is the responsibility of each staff member.

In addition to the above, all staff who maintain professional qualifications are expected to undertake Continuing Professional Development ("CPD") in line with their relevant professional body requirements.

B.3 Risk Management System

PA employs an ERM framework that has been developed to enable the Board and Senior Management Team to understand and appropriately manage and mitigate the risks associated with PA's objectives over the short, medium and longer term in a manner that is commensurate with PA's risk profile and business arrangements.

PA’s risk strategy is focused on mitigating the risks of not meeting strategic objectives which are captured and monitored through PA's Risk Register. Risk appetite statements are defined by the Board to set limits on the amount of risk PA should accept or tolerate. The risk appetite is directly linked to business strategy and the principal risks to which PA is exposed. Any changes to business strategy as a result of the strategic review will be reflected in the risk appetite statements as necessary over the planning period. These are a mixture of quantitative and qualitative measures.

Ownership of various risk categories resides with identified individual Executive Directors and Managers.

Group Risk Management Framework

The Group’s risk management framework is designed to allow for the day-to-day identification, assessment and monitoring of risk. It operates using a classical model, with a “Three Lines of Defence” approach to risk management.

The Risk function provides co-ordination of quantitative and qualitative risk data and analysis and reporting to the Board and/or its committees.

The objectives of PA’s ERM Framework are to:

- actively sponsor and foster a risk aware culture across the business, supporting staff in making risk management/based judgements. The culture should encourage effective management of exposures within PA’s stated Risk Appetite;
- enable clear articulation and understanding of risk appetites and tolerances relevant to PA;
- encourage effective management of exposures and appropriate risk-reward balance consistent within stated risk appetite and tolerances when taking on risks;
- ensure a clear, coherent risk strategy, policies and standards, including risk appetites and clarity of ownership for risks, is maintained and implemented;
- ensure risk is taken into account in key business decisions;
- ensure that the ‘three lines of defence’ model operates effectively;
- facilitate an effective system of controls commensurate with the scale and complexity of PA;
- ensure the quality of risk models, data accuracy, capability of available tools is of a sufficient standard to accurately measure risks, and justifications for risk taking can be challenged and monitored on an ongoing basis;
- ensure all limit breaches, deviations from established policies, and operational incidents are thoroughly followed up with proportionate disciplinary actions when necessary;
- enable effective and ongoing oversight of the adequacy capital ensuring that PA maintains adequate liquid resources to meet both planned cash outflows and unexpected cash requirements under stressed conditions;
- implement risk strategies and policies aligned to PA’s strategic and operational objectives;
- ensure risks and emerging risks are identified and understood and assessed on a forward-looking basis to allow management to take proactive steps; and
- sustain a robust Own Risk and Solvency Assessment (“ORSA”) process that informs management’s view of risk and capital.

The ERM framework is supported by a comprehensive set of risk policies, frameworks and guidelines to ensure adequate processes and procedures are in place to manage all types of risk which is supported by a comprehensive suite of management information. The framework, as a minimum, is aligned with the regulatory requirements under the Solvency II regime as adopted by the PRA and FCA.

By adopting this approach, PA is able to effectively identify, measure, monitor, manage and report risks at an individual/contract level and at an aggregated level on an ongoing basis.

PA senior management and risk owners identify key risks to the business, as part of a rolling risk identification and assessment programme. Risk causes and consequences, together with mitigating controls, are identified for each risk category. Key risks, owners and mitigating controls are recorded in a Risk Register; which is presented to management on a quarterly basis for review and discussion.

The risks recorded in the Risk Register form part of PA's ORSA process and are used as the basis for the development of PA's internal audit programme. Risk and Compliance and Audit Committees receive regular reports from PA's Head of Risk which consider key risks to PA, aggregations and exposures across the key ERM pillars.

PA's Risk function is integrated into the organisation through the governance reporting lines to Chief Executive, Risk and Compliance, and Audit Committees and involvement in key decision-making forums. In addition, the risk function's roles and responsibilities include:

- developing and implementing systems, processes and procedures for the management and evaluation of risk accumulations and providing key risk indicator reports on such;
- working alongside other key control functions and ensuring existing control activities and reports are developed into the risk and control reporting framework;
- coordinating with the key internal functions to ensure internal policies, controls and procedures are documented in sufficient detail to allow for effective compliance, testing and auditing;

coordinating documentation of the key internal policies, procedures and controls for the management of risks identified in the Risk Register.

Own Risk and Solvency Assessment ("ORSA")

PA carries out an ORSA on at least an annual basis. In light of the inherent risks surrounding COVID-19, PA also conducted an additional, informal ORSA process in 2020 to assess solvency and appropriate actions in a variety of scenarios across the entire Group.

The following are the key ORSA processes which are embedded into business operations:

- set and analyse business strategy from a current and future risk strategy;
- update business objectives and business plan;
- review and update risk appetite;
- review and update risk profile;
- assess current and future solvency needs;
- stress and scenario testing;
- management actions; and
- continuous monitoring of solvency needs.

The ORSA is the responsibility of the Board and is regularly (at least annually) reviewed and approved by the Board.

The RCC oversees the ORSA and ensures technical expertise is available to provide input and challenge the ORSA process.

Executive and Senior Management (Risk, Finance and Actuarial) work together in every aspect of the key ORSA processes to provide accurate, complete and appropriate information.

The ORSA processes provide a mechanism to assess the risks PA faces and to determine the necessary level of capital required to meet strategic and business objectives.

The ORSA process considers PA's own solvency assessment given its risk profile, business objectives and capital management strategy against its regulatory solvency requirement in order to determine whether additional solvency cover is required. The ORSA also considers the impact on PA should it be subject to significant losses arising from both insurance and non-insurance events; against such extreme events, the ORSA considers what actions PA management would undertake to mitigate the impact of such events. Furthermore, as part of the ORSA process, PA considers the amount of capital it should maintain to meet its contractual liabilities. 100% of the Solvency Capital Requirement ("SCR") amount is adequate to cover the PA contractual liabilities over a one-year horizon, however the risk appetite of the Board is to maintain the Solvency Ratio in excess of 200%,

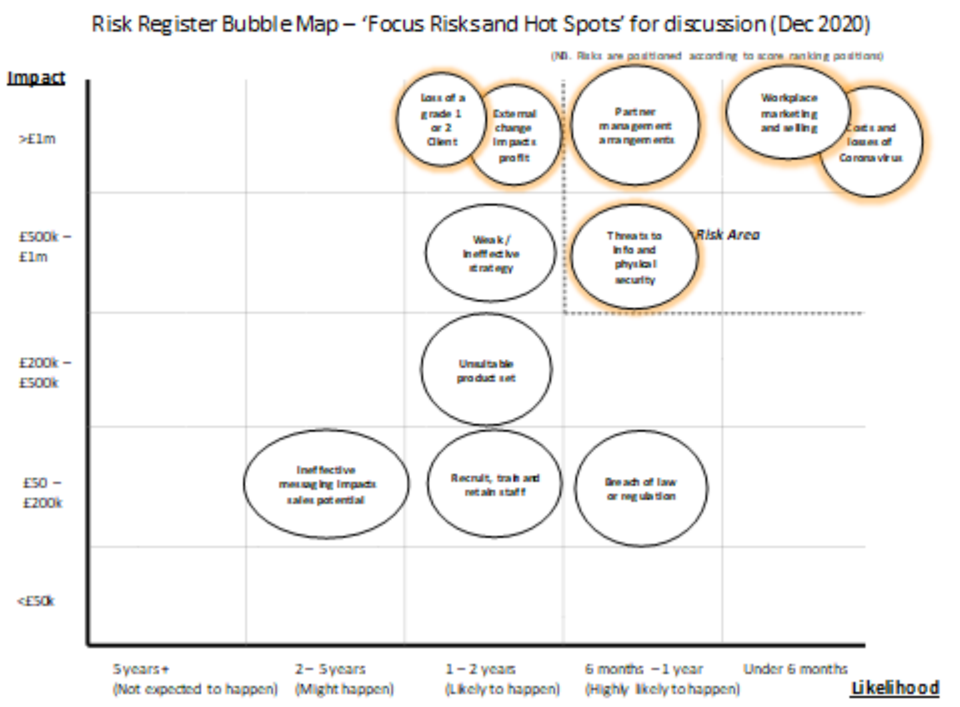
The risks PA has identified it is exposed to are:

- Underwriting Risk
- Operational Risk
- Business Risk
- Failure to meet legal and regulatory requirements

Each risk is controlled (in part) by a Policy which, where applicable, carries a statement of risk appetite in addition to the high-level risk appetite statement.

Over the last 12 months there has been no change in the PA's appetite for, or tolerance of, risk. The COVID-19 pandemic and potential knock-on effects on the UK economy has inherently increased the risks presented to PA. This has been discussed in detail in section C.2.

PA's **current risk profile** can be summarised into the diagram below. Those bubbles that include a shadowed edge are those that are considered to have changed in the year.



PA’s risk profile is captured in an internal Risk Register, discussed and challenged by the SLT each month. The output is minuted and forms the input to the

- monthly Board meetings, where challenge may be made; and to the
- quarterly RCC meetings where challenge may be made.

A re-run of the ORSA will be triggered by actual or anticipated material changes in appetite or exposure to any individual risk. A material change for PA is defined as a materialised risk impact or changes to business model which will reduce the Solvency Ratio below 200%, the level of coverage required by the Board.

B.4 Internal Control Systems

As an underwriter of insurances PA is currently exposed to a number of risks, including underwriting, market, credit, liquidity, operational and conduct. These risks are monitored, managed and mitigated by a range of processes, controls and sensitivity testing.

The control framework includes:

- three lines of defence;
- a corporate governance framework, policies, procedures and controls;
- a financial and non-financial control framework;
- internal control functions which comprise of the Compliance and Risk Management functions; and
- independent assurance provided by the external audit provider function and by the internal audit provider.

The principle of this model is that there are three layers of protection, as explained below:

First Line – Risk Ownership and Risk Management: This is the day-to-day management of risk and is delegated from the Personal Group Holdings Plc Board to the Chief Executive and the Senior Leadership Team who discharge their duties of responsibilities via Managers and staff within the business. The First Line is responsible for identifying, establishing, maintaining and monitoring controls to manage the risks in their area of responsibility in line with the Group Risk management framework.

Second Line – Risk Oversight: This function (embodied in the Risk Department) is responsible for:

- setting up and operating the risk management framework and determining (with the approval of the Board) the policies that PA and the rest of the Group will follow;
- providing oversight and challenge to the First Line via monitoring and assurance activity, the gathering of Key Risk Information [KRI] data and reporting significant trends and deviance from appetite appropriately;
- co-ordinating quantitative and qualitative risk data, analysis and reports to the Board and/or its Committees;
- ensuring that the business has sufficient information to respond to changes to the risk environment in a timely way;
- the coordination of effort in the management of risk; and
- enhancing the quality of information provided to Senior Leadership.

Third Line – Independent Assurance: The Group external audit function is provided by Ernst and Young LLP.

The Group internal audit function (currently outsourced to RSM) provides an independent assessment to the Board of processes and controls, including the effectiveness of the First Line functions and of the Second Line function risk management framework.

Compliance Function
PA has a Compliance Function responsible for:

- ensuring compliance with the Conduct Standards and individual/senior manager rules as set out by the PRA and FCA under the Senior Managers & Conduct Regime from December 2018.
- providing opinion and advice with respect to compliance, PRA & FCA regulations.
- promoting good and active working relationships with the Regulators.

B.5 Internal Audit Function

Internal Audit is an independent function which provides objective challenge and assurance over PA.

The day-to-day activities of PA's Internal Audit function are outsourced to RSM and are supervised by Sarah Mace, CFO, who is registered as PA's Senior Management Function ("SMF") holder for Internal Audit.

The Internal Audit function supports PA in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

It adds value and contributes to the achievement of business objectives through aligning its activities with PA's most important areas of work; covering a suitably broad range of risks, activities, processes and projects in order to be able to provide a robust assurance opinion; and providing structured advice in response to management requests.

Its role is to:

- undertake a comprehensive programme of internal audit activities which support PA; Rolling three-year audit plans are submitted annually to PA's Audit Committees for approval;
- examine and evaluate the adequacy and effectiveness of systems of risk management and control across the entire business;
- provide reasonable assurance that controls are being identified and managed and that controls are co-ordinated effectively;
- provide timely input on controls over significant change projects.

RSM report their findings directly to the Audit Committee of the Group Board. As a result, independence and objectivity are maintained.

An update on the internal audit function is a standing agenda item at Audit Committee meetings where outstanding internal audit actions are also tracked, and progress reported. The Risk and Compliance Committee reviews the outstanding audit actions on the occasions where the Audit Committee does not meet on the same day as the Risk and Compliance Committee meets.

RSM are invited to all meetings of the audit committee and have regular communication with the Chair of the committee as required.

B.6 Actuarial Function

The CFO, Sarah Mace, is responsible for the overall management and day-to-day leadership of PA's Finance and Actuarial function and has a direct reporting line to the CEO of PA, the Board and other committees.

The major responsibilities of the actuarial function include:

1. Analysing submissions and providing pricing support to underwriting;
2. Monitoring results and performing profitability analyses;
3. Assessing the adequacy of the gross and net held reserves;
4. Assisting in the preparation of various financial statements;
5. Developing, maintaining, and implementing regulatory capital requirements
6. Providing an opinion on underwriting decisions and pricing; and
7. Review of reinsurance arrangements.

Due to the non-complex and short-tailed nature of the insurance business and the age and consistency of the product offering, PA's Actuarial function is managed internally and supported by independent third-party consultants as and when required.

The Finance and Actuarial function is led by the CFO and reports to the Board.

Reserve risk is one of the key drivers of PA, and it is the responsibility of the CFO supported by external expertise to establish reserves and thereby manage reserve risk.

B.7 Outsourcing

The purpose of PA's outsourcing policy is to ensure that all outsourcing arrangements involving any material business activities entered into by PA are subject to appropriate due diligence, formal approval and on-going monitoring and oversight. The Board is comfortable that any outsourced functions do not materially increase risk to the Company or materially adversely affect its ability to manage its risks and meet its legal and regulatory obligations.

PA will not enter into any material outsourcing arrangement which could:

- materially impair the quality of PA's system of governance;
- unduly increase PA's operational risk;
- impair the ability of the PRA or FCA to monitor the compliance of PA with their respective obligations; or
- undermine continuous and satisfactory service to PA's clients.

Although outsourcing may result in day-to-day responsibility for a business activity resting with the service provider, PA remain fully responsible for discharging their respective regulatory and legal requirements and having effective processes to identity, manage, monitor and report risks and maintain robust internal control mechanisms.

Where a key function is outsourced, a PA person with overall responsibility, sufficient knowledge and experience is identified regarding the outsourced function to be able to challenge the performance and results of the service provider.

PA outsources the internal audit function to RSM. PA is comfortable that RSM have the relevant independent expertise to properly carry out this function and monitoring of the effectiveness of this function takes place throughout the scoping, completion and feedback stages of the audit through discussions with the Board and senior management.

The administration and sales of insurance policies are outsourced to PAS and PGB respectively, these relationships operate under Terms of Business Agreements ("TOBAs") with these other group companies. Whilst these TOBAs do not set out the minimum service standards, targets or volumes which PA requires from the intra-group firms which comprise its supply chain, the Group risk management process which covers these companies has a direct impact on PA.

On-going monitoring of these intra-group companies is provided by data dashboards which provide oversight of the service providers to PA. Performance against reported outcomes are reported on a quarterly basis to the Risk and Compliance Committee. If required, issues are escalated from the Risk and Compliance Committee which reviews the data to the main Board should it not be satisfied with the resolution offered.

Should any of those firms show signs of not being able to complete its services to an acceptable standard, PA would move to find appropriate replacement either from within the Group or externally.

B.8 Any other information

Board Diversity Policy

The PRA require the Board to ensure diversity in the Board recruitment processes and to implement a policy promoting diversity within the Board.

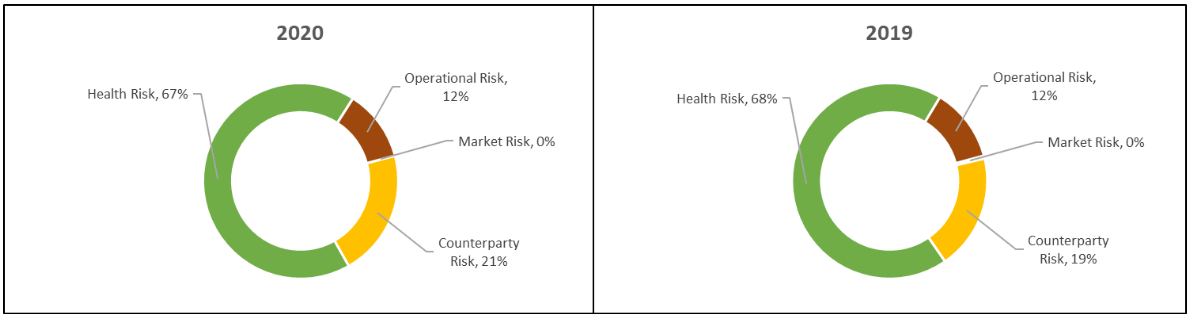
Throughout the process of appointment of Board members, due regard is given to ensuring fairness and diversity through consideration of skills, experiences and competencies. The recruitment process complies with Group HR recruitment processes and the UK Diversity, Respect and Inclusion guidelines.

Senior Management and Certification Regime

PA has complied with the Senior Managers & Certification Regime since its date of implementation of 10 December 2018.

C Risk Profile (unaudited)

Pa’s risk profile is a key driver of the SCR. It has not changed materially over the reporting period.



The assessment above uses PA’s standard formula model at both dates shown.

As at 31 December 2020, the capital requirements based on risk areas were as follows:

Capital Components	2020	2019
	GBP £000's	GBP £000's
Market Risk	9	28
Counterparty Default Risk	1,202	1,121
Non-life Risk	-	-
Life Underwriting Risk	-	-
Health Underwriting Risk	3,827	4,011
Total	**5,038**	**5,160**
Less: Diversification	(747)	(726)
BSCR	**4,291**	**4,434**
SCR Operational	678	717
Adjustment - LADT	(864)	(981)
SCR	**4,105**	**4,169**
MCR	**2,255**	**2,153**
SII Own Funds	**12,701**	**10,882**
Excess over SCR	**8,596**	**6,713**
Excess over MCR	**10,446**	**8,729**

Note that liquidity risk (section C.4) and other risks (section C.6) are not part of the SCR calculation (in accordance with Solvency II regulations) and so are excluded.

PA is exposed to risk concentrations as follows:

- Product concentration (underwriting risk): PA is a mono-line insurer operating only in the UK.
- PA's outsourcing relationship with PGB and PAS creates risk concentrations in terms of operational risk.
- The majority of cash balances are held with a relatively low number of financial institutions, all based in the UK.

There are no material risk concentrations in market risk.

C.1 Underwriting Risk

The underwriting risks to which PA is exposed include:

- failure to perform regular review of pricing and underwriting strategy
- failure to perform regular review of pricing and data used for pricing
- failure to react responsibly to pricing and other changes in the market
- inappropriate levels or types of cover included in PA's products that lead to unforeseen claims, or more claims than expected.

Reserving risk (a sub-set to Underwriting risk)

- reserve risks, including inadequate reserving due to flaws in the provisioning/reserving methodology or in the application of the methodology, could result in the recording of an inadequate claims provision. The COVID-19 pandemic has had a significant impact on the claims experience in 2020, with changes to NHS availability and COVID-related claims being the primary drivers of change. PA is currently reviewing its reserving processes to ensure it is appropriate given the current pandemic and the potential increase in claims when the NHS returns to a business-as-usual environment.

Underwriting risk is effectively monitored and regularly managed through:

- monitoring and management of pricing and underwriting strategy and processes;
- effective use of reinsurance on the relatively small VGIP book; and
- continuous monitoring and adjustments to the selling price for new business.

Reserve risk is effectively managed through key controls include:

- a comprehensive annual reserve study;
- semi-annual reserve review; and
- validation of reserves from an UK GAAP perspective has been completed through technical analysis as part of the external audit process for the year ended 31 December 2020.

C.2 Risk sensitivity for underwriting risks

PA undertakes detailed stress and scenario testing as part of its ORSA process with the results presented at the Risk and Audit committees.

As part of the ORSA process, the solvency position and the projected solvency position over the business planning period have been calculated following adverse stresses at different return periods for the material underwriting risks (each risk's stress is considered individually) in addition to multiple losses arising from non-correlating events (e.g. sensitivity of PA's solvency position to premium volumes, changes to market conditions, further IPT increases).

The results of the analysis showed that the most material impact on the SCR arose from an extreme stress considering loss ratio doubling on average over all classes. The analysis undertaken indicates PA is strongly capitalised and it would take an extreme event (in excess of 1-in-200) to breach the SCR and therefore PA's underwriting risk profile was assessed to be resilient to withstand severe shocks and is within the Board approved risk appetite.

Impact of COVID-19

With the recent outbreak of COVID-19, there has been impact on the business both financially and otherwise as a result of restrictions on sales due to limitations in sending out sales staff onto client sites as well as changes to the claims experience.

The specific impact of COVID-19 is discussed in the relevant risk sections on which it has the most significant impacts.

PA does not consider there is any other material information to disclose on its risk profile.

C.3 Market Risk

Market risk is the risk of loss or of adverse change in PA's financial situation arising, directly or indirectly, from fluctuations in the valuation of assets, loss of earnings or loss of economic value. Market risk arises from movements or volatility in interest rates, equity prices.

Funds are kept in cash with a number of banks.

PA has no exposure to currency risk and has minimal exposure to adverse interest rate risk on its fixed term deposits due to the current low prevailing interest rates.

PA is not exposed to currency risk and has minimal exposure to interest rate risk on its fixed term deposits.

Prudent Person Principle applied to market risk

When making investment decisions, PA considers the risks associated with the investments, including the potential impacts of any economic shock, their liquidity and their admissibility under the Solvency II rules.

All assets, in particular those covering the MCR and the SCR, are invested in highly rated and liquid assets (such as cash deposits with banks), with ratings of BB or higher. PA does not use derivative instruments nor hold assets that are not admitted to trading on regulated financial markets. Assets are managed in such a way as to limit excessive reliance on any particular asset, issuer or group of undertakings, or geographical area that would represent an excessive accumulation of risk to the portfolio as a whole.

C.4 Credit Risk

Credit risk is the risk of loss or of adverse change in PA's financial situation, resulting from fluctuations in the credit standing of counterparties and default of any debtors to which PA is exposed.

Credit risk is assumed whenever PA is exposed to a loss if another party fails to perform its financial obligations to PA, including the failure to perform them in a timely manner. In our case, credit risk may arise from the potential default of banks with whom we keep our cash balances. The credit ratings of the banks are closely monitored. The risk of negative interest rates is not expected to impact PA.

PA maintains a diversified strategy resulting in the spread of funds over multiple banks and the process of monitoring and reporting weekly cash position to the CFO and CE. The increase in counterparty risk in the prior year was driven by a deterioration of credit ratings of major banks used.

PA has further mitigated the potential counterparty default risk by splitting cash deposits across 5 (2019: 7) different banks with the largest holding at any individual bank making up 61% (2019: 54%) of the total amount on deposit. Cash and Cash Equivalents make up 78% (2019: 83%) of the Company's Solvency II assets.

Management review the spread of money between financial institutions by reference to risk, return and upcoming cash requirements, with the additional cash returns offered in one institution causing the increase in the single bank holding of 61% highlighted above.

PA's credit risk management strategies outline the credit rating requirements for its investments. Adherence with this ensures investments are selected in a way that enables the effective management of the risk of counterparty default to an acceptable level in line with PA approved risk appetite and tolerances.

Stress and sensitivity tests

PA carries out stress and scenario testing as part of the ORSA process.

The analysis highlighted that the diversified investment strategy despite the potential default of a bank where PA holds cash deposit will not lead to SCR breach at any point within the 3-year business plan period.

PA risk management and investment management processes have introduced proactive measures to ensure that cash is moved at an early stage from the banks where the credit rating deteriorate outside the risk appetite.

Prudent person principle applied to credit risks

Counterparties are selected by taking into account the credit rating and reputation of each entity. Credit ratings are used as a way of properly identifying and managing the risk attached to a counterparty and PA ensures only counterparties with a high enough credit rating are used. PA does not rely on a single rating agency, rather seeking to use a number of agencies. PA seeks to avoid excessive counterparty exposures.

Receivables

A smaller proportion of counterparty risk relates to amounts due from customers. This is considered to be of low risk as the receivables are taken largely via payroll deduction from the employee and sent to PA in the subsequent month.

Credit risk relating to premium collection is deemed to be minimal due to the method of collection via payroll deduction. Only a small percentage of the premiums are collected via direct debit with the bulk of the balance being collected from companies via payroll deduction, there is very little history of non-payment through this method of recovery. Recoverability of the premium debtors is reviewed on a monthly basis.

C.5 Liquidity Risk

Liquidity risk is the risk that, though adequately capitalised, PA has insufficient financial resources, or is unable to realise investments and other assets, to meet its obligations as they fall due, or can do so only at excessive cost.

As the majority of PA's assets are held in short term deposits, the Board believe liquidity risk to be easily manageable in the short to medium term.

In considering the liquidity risk of PA, it is necessary to consider the inherently related risks within intra-group service providers. Personal Group as a whole has a strong and liquid balance sheet and the short-term liabilities of intra-group companies are not such that PA would be required to meet these from its liquid funds.

PA will maintain a minimum of £8m cash and cash equivalent funds monthly to cover any stressed outflows during a 12-months calendar period.

The PA has a very low appetite for liquidity and funding risks which would pose a threat to PA's objectives. The maintenance of adequate liquidity and funding is essential to meet the PA obligations. The PA intends to achieve this by:

- Holding sufficient immediately available cash or cash equivalent assets
- Securing an appropriate matching future profile of cash flows from maturing assets and liabilities

The board reviews the material sources of liquidity risk and ultimately approves the risk appetite consistent with the PA's short- and long-term strategy, business and capital plans and risk capacity.

PA is expected to maintain a well-documented liquidity risk management strategy that takes into account the liquidity needs under normal conditions as well as liquidity implications under periods of liquidity stress, the nature of which may be PA -specific or market-wide or a combination of the two.

The CFO ensures the following processes are documented:

- The methodology and key underlying assumptions for making cash flow projections of all material liquidity uses (out-flows) and sources (in-flows);
- The approach to liquidity stress testing, documented methodology and assumptions;
- Assessment of overall liquidity needs over various durations and target levels of liquidity buffers
- Current trends and potential market developments that may present significant, unprecedented and complex challenges for managing liquidity risk
- Recommends appropriate and timely changes to the liquidity strategy as needed.

The Board approves the strategy and reviews it at least annually.

PA considers each material source of liquidity risk, implications of these risks on its liquidity position under the normal and stresses conditions as part of risk management assessment processes

PA Liquidity risk may materialise through one or more of the following sources:

a) Insurance Liability-side risks – an increase in policyholder withdrawals or unexpected increase in claims. Any reliance on premium receipts from business not yet written or renewal business as a source of liquidity and whether the assumptions regarding the availability of such premiums are consistent with stressed conditions.
b) Asset-side risks – how assets could be monetised in both benign and stressed market conditions.
    - PA financial and risk management processes considers holding sufficient liquid assets in the form of cash at Bank account of circa £5m redeemable within 1 day
    - Other Financial investments in the form of bank deposit spread into various banks not exceeding £2m each with one-year maturity
    - Debtors arising out of direct insurance operations - future monthly premium instalments due from customers on policies in force at the end of financial year.
c) Operational cash flow model
    - Premiums are predominantly collected via salary deduction and are normally, but not contractually, received in line with payment of payroll taxes in the subsequent month to the period of cover
d) Other Non-insurance liabilities

- The only other operational cash (out)flows are AP, payroll and regulatory fee payments.
- IPT is paid quarterly in arrears to HMRC. Until such settlement is made, PA has access to IPT cash.

e) Concentration risk (asset and liabilities)
PA's investment strategy is guided by its Investment Risk Policy which aims to mitigate market risk by restricting investments to high-quality, liquid assets.

f) Off Balance sheet risks:
- There are no Off-Balance sheet activities that impacts cash flows. PA does not hold derivatives or securitization instruments.

Stress and scenario testing

PA has carried out stress and scenario testing as part of its approach to managing liquidity risk. Results have been reviewed by the Board. PA does not consider liquidity to be a material risk for PA.

Prudent person principle applied to liquidity risks

The investment assets are prudently invested taking into account the liquidity requirements of the business and the nature and timing of the insurance liabilities. PA manages its liquidity risk by maintaining a diversified liquid investment portfolio fit to it business model.

C.6 Operational Risk

Operational risk arises largely from failed internal processes including the potential for fraud facilitated by the employees and/or systems employed by intra-group companies.

Operational risk is diverse in nature and permeates all business activities but remains a distinct form of risk in its own right. Operational risk within PA has been divided into the following key operational risk areas:

- supplier risks – the majority of PA's supply chain is intra-group firms. This means that the risk that one of these suppliers may suddenly fail is effectively mitigated;
- business continuity management – the risk associated with the failure to appropriately manage unforeseen events;
- processing failures, including IT system failures; the risks associated with IT systems, including information security operations;
- outsourcing - failures relating to the management of outsourced providers;
- financial crime, including internal and external fraud – this is the risk that the firm might be used to further financial crime. It is accepted that other group companies have been impacted by external attempts at cyber-crime which has led to some reputational losses;
- financial & accounting – these are the risks associated with financial reporting and integrity of the financial information;
- people risk – this is the risk that people do not follow PA's procedures, practices and/or rules, thus deviating from expected behaviour in a way that could damage PA.

PA's Board receives information as to the effectiveness of systems of internal controls via the Group's Risk and Compliance Committee, the Audit Committee and directly from the business.

On a quarterly basis, PA's directors and the senior leadership team identify the key risks, causes and consequences together with relevant mitigating controls, within their function/span of control.

The results of the assessment are recorded in the business area risk registers. Consolidated outputs are reviewed by the Senior Leadership Team and Risk and Compliance Committee. The Group and, by association, PA maintains an Operational Risk policy that sets out PA's approach to mitigating risks arising from Operational Risks.

While PA does not set specific goals or targets for its intra-group service companies via Terms of Business Arrangements, KPIs are set for the Group as a whole, including the service companies. PA accepts these and is actively involved in monitoring them.

Conduct risk, and the culture it establishes is a sub-set of Operational Risk. Collectively, the service companies are monitored via the Treating Customers Fairly ("TCF") Dashboard with the goal of achieving the following outcomes which each have several quantitative measures:

- Outcome 1: Consumers can be confident that they are dealing with a firm where the fair treatment of customers is central to the corporate culture.
- Outcome 2: Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and targeted accordingly.
- Outcome 3: Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
- Outcome 4: Where consumers receive information, the information is suitable and takes account of their circumstances.
- Outcome 5: Consumers are provided with products that perform as firms have led them to expect and the associated service is both of an acceptable standard and as they have been led to expect.
- Outcome 6: Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.

Performance against these outcomes is reported on a quarterly basis using a traffic light system, which reflects performance against agreed tolerances, to the Risk and Compliance Committee. Each outcome is derived via a number of quantifiable KPI's, the most recent version of which can be found in Appendix 1. Should any of the outcomes not be green then the KPI and the wider outcome is escalated to the Risk and Compliance Committee which reviews the data and can escalate to the main Board should it not be satisfied with the resolution offered.

In 2021 PA will be offering insurance plans to customers of a new introducer which is a Debt Management Firm. This group of customers are financially vulnerable, and PA will ensure that the current KPI's are suitable to identify any weaknesses in the treatment of insureds with any type of identified vulnerability.

Key Controls

Key controls that aid in mitigating operational risks include (but not limited to):

- Risk and Compliance Committee & Audit Committee oversight;
- policies and procedures;
- Terms of Business Agreements;
- the provision of management information evidencing the standards of conduct and the fair treatment of customers achieved by intra-group supply chain;
- purchase of insurances; and
- the ability to reduce or cease the payment of a dividend in the event that activity by the intra-group supply chain disrupts income or expenditure either current or planned.

PA does not have any material concentrations to operational risk.

On an ongoing basis, PA carries out stress and scenario testing as part of its approach to managing operational risk. Results are presented quarterly at the Risk & Compliance Committee and considered as part of the ORSA process.

For the 2020 ORSA, the solvency position and the projected solvency position over the business planning period were re-calculated following adverse operational risk stresses. Under all of these scenarios, the analysis indicated that PA was strongly capitalised and was able to withstand these events without breaching its SCR.

C.7 Other material risks

Regulatory Risk

Regulatory risk is considered a sub-set of Operational Risk. Regulatory risk arises from

- the risk of breaching legal requirements, regulatory standards including the fair treatment of all customers whether "Vulnerable" or not, international sanctions or loss caused by a failure to comply with applicable laws, regulations, internal policy and standards of best practice.

The risk is managed by the SLT, supported by the Risk function and the effectiveness of the management is reported both directly to the PA Board and to the Risk and Compliance Committee. The Risk and Compliance Committee agrees an annual monitoring programme to be completed by the Risk Team. The Audit Committee directs the activity of the Internal Audit function and of the external auditors. Evidence of the above is in the minutes of the respective committees.

Group Risk

As a wholly owned subsidiary of a large group, there is a risk PA could be adversely affected by the actions of another company within the Group. Should such an event arise PA is able to rely on its own unencumbered capital.

Risk Diversification

Intra-group companies have set a target that at least 15% of its year-on-year insurance-related business will be generated from clients it has not previously worked with. By placing less reliance on existing business, it dilutes the exposure to risk across a larger pool of customers and mitigates the risk that PA could lose a significant amount of its income from a small number of lost customers. Performance against this target is reported daily via regular monitoring against set KPIs.

Emerging Risk

Emerging risks are monitored via horizon scanning with reports being reviewed and considered at the Risk Forum, Risk and Compliance Committee and Board. These risks arise mainly from:

- changes in regulation and law;
- changes in technology;
- the macro-economic situation
- environmental and political changes; and
- changes in our market place.

A more detailed analysis of these risks is as follows:

- changes in technology allows patients to be treated remotely by the use of high-tech equipment. As such the need for outpatient appointments may decrease and hospital stays shorten undermining the current value of the Personal Group Hospital Plan.
- if the working age increases as state pension ages rise, there could be greater demand for insurances by the older population, or more claims by older workers who would previously have been retired. It could impact the relevance and profitability of our products.

- political and economic uncertainty surrounds "Brexit" and the impact of the pandemic. This is creating uncertainty in the plans and decisions of Clients. It may impact job numbers and job types, and therefore impact our target market. It may cause consolidation, and possible shrinkage, within the sectors of PA customer portfolio.
- the development and use of robotics and artificial intelligence are expected to impact the types of jobs in the workplace. This will impact the types of jobs filled by PA's target market. PA is currently reviewing its product set for appropriateness and competitiveness.

Although each of the above is known to be risks they have not been quantified or used to stress current data. This will be developed over the coming months with the Pillar II calculations.

Financial risks from Climate Change
The Bank of England has identified two key risks relating to climate change:

- physical risks such as extreme weather events, temporary disruption of many supply chains due to natural events, etc.
- transition risks related to adjustments towards a low-carbon economy. Factors such as:
    - climate related developments in policy and regulation;
    - the emergence of disruptive technology or business models;
    - shifting sentiment and societal preferences; and
    - evolving evidence, framework and legal interpretations.

PA has appointed the responsibility for Financial Risks from Climate Change to SMF 2, updated the appropriate Statement of Responsibility and is creating an action plan to fully embed the supervisory statement requirements related to Governance, Risk Management, Scenario Analysis and Disclosure by the end of 2021.

The action plan will be an output of the climate change risk assessment which was undertaken in line with the Risk Management Framework to ensure the process of assessing risk and control effectiveness was in line with the Group policy and process.

In summary climate change may introduce new illnesses or greater morbidity (either through a pandemic or another form), thereby increasing the claims ratio.

PA, whilst not employing any staff and having no direct premises, will not be directly impacted by increased costs and levies associated with CO2 production. There is a greater exposure to the financial risks of climate change in PA's supply chain, particularly to PGB which runs a mobile sales team, and to PAS which operates out the Head Office building. PA controls its financial exposure as the intra-group terms of business provide for a fixed percentage of premium income to be paid to these suppliers. In turn the suppliers are also considering their approach to the financial risks from climate change and the action plan will include all intra-group entities.

In 2020, the Group underwent a review process, during which it engaged to install photovoltaic solar panels in order to minimise the carbon footprint from the Group's head office at John Ormond House. This installation is planned to take place in 2021. In addition to this, wider Environmental, Social, and Corporate Governance ("ESG") targets have been set and reviewed at Board level, with these ESG targets to be incorporated into the new LTIP in 2021.

The pro-active management of the PA’s financial risks and the risks in its supply chain will protect the brand image of both PA and the wider Group.

Acceptability of Material Risks

The monthly **SLT Risk Report** is produced following a review by the Risk Team of the latest risk issues or ‘hot spots’ affecting the business. The report is reviewed and challenged as an agenda item during the SLT Risk Forum held on a monthly basis. Any resultant actions are captured in the minutes and completed by the owner/s.

The **Risk Report** reflects the outputs from SLT discussions and additional information on issues/events and monitoring outputs including a Treating Customers Fairly (“TCF”) dashboard. This report is reviewed/approved by the Board on a monthly basis and the Risk and Compliance Committee on a quarterly basis. The output from the Risk and Compliance Committee is minuted and actions captured for completion by designated owners.

The **Risk Register** shows the current and residual risk positions of each risk and is used to monitor risk movement progress for the Board.

C.8 Any Other Information

Brexit

PA continued to monitor the risks associated with Brexit during 2020. As a UK-only insurer, PA is not affected by passporting arrangements, or exposed to currency risk, but is exposed to general UK economic conditions. The expectations are that the greater impact will be felt by Clients, particularly those in logistics and care homes, and by Suppliers who import goods. Any changes in those marketplaces has the potential to ripple into PA. A Brexit readiness assessment was undertaken in 2020 to assess the risk posed to PA by the group’s tier 1 and 2 Clients and Suppliers. The assessment concluded the residual risk to PA was low.

D Valuation for Solvency Purposes (unaudited)

D.1 Assets

PA's Solvency II assets and liabilities are presented on a market basis consistent with the "fair value" accounting concept. The Company prepares its statutory financial statements in accordance with UK GAAP standards. Full details of the basis for the preparation of the Company's financial statements, critical accounting estimates and judgements and key accounting policies are set out in the publicly available financial statements.

UK GAAP valuation is used where consistent with Solvency II's market consistent basis. Assets and liabilities measured at cost or amortised costs in the Company's financial statements have been revalued to market value. Solvency II also requires specific valuation approaches for some assets and liabilities, which have been followed.

PA exercises judgement in selecting each of its accounting policies and follows a consistent approach in selecting its valuation approaches for Solvency II.

The following sections describe the valuation approaches used by the Company for valuing its assets and liabilities. The Solvency II Balance Sheet categories shown in this section are based on the format used for reporting on S.02.01 (Balance Sheet template), and account items in the Company's trial balance are mapped to the various line items of this template. Technical Provisions (BEL and Risk Margin) are shown as reported in S.17.01.

The material classes of assets shown on the Company's Solvency II Balance Sheet, their Solvency II values and corresponding values shown in the Company's financial statements (all in GBP) are summarised in the table below.

Asset Type	Financial Statements Value £000	SII Valuation £000	SII Reference	Recognition method
Deferred Tax Assets	-	80	R0040 – Deferred tax assets	In line with FRS 101 valuation plus an adjustment for DT on transfer of net assets from UK GAAP to Solvency II
Plant & Equipment held for own use	13	13	R0060 – Property, plant & equipment for own use	Fair value and cost less accumulated depreciation are immaterially different
Bank Deposits	2,587	2,587	R0200 – Deposits other than cash equivalents	Valued in line with FRS 101, all balances are on 6-month terms or less and so there is no discounting adjustment required.
Reinsurance – Health similar to life	78	(18)	R0300 – Reinsurance Health Non-Similar to Life	Revalued in line with changes to technical provisions under Solvency II

Insurance & intermediary receivables	2,295	1,986	R0360 – Insurance Intermediaries Receivable	Removal of unearned premiums
Cash & Cash Equivalents	10,196	10,196	R0410 – Cash and Cash Equivalents	Valued in line with FRS 101
Any other assets	1,498	1,473	R0420 – Any other assets, not shown elsewhere	Includes intercompany assets and is valued in line with FRS 101
Total	**16,667**	**16,317**		

There have been no changes in valuation basis of the assets above in the reporting period.

The following sections provide further details on the specific valuation policies that the Company has applied to produce its Solvency II Balance Sheet.

Financial Instruments

Recognition and derecognition of investments

A financial asset is initially recognised on the date the Company becomes committed to purchase the asset. A financial asset is derecognised when the Company's rights to receive cash flows from the asset have expired or where the risks and rewards of ownership have been substantially transferred by the Company. For financial statements accounting purposes, the Company classifies financial assets into one of the following categories: financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets. For Solvency II, all financial investments are valued at fair value.

Fair value of investments

The fair value of a financial instrument is the amount that would be received to sell an asset or settle a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset being valued occurs with sufficient frequency and volume to provide pricing information on an on-going basis. All equities are directly observable due to their listing on a primary stock exchange in the UK.

Valuation differences between the Solvency II and UK GAAP balance sheets

Solvency II requires a hierarchy of valuation methods to be applied to value assets and liabilities on the Solvency II balance sheet.

The Company considers its policy on the fair value of investments to be consistent with the hierarchy of valuation methods required for Solvency II. Accordingly, the valuation policy on fair values is applied consistently between the Company's Solvency II reporting and its statutory financial reporting.

Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash on hand and on demand deposits with banks.

(Re)insurance and Intermediary Receivables

Insurance receivables are recognised when due. These represent amounts due from insurance contract holders and are recognised at the amount expected to be received when due. Due to the short-term nature of the company's receivables, amounts are not discounted.

The presentation of insurance receivables on the Solvency II balance sheet differs from the Company's statutory financial statements as the insurance receivables not yet due which are included within the insurance receivable in the financial statements are excluded from the Solvency II balance sheet. The total value of the amount deducted is £309k.

Reinsurance recoverables on the Solvency II balance sheet represent the value of the reinsurance technical provisions which is £96k lower than the recoverable amount shown in the financial statements.

Other Receivables (Trade not Insurance)

Other receivables are recognised when due and are valued at the amount expected to be received or paid. Due to the short-term nature of the company's other receivables and payables, amounts are not discounted.

The valuation and presentation of the Company's other receivables is consistent with the treatment for the Company's external financial reporting.

Deferred Tax

The Deferred tax balance recognised under UK GAAP, which remains in the Solvency II valuation, is in respect of future share options for senior staff.

Further deferred tax balances (other than in respect of the carry forward of unused tax credits and unused tax losses) are determined by reference to the difference between the Solvency II Balance Sheet and the values ascribed for tax purposes.

The reconciliation of the adjustment made to DT for the movement between the financial statements and the Solvency II balance sheet is as follows:

Asset Type	Financial Statements Value £000	SII Valuation £000	Difference	DT Impact @ 19%
Assets before DT adjustment	16,667	16,237	430	82
Liabilities	(2,088)	(2,027)	(61)	(12)
Technical Provisions	(1,894)	(1,589)	(305)	(58)
Total	12,685	12,621	64	12

Other Assets

Other assets include £881k of intercompany assets.

The valuation and presentation of these receivables is consistent with the treatment under UK GAAP.

D.2 Technical Provisions

GAAP Accounts

The provision for claims represents the gross estimated liability arising from claims episodes in the current and preceding financial years which have not given rise to claims paid. It is estimated based on current information, and the ultimate liability may vary as a result of subsequent information and events. Adjustments to the amount of claims provision for prior years are included in the Profit and Loss in the financial year in which the change is made.

Solvency II

Technical provisions by line of business: As at 31 December 2020

Line of Business	Best Estimate £000	Risk Margin £000	Reinsurance £000
Medical Expense	1,340	284	-
Income Protection	(41)	4	(18)

Technical provisions by line of business: As at 31 December 2019

Line of Business	Best Estimate £000	Risk Margin £000	Reinsurance £000
Medical Expense	900	285	-
Income Protection	(27)	5	(3)

The Best Estimate of Liabilities ("BEL") calculation is based on adjusting the statutory claims reserves and other line items into a Solvency II compliant provision. Some items of the BEL are not included within the statutory balance sheet and so these items have to be considered in addition to what is already present.

The valuation of the provision for claims outstanding is estimated by using a Chain Ladder method and the main assumption underlying this technique is that the Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. The chain and ladder method anticipates that 97.9% of claims will be paid within 1 year of the incident, as a result no discounting has been applied to the claims provision.

For unearned business, the Unrealised Premium Reserve ("UPR") from the statutory accounts is replaced by the profit less claims expected on the unearned premiums. The loss ratio used for this is the average of the previous three years. PA policies are monthly/weekly in duration rather than annual. This value is included as part of the premium provisions relating to incepted business within the technical provisions' workings.

There is also an allowance for claims related to Bound but Not Incepted ("BBNI") contracts. This is calculated in the same manner as the in-force business, by applying the loss ratio to the premium. This is included within the premium provisions for unincepted business.

Future premium income is accounted for in the Technical Provisions calculation. This is the amount of all future premiums not yet received by PA. This related to both incepted and unincepted business.

PA calculate the provision for “Events not in the Data” (“ENID”) by using an exposure-based approach. As the policies are short term then any event is likely to be known by the time the reporting is due. There are some exposures which are still outstanding at this point, so these are taken as the exposure base.

PA have limited reinsurance in place. The reinsurance recoverable claims are calculated on the same basis as the gross results with the reinsurance agreement applied. It is assumed that there are no recoverable on events not in the data losses.

As part of the technical provisions calculation a reserve is set up for future expenses relating to the current bound business. The length of exposure of this business and the tail length of claim is limited. An assumption of 22.53% (2019: 24.16%) of premiums is taken. This is the ratio of administration expenses vs earned premium in the statutory accounts. Administration expenses in this context include salaries and all operational overhead

Given that nearly all claims are run off after a year and the weekly/monthly term of the policies, the impact of discounting is assumed to be zero in line with Solvency II guidance.

All calculations are performed for hospital plan and income protection separately. The results are fed into Solvency II classes 13 and 14 for reporting purposes.

Risk Margin

The following risks projected within the Risk Margin:

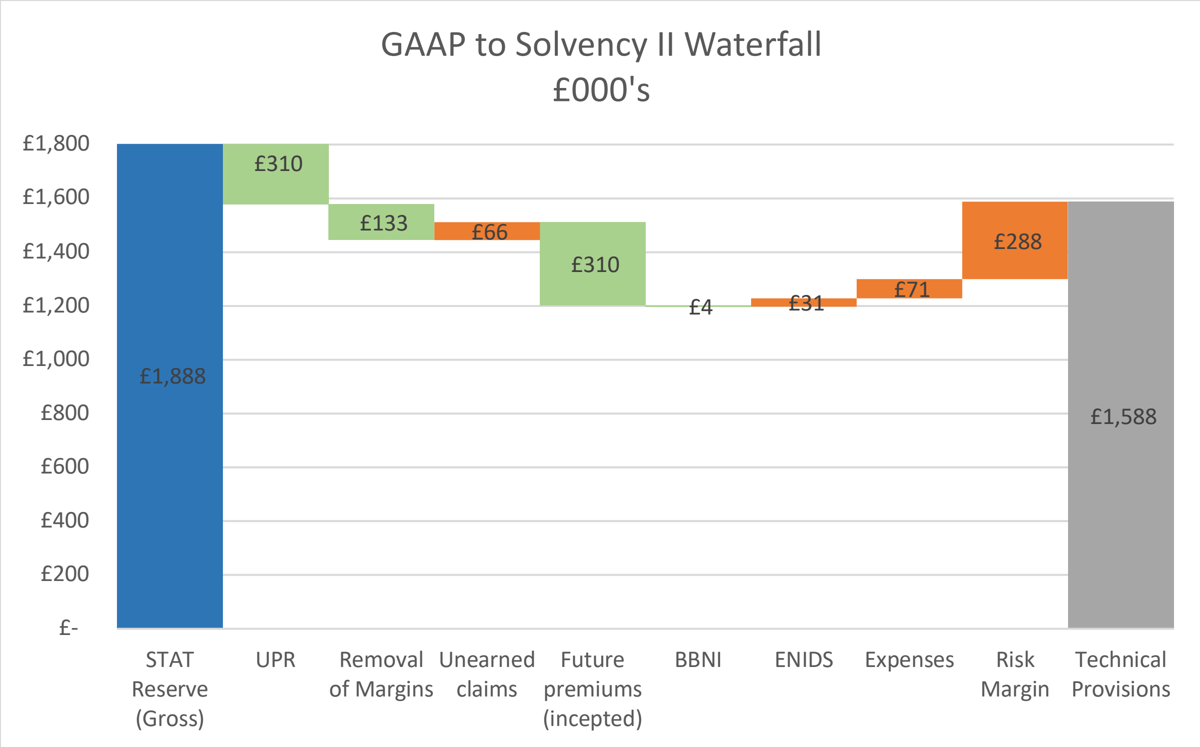
Underwriting risk (i.e. premium and reserve risk, lapse risk and catastrophe risk) across all the business lines, counterparty default risk, and the operational risk and cat risk are used for the calculation of risk margin.

Simplification: the whole SCR is used for each future year for each risk sub module. The SCR will proportionally decrease based on the run-off pattern of net claims payment. The assumptions on which the risk profile linked to the obligations is considered unchanged over the years. This corresponds to simplification number 2 contained within the EIOPA Technical Specification TP 5.32. At each annual point the sections of the SCR which are used to calculate the risk margin are multiplied by the 6% cost of capital in SII guidance and then discounted using the prescribed yield curve.

Discount rate and discounting: The projected charges are discounted by the term structure of a relevant currency yield curve as at the valuation date. The yield curves by currency are published by EIOPA and disclosed in the EIOPA website. The starting point of the projection of the SCR is the day one SCR, this is projected annually into the future

Allocation of the risk margin to lines of business: The risk margin is treated in aggregate and not allocated to the lines of business as part of the overall calculation. For reporting purposes, the risk margin is allocated to each line of business in proportion to the Technical Provision

The following is a waterfall diagram detailing the changes that have been made to convert the GAAP accounting reserve into the Solvency II Technical Provisions:



The following are the adjustments made to convert the GAAP accounts figures to technical provisions:

Claims Provisions – The Claims Provisions as at 31 December 2020 are £1,476k (31 December 2019: £1,119k) and is part of the £1,888k (2019: £1,607k) that makes up the stat Reserve.

UPR – This amount of £310k (2019: £403k) is removed from the stat reserve and relates to the full value of unearned premiums.

Removal of margin – This amount of £133k (2019: £98k) is added back. The chain ladder provision used in the financial statements includes a 10% margin in line with general industry standard.

Premium Provision on claims – The premium provision on claims is determined to be £66k (2019: £72k). This is the expected claims pay-out on unexpired risks.

Future premiums – the future premiums receivable from policy holders is £310k (2019: £403k).

The net impact of adding BBNI business is to decrease provisions by £4k (2019: £38k) after allowing for all claims, expenses and premiums on this business.

Events not in data loading – The allowance for events not in the data has been estimated to be £31k (2019: £27k).

Run-off provision – The change in expenses from the figure reported in the statutory financial statements is £71k (2019: £109k). This is to make an allowance for the length of time that expenses would be run-off for and the underlying expense inflation.

Discounting – The reduction in the technical provisions used to discount the figures to present value is £nil owing to the short tail of the liabilities.

Risk Margin – The risk margin has been considered to ensure that the value of the technical provisions is equivalent to the amount that would have to be to a third-party insurer in the event of a takeover. The risk margin is £288k as at 31 December 2020 (£290k as at 31 December 2019).

Level of Uncertainty

Whilst there will always be a degree of uncertainty regarding any potentially undisclosed events the nature of the majority of the business being short tailed simple medical insurance cover with a long track record allows the board sufficient comfort over the accuracy of the calculation.

D.3 Other Liabilities

Asset Type	Financial Statements Value £000	SII Valuation £000	SII Reference	Recognition method
Deferred tax liability	2	2	R0780 – Deferred tax liabilities	Valued in line with FRS 101
Reinsurance Payable	73	12	R0830 – Reinsurance payables	Valued in line with FRS 101 less value of unearned premiums ceded
Payables (trade, not insurance)	2,013	2,013	R0840 – Payables (trade, not insurance)	Valued in line with FRS 101
Total	**2,088**	**2,027**		

Deferred Tax

Deferred tax balances (other than in respect of the carry forward of unused tax credits and unused tax losses) are determined by reference to the difference between the Solvency II Balance Sheet and the values ascribed for tax purposes.

Deferred tax balances are recognised in respect of timing differences between depreciation and capital allowances in respect of fixed assets.

Reinsurance Payables

Payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. Payable are recognised at the amount expected to be received or paid when due. Due to the short-term nature of the company's reinsurance payables, amounts are not discounted.

The presentation of reinsurance receivables and payables on the Solvency II balance sheet differs from the Company's statutory financial statements, since reinsurance receivables and payables for financial reporting purposes include premiums and claims which are included in Technical Provisions in the Solvency II Balance Sheet.

Payables (trade, not insurance)

Other payables are recognised when due and are valued at the amount expected to be received or paid. Due to the short-term nature of the company's other payables, amounts are not discounted.

Other payables include amounts receivable from and payable to non-insurance debtors and creditors. Other payables also include current tax liabilities, which are valued at the amount expected to be recovered or paid in accordance with the provisions of FRS 101. The calculation of the total tax charge necessarily involves a degree of estimation and judgement in respect of certain items whose tax treatment cannot be finally determined until resolution has been reached with the relevant tax authority.

The valuation and presentation of the Company's other payables is consistent with the treatment for the Company's external financial reporting.

Alternative Valuation Methods

As part of the transition from UK GAAP to Solvency II it was assessed that the fair value of the vehicles and equipment held as 'property, plant and equipment held for own use' (R0060) was immaterially different to the carrying value in the statutory accounts which holds the assets at cost less accumulated depreciation and impairment losses. This was assessed by reviewing independent third-party sales listings of comparable assets. As a result, the Solvency II valuation for R0060 has been held as the same valuation for UK GAAP purposes. This will be reviewed at each year end to ensure a material difference in calculation method does not arise.

D.4 Employee Benefits

The treatment of employee benefits under UK GAAP are considered to be consistent with the Solvency II requirements. UK GAAP requires employee pension obligations to be calculated on a best estimate liability discounted at a corporate bond rate.

The Company's management do not consider any employee benefit liabilities to exist as at 31 December 2020.

E Capital Management (unaudited)

E.1 Own Funds

Current Capital Requirements

Because of the simple and short-term nature of its products, PA believes its risk profile does not deviate significantly from the assumptions underlying the Standard Formula and hence has used the Standard Formula to determine its capital requirements under Solvency II. The Company has utilised standard formula capital models (KPMG and Mazars) and FS Assist to upload the data to the Bank of England BEEDS portal in the prescribed XBRL format.

PA has classified the majority of its business (hospital and convalescence plans) under the Solvency II line of business of medical expense insurance. The remaining elements of the business, VGIP, has been shown as an income protection policy.

PA's current solvency position is currently in line with its long-term prudent approach of maintaining capital well in excess of its solvency requirements. The Board consider that a minimum SCR Solvency ratio of 200% is a prudent and sensible own funds level. It is expected that this level will be considered applicable for the foreseeable future, which is considered to be the following 3 years which have been forecast. The Board are able to manage the Solvency ratio, to ensure it stays above the required level, through varying dividend payments up to the immediate parent company.

There have been no material changes over the reporting period.

As per the Annual Return 2020, PA's own funds are made up as follows:

Reconciliation of valuation differences	**£000**
Called up and fully paid share capital	1,528
Profit and loss account	11,216
Total equity per financial statements	**12,744**
Difference in valuation of technical provisions	305
Difference in valuation of assets	(409)
Difference in valuation of liabilities	61
Excess of assets over liabilities for solvency purposes	**12,701**

The breakdown of excess assets over liabilities for solvency purposes is as follows.

	2020 Actual £000	2019 Actual £000
Assets		
Cash and Deposits	12,783	11,204
Property, Plant & Equipment	13	38
R/i Provisions Recoverables	(18)	(3)
Deferred Tax	80	(1)
Other Assets	3,459	3,511
Total Assets	**16,317**	**14,749**
Liabilities		
Gross Technical Provisions	1,300	872
Risk Margin	289	290
Other Liabilities	2,027	2,705
Total Liabilities	**3,616**	**3,867**
SII Own Funds	**12,701**	**10,882**

The position of own funds split into tier 1,2 and 3 is as follows;

	Total £000	Tier 1 £000	Tier 2 £000	Tier3 £000
Ordinary Share Capital	1,528	1,528	-	-
Reconciliation Reserve	11,095	11,095	-	-
Deferred Tax	78	-	-	78
2020 Totals	**12,701**	**12,623**	**-**	**78**
2019 Totals	**10,882**	**10,891**	**-**	**(9)**

- Tier 1: This is made up of ordinary share capital and the reconciliation reserve, which constitutes distributable reserves from a Solvency II perspective.
- Tier 2: £nil
- Tier 3: This relates to the deferred tax liability incurred on transition from UK GAAP to Solvency II accounting.

The Company does not have any ringfenced own funds.

E.2 SCR & MCR

The own funds above interact with the SCR requirements, as disclosed in section C, as follows.

	2020 Actual £000	2019 Actual £000
SCR	4,105	4,169
MCR	2,255	2,153
SII Own Funds	12,701	10,882
Excess over SCR	8,596	6,712
Excess over MCR	10,446	8,660
Solvency Ratio	309%	261%

As in the prior years, the SCR has remained consistent year on year.

The MCR is the absolute floor, namely €2.5m, in GBP. This has increased in the year due to the movement in exchange rates.

Normally the business is very predictable and so the actual SCR at the end of each period is broadly in line with previous expectations, however, this is dependent on the Company writing its expected premiums.

The prediction is that the SCR will fall in 2021 to reflect the overall net reduction in policyholders as a result of the inability to sell new insurance business during the COVID-19 pandemic, as discussed in section C.2.

	2021 Prediction £m	2020 Actual £m	2020 Prediction £m	2019 Actual £m	2019 Prediction £m
Solvency Capital Requirement Results	3.6	4.1	4.0	4.2	4.5

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

This is not applicable for PA.

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

The standard formula has been utilised by PA and no variations have been applied.

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

There has been no non-compliance with the SCR and MCR over the reporting period and there is no foreseen non-compliance.

E.6 Any other information

There is no further information to disclose.

F Glossary

Technical Terms

BBNI – Bound But Not Incepted

BEL – Best Estimate of Liabilities

EEE – Employee Engagement Executive

EFIFP – Expected Profits Included in Future Premiums

EIOPA – European Insurance and Occupational Pensions Authority

ENID – Events Not In Data

ERM – Enterprise Risk Management

FCA – Financial Conduct Authority

FRC – Financial Reporting Council

FRS – Financial Reporting Standard

IAS – International Accounting Standard

IBNR – Incurred But Not Reported

KRI – Key Risk Information

MAIHC - Mixed Activity Insurance Holding Company

MCR – Minimum Capital Requirement

ORSA – Own Risk & Solvency Assessment

PMI – Private Medical Insurance

PMS – Personal Management Solutions Limited

PRA – Prudential Regulation Authority

RCC – Risk & Compliance Committee

SCR – Solvency Capital Requirement

SIMF – Senior Insurance Management Function

SLT – Senior Leadership Team

TCF – Treating Customers Fairly

UPR – Unrealised Premium Received

VGIP - Voluntary Group Income Protection

Personal Group Entities

PA – Personal Assurance Plc

PACT – Personal Assurance Charitable Trust

PAGL – Personal Assurance (Guernsey) Limited

PAS – Personal Assurance Services Limited

PG – Personal Group (N.B. This does not refer to a specific entity but the Group as a whole)

PGH – Personal Group Holdings Plc

PGL – Personal Group Limited

S.02.01.01
Balance sheet

		Solvency II value
	Assets	C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	80,031.27
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	12,672.73
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	2,586,682.98
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	0
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	2,586,682.98
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	-18,010.96
R0280	*Non-life and health similar to non-life*	-18,010.96
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	-18,010.96
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	1,985,592.59
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	1,474,633.75
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	10,196,283.98
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	16,317,886.34

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	1,587,935.16
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	1,587,935.16
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	1,299,691.16
R0590	*Risk margin*	288,244.00
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*	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	2,247.44
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	
R0830	Reinsurance payables	13,468.59
R0840	Payables (trade, not insurance)	2,012,691.85
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	3,616,343.03
R1000	**Excess of assets over liabilities**	12,701,543.31

S.05.01.01

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)		Total
		Medical expense insurance	Income protection insurance	
		C0010	C0020	C0200
	Premiums written			
R0110	*Gross - Direct Business*	22,249,524.26	270,083.01	22,519,607.27
R0120	*Gross - Proportional reinsurance accepted*			0
R0130	*Gross - Non-proportional reinsurance accepted*			0
R0140	*Reinsurers' share*		140,679.71	140,679.71
R0200	*Net*	22,249,524.26	129,403.30	22,378,927.56
	Premiums earned			
R0210	*Gross - Direct Business*	22,325,081.07	288,181.19	22,613,262.26
R0220	*Gross - Proportional reinsurance accepted*			0
R0230	*Gross - Non-proportional reinsurance accepted*			0
R0240	*Reinsurers' share*		172,284.45	149,040.66
R0300	*Net*	22,325,081.07	139,140.53	22,464,221.60
	Claims incurred			
R0310	*Gross - Direct Business*	4,291,642.66	102,996.42	4,394,639.08
R0320	*Gross - Proportional reinsurance accepted*			0
R0330	*Gross - Non-proportional reinsurance accepted*			0
R0340	*Reinsurers' share*		96820.98	96,820.98
R0400	*Net*	4,291,642.66	6,175.44	4,297,818.10
	Changes in other technical provisions			
R0410	*Gross - Direct Business*	64,939.04	25,574.94	90,513.98
R0420	*Gross - Proportional reinsurance accepted*			0
R0430	*Gross - Non-proportional reinsurance accepted*			0
R0440	*Reinsurers' share*		15,090.28	15,090.28
R0500	*Net*	64,939.04	10,484.66	75,423.70
R0550	**Expenses incurred**	11,789,092.19	143,105.69	11,932,197.88
	Administrative expenses			
R1200	**Other expenses**			101,207.96
R1300	**Total expenses**			12,033,405.84

S.05.02.01
Premiums, claims and expenses by country

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Non-life	**Home Country**	**Top 5 countries (by amount of gross premiums written) - non-life obligations**					**Total Top 5 and home country**
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	*Gross - Direct Business*	22,519,607.27						22,519,607.27
R0120	*Gross - Proportional reinsurance accepted*	0.00						0.00
R0130	*Gross - Non-proportional reinsurance accepted*	0.00						0.00
R0140	*Reinsurers' share*	140,679.71						140,679.71
R0200	*Net*	22,378,927.56	0.00	0.00	0.00	0.00	0.00	22,378,927.56
	Premiums earned							
R0210	*Gross - Direct Business*	22,613,262.26						22,613,262.26
R0220	*Gross - Proportional reinsurance accepted*	0.00						0.00
R0230	*Gross - Non-proportional reinsurance accepted*	0.00						0.00
R0240	*Reinsurers' share*	149,040.66						149,040.66
R0300	*Net*	22,464,221.60	0.00	0.00	0.00	0.00	0.00	22,464,221.60
	Claims incurred							
R0310	*Gross - Direct Business*	4,394,639.08						4,394,639.08
R0320	*Gross - Proportional reinsurance accepted*	0.00						0.00
R0330	*Gross - Non-proportional reinsurance accepted*	0.00						0.00
R0340	*Reinsurers' share*	96,820.98						96,820.98
R0400	*Net*	4,297,818.10	0.00	0.00	0.00	0.00	0.00	4,297,818.10
	Changes in other technical provisions							
R0410	*Gross - Direct Business*	90,513.98						90,513.98
R0420	*Gross - Proportional reinsurance accepted*	0.00						0.00
R0430	*Gross - Non-proportional reinsurance accepted*	0.00						0.00
R0440	*Reinsurers' share*	15,090.28						15,090.28
R0500	*Net*	75,423.70	0.00	0.00	0.00	0.00	0.00	75,423.70
R0550	**Expenses incurred**	11,932,197.88						11,932,197.88
R1200	**Other expenses**							101,207.96
R1300	**Total expenses**							12,033,405.84

S.17.01.01
Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance		Total Non-Life obligation
		Medical expense insurance	Income protection insurance	
		C0020	C0030	C0180
R0010	**Technical provisions calculated as a whole**	0.00	0.00	0.00
R0020	Direct business			0.00
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			0.00
	Technical provisions calculated as a sum of BE and RM Best Estimate			
	Premium provisions			
R0060	**Gross - Total**	-114,272.93	-62,260.71	-176,533.64
R0070	Gross - direct business	-114,272.93	-62,260.71	-176,533.64
R0100	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	0.00	0.00	0.00
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			-37,398.75
R0150	**Net Best Estimate of Premium Provisions**	-114,272.93	-24,861.96	-139,134.89
	Claims provisions			
R0160	**Gross - Total**	1,454,682.82	21,541.98	1,476,224.80
R0170	Gross - direct business	1,454,682.82	21,541.98	1,476,224.80
R0200	Total recoverable from reinsurance/SPV and Finite Re before the adjustment for expected losses due to counterparty default	0.00	0.00	0.00
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0.00	19,387.78
R0250	**Net Best Estimate of Claims Provisions**	1,454,682.82	2,154.20	1,456,837.01
R0260	**Total best estimate - gross**	1,340,409.89	-40,718.73	1,299,691.16
R0270	**Total best estimate - net**	1,340,409.89	-22,707.77	1,317,702.12
R0280	**Risk margin**	284,244.00	4,000.00	288,244.00
R0320	**Technical provisions - total**	1,624,653.89	-36,718.73	1,587,935.16
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	0.00	0.00	-18,010.96
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total**	1,624,653.89	-18,707.77	1,605,946.12

S.19.01.01

Non-Life insurance claims

Accident year / underwriting year | Accident year

Gross Claims Paid (non-cumulative)

(absolute amount)

	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110		C0170	C0180
Year	0	1	2	3	4	5	6	7	8	9	10+			
Prior													0	0
N-14													0	0
N-13													0	0
N-12													0	0
N-11													0	0
N-10													0	0
N-9						335							0	335
N-8					650	0							0	650
N-7				-18,570	0	0							0	-18,570
N-6			50,050	7,925	0	0							0	57,975
N-5		1,189,824	35,056	-38,675	0	0							0	1,186,205
N-4	4,535,399	1,005,126	50,866	-845	0								0	5,590,546
N-3	4,359,059	1,028,993	54,354	20,860									20,860	5,463,265
N-2	4,375,080	937,783	115,917										115,917	5,428,780
N-1	4,126,325	894,209											894,209	5,020,533
N	2,943,948												2,943,948	2,943,948
												Total	3,974,933	25,673,666

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	Year end (discounted data)
	0	1	2	3	4	5	6	7	8	9	10	
Prior												
N-14												
N-13												
N-12												
N-11												
N-10												
N-9												
N-8					0							
N-7				1,241	0							0
N-6			32,059	0	0							0
N-5		58,277	3,745	120	0							0
N-4	1,555,900	4,055	16,020	50	0							0
N-3	1,215,991	5,790	1,150	5,400								5,400
N-2	1,201,381	5,597	502									502
N-1	1,059,609	9,965										9,965
N	1,449,676											1,449,676
											Total	1,465,542

S.23.01.01

Own Funds

		2019				
	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)	1,528,000.00	1,528,000.00		0.00	
R0030	Share premium account related to ordinary share capital	0.00	0.00		0.00	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0.00	0.00		0.00	
R0050	Subordinated mutual member accounts	0.00		0.00	0.00	0.00
R0070	Surplus funds	0.00	0.00			
R0090	Preference shares	0.00		0.00	0.00	0.00
R0110	Share premium account related to preference shares	0.00		0.00	0.00	0.00
R0130	Reconciliation reserve	11,095,759.47	11,095,759.47			
R0140	Subordinated liabilities	0.00		0.00	0.00	0.00
R0160	An amount equal to the value of net deferred tax assets	77,783.84				-8,523.37
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0.00	0.00	0.00	0.00	0.00
	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					
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	0.00				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	0.00	0.00	0.00	0.00	

R0290	**Total basic own funds after deductions**	12,701,543.31	12,623,759.47	0.00	0.00	-8,523.87
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0.00				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0.00				
R0320	Unpaid and uncalled preference shares callable on demand	0.00				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0.00				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0.00				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0.00				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0.00				
R0390	Other ancillary own funds	0.00				
R0400	**Total ancillary own funds**	0.00			0.00	0.00
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	12,701,543.31	12,623,759.47	0.00	0.00	-8,523.87
R0510	Total available own funds to meet the MCR	12,623,759.47	12,623,759.47	0.00	0.00	
R0540	Total eligible own funds to meet the SCR	12,701,543.31	12,623,759.47	0.00	0.00	-8,523.87
R0550	Total eligible own funds to meet the MCR	12,623,759.47	12,623,759.47	0.00	0.00	
R0580	**SCR**	4,105,583.12				
R0600	**MCR**	2,153,325.00				
R0620	**Ratio of Eligible own funds to SCR**	309%				

R0640	**Ratio of Eligible own funds to MCR**	586%

	Reconciliation reserve	C0060
R0700	Excess of assets over liabilities	12,701,543.31
R0710	Own shares (held directly and indirectly)	0.00
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,605,783.84
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring-fenced funds	0.00
R0760	**Reconciliation reserve**	11,095,759.47

	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	145,264.43
R0790	**Total Expected profits included in future premiums (EPIFP)**	145,264.43

S.25.01.01

Solvency Capital Requirement - for undertakings on Standard Formula

Z0010 **Article 112** Regular reporting

		Net solvency capital requirement	USP
		C0030	C0090
R0010	Market risk	9,426.57	
R0020	Counterparty default risk	1,202,265.13	
R0030	Life underwriting risk		
R0040	Health underwriting risk	3,827,070.34	
R0050	Non-life underwriting risk		
R0060	Diversification	-747,342.81	
R0070	Intangible asset risk		
R0100	**Basic Solvency Capital Requirement**	4,291,419.23	

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	678,397.87
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	-864,233.98
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	4,105,583.12
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	4,105,583.12
	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	
R0450	Method used to calculate the adjustment due to RFF/MAP nSCR aggregation	No adjustment
R0460	Net future discretionary benefits	

S.28.01.01

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

2019

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	1,119,726.19

		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	1,340,409.89	22,249,524.26
R0030	Income protection insurance and proportional reinsurance	0.00	129,403.30
R0040	Workers' compensation insurance and proportional reinsurance	0.00	
R0050	Motor vehicle liability insurance and proportional reinsurance	0.00	
R0060	Other motor insurance and proportional reinsurance	0.00	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0.00	
R0080	Fire and other damage to property insurance and proportional reinsurance	0.00	
R0090	General liability insurance and proportional reinsurance	0.00	
R0100	Credit and suretyship insurance and proportional reinsurance	0.00	
R0110	Legal expenses insurance and proportional reinsurance	0.00	
R0120	Assistance and proportional reinsurance	0.00	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0.00	
R0140	Non-proportional health reinsurance	0.00	
R0150	Non-proportional casualty reinsurance	0.00	
R0160	Non-proportional marine, aviation and transport reinsurance	0.00	
R0170	Non-proportional property reinsurance	0.00	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0.00

		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	1,119,726.19
R0310	SCR	4,105,583.12
R0320	MCR cap	1,847,512.40
R0330	MCR floor	1,026,395.78
R0340	Combined MCR	1,119,726.19
R0350	Absolute floor of the MCR	2,255,200.00
R0400	**Minimum Capital Requirement**	2,255,200.00

SFCR/DIGITAL/APR2021-V5

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