

# **Personal Assurance Plc**

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**Solvency & Financial Condition Report**  
**31 December 2016**

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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 2016. This SFCR covers Personal Assurance Plc ("PA") on a solo basis. As this is the first year in which PA has published an SFCR the comparative data for 2015 presented in section D, Valuation for Solvency Purposes, and section E, Capital Management, is unaudited.

Sections D & E of this document are audited by KPMG in line with EU regulation.

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 the Company has continued to so comply subsequently and will continue to so comply in future.



Mark Scanlon  
Chief Executive Officer  
17/5/2017

# 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 intermediate 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. Premiums are collected by the employer via payroll deduction and the majority of policies have a short contract duration of either a week or a month in line with the payroll frequency.

## **2016 business performance**

The hospital cash plans and convalescence plans underwritten by PA have been PA's core products since 1984 and represented the majority (96%) of its gross written premiums in 2016. 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 2016 was in line with expectations, with PA making an underwriting profit of £6.8m and pre-tax profit of £6.6m.

As at 31 December 2016, PA's Solvency Ratio was 261% of its Solvency Capital Requirement ("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 2016 was minimal at £0.1m.

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 up the Group should it be required in order to maintain the desired Solvency Ratio of at least 200%. In 2016 PA paid a dividend of £6.5m to its parent company PGL.

## **Systems of governance**

PA employs systems of governance, commensurate with the simplicity of its products and risk profile, through a combination of internal and external knowledge and resources. As part of its systems of governance, PA has three lines of defence. The first line of defence is operated by the management of each business area. The second line of defence is with the Risk Team and the third line of defence rests with the internal Auditors. Management information produced to support the governance framework is reviewed regularly by the Senior Management Team ("SMT"), the Risk & Compliance Committee ("RCC"), and by PA's Board.

## **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. 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. PA has taken account of and managed all its risks within appetite during 2016, with Risk Owners providing the PA Board with supporting evidence.

### ***Capital management***

As at 31 December 2016 PA had a SCR of £4.8m and a Minimum Capital Requirement ("MCR") of £2.3m, 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 totaling £12.5m and were in line with previous projections.

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. The stress tests highlighted that a severe drop in retention (over 60% drop) or increase in dividend to the parent company are the main drivers that could potentially lower the Solvency II ratio. However, despite the severe stress and scenario testing, PA's solvency requirements remain over 100% at all times. The Board of PA and the SMT will continuously monitor any changes to business performance and any changes to currently projected results.

### ***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 2016 was in line with expectations and the risks encountered were in line with the risk management framework and risk appetite. The Board of PA has a high level of confidence that it will be able to maintain a Solvency Ratio of > 200%, reflecting its risk appetite, going forward.

# A Business and Performance (unaudited)

## A1 Business and external environment:

### 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:	KPMG LLP 1 St Peter's Square Manchester M2 3AE
Regulator (financial supervision):	Prudential Regulation Authority (Smaller Insurers Supervisory Group) Bank of England Threadneedle Street London EC2R 8AH <a href="mailto:PRA.FirmEnquiries@bankofengland.co.uk">PRA.FirmEnquiries@bankofengland.co.uk</a>
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").

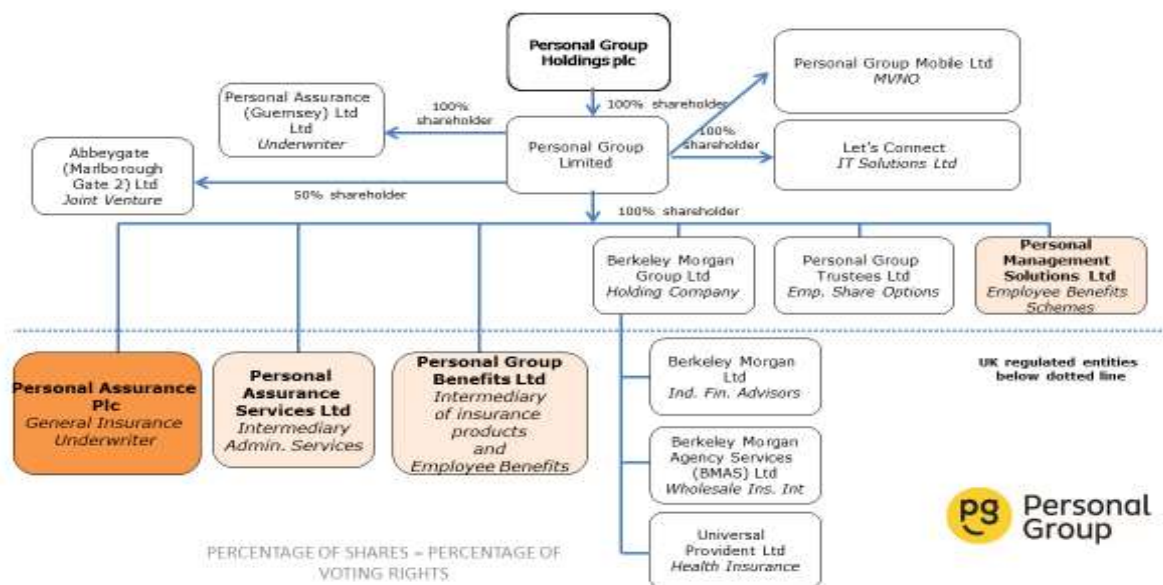
PA is regulated as a solo insurance entity as the Group is considered to be a *Mixed Activity Insurance Group*.

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

PA's functional and presentation currency is GBP.

## Group Structure and Overview:

### Personal Group Corporate Structure Chart Close Links & Controllers



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, as well as death benefit policies which are underwritten by another group subsidiary, Personal Assurance (Guernsey) Limited ("PAGL").

The diagram above shows the composition of the Group and the activity undertaken by each company. To aid understanding PA and the two intermediary group companies it has formal Terms of Business Agreements with are highlighted, along with Personal Management Solutions Limited ("PMS") (which has no contractual relationship with PA) which sells employee benefit schemes to employers operating in PA's target market.

The policies which PA underwrites are predominantly sold face to face by Personal Group Benefits Limited ("PGB") and administered by Personal Assurance Services Limited ("PAS"). These services are provided via Terms of Business Agreements between the relevant companies.

As well as receiving premium payments for the sales of its products, PA also receives and passes on the premium payments for PAGL.

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.

There have been no significant business or other events that have occurred over the reporting period that have had a material impact on PA in terms of risk of management.



**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 FRS101 basis as shown in the PA Financial Statements.

The profit and loss account for the year ended 31 December 2016 is set out below:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Earned premiums net of reinsurance	25,196	25,215
Claims incurred	(6,387)	(6,754)
Operating expenses	(12,055)	(11,435)
<b>Balance on technical account for general business</b>	<b>6,754</b>	<b>7,026</b>
Net investment return	57	111
Share-based payment expenses	(94)	(854)
Charitable donations	(100)	(100)
<b>Profit before tax</b>	<b>6,617</b>	<b>6,183</b>

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 contracts in line with the payroll frequency. These policies accounted for 96% of gross premiums written in 2016.

In addition, PA also underwrites a small amount of private medical insurance ("PMI") policies and voluntary group income protection ("VGIP") policies. These accounted for 1.9% and 2.1% respectively of gross written premiums in 2016.

On 9 February 2016, the Group signed an agreement with AXA PPP Healthcare to transfer the PMI business over to them in a phased approach between July 2016 and June 2017. PA will continue to underwrite policies until each policy's renewal date, from which date AXA PPP Healthcare will provide continuous cover.

The VGIP policies are no longer actively marketed.

## **A2 Performance from underwriting activities:**

PA's earned premiums for the year ended 31 December 2016 were in line with the prior year, at £25.2m.

Reductions in VGIP premiums (classified as income protection insurance) and PMI premiums (classified as medical expense insurance) have been offset by increases in hospital plan premiums (also classified as medical expense insurance).

The claims incurred amount decreased by £0.4m (5%); the majority of this reduction was as a result of the reduction in the PMI book which has traditionally had a higher loss ratio.

Underwriting profit for the year was £6.8m and was generated from business 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

### **Acquisition costs**

Acquisition costs incurred in writing the business are recognised in the period in which the related premiums are earned for statutory reporting. Under Solvency II all expenditure on acquisition costs is immediately incurred in full.

Under UK GAAP PA has not recognised any deferred tax assets or liabilities in relation to acquisition costs.

## **A3 Performance from investment activities:**

PA adopts a prudent approach of maintaining the majority of its investments in short term bank deposits. This strategy has been approved by the Board to minimise any market, credit and liquidity risks.

As at 31 December 2016, PA's investment portfolio comprised the following assets:

<b>Asset type</b>	<b>Valuation £000</b>	<b>%</b>
Bank deposits	8,742	85%
Cash at bank	891	9%
Equities	672	6%
	<b>10,305</b>	<b>100%</b>

For the year ended 31 December 2016, the investment portfolio made an investment return of £67K, net of management fees (2015: £110K) as detailed below.

<b>Asset type</b>	<b>Gross investment income £000</b>	<b>Investment expenses £000</b>	<b>Realised gains and (losses) £000</b>	<b>Unrealised gains and (losses) (recognised in equity) £000</b>	<b>Total Investment Return £000</b>
Bank deposits	53	-	-	-	<b>53</b>
Cash at bank	-	-	-	-	-
Equities	20	(4)	(12)	10	<b>14</b>
<b>Total</b>	<b>73</b>	<b>(4)</b>	<b>(12)</b>	<b>10</b>	<b>67</b>

Net investment return recognised in the statement of profit or loss and other comprehensive income includes gross investment income (comprising of interest and dividends, realised gains and losses and movements in unrealised gains and losses on financial assets held at fair value through profit or loss), net of interest payable, investment expenses and impairment losses on financial assets.

The main reason for the drop in investment income is due to the reduction in interest rates and lower deposit values being placed during the year.

As at 31 December 2016 unrealised gains on the equity investments stood at £18k.

PA had no investment in securitisation in the financial year ending 31 December 2016.

**A4 Operating/other expenses:**

The non-underwriting expenses and distributions are detailed below:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Share-based payments expense	<b>(94)</b>	(854)
Other charges – charitable donations	<b>(100)</b>	(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”).

**A5 Any other disclosures:**

Dividends paid to the immediate parent undertaking are as follows.

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Dividends to parent	<b>(6,500)</b>	(5,400)

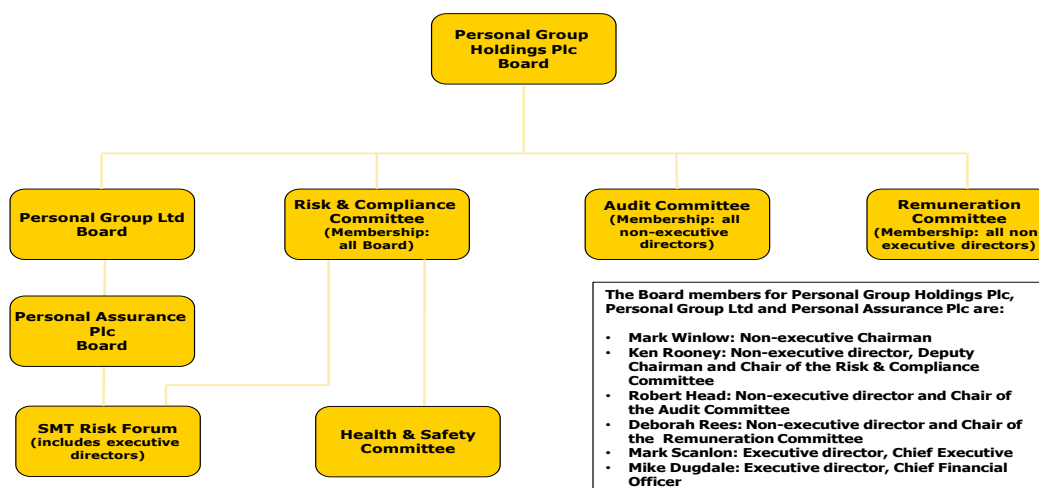
## B Systems of Governance (unaudited)

### B1 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

### Personal Assurance Plc Governance Structure Chart



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. There has been no material change in the governance structure in the last 12 months.

### Board of Directors

The Board of PA presently consists of two Executive and four Non-Executive Directors, it meets on a regular basis (monthly) 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 SMT 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.

Any new appointees to the Board would need full board and regulatory approval.

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, chaired by a Non-Executive Director of PA, comprises three Non-Executive Directors and meets at least twice a year, with the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and internal and external auditors usually in attendance. The Committee reviews accounting matters, financial reporting and internal controls (including the internal audit function) together with the interim and annual results announcements and reviews and also approves the SFCR.

### **Remuneration Committee**

The Remuneration Committee consists of three Non-Executive Directors with the CEO in attendance. The committee meets as required but not less than once a year. It reviews and makes recommendations to the Board regarding the terms and conditions of employment of the Executive Directors (including performance related bonuses, share options and incentive plans), and sets 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.

### **Risk & Compliance Committee**

The RCC is chaired by a Non-Executive Director of PA. It comprises four Non-Executive Directors with the CEO, the CFO and Head of Risk in attendance. The Committee meets as required but not less than four times a year. It oversees the Risk Team of the Group and reports to the Board of PGH on a range of compliance and operational activities of the Group as a whole.

### **SMT Risk Forum**

The forum comprises members of PG's SMT. 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. In addition, no material changes to the group structure have been noted.

#### ***B1.1 Remuneration Policies:***

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

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 and do not encourage risk-taking that exceeds the level of tolerated risk of PA. It enables PA to comply with the Solvency II remuneration principles set out in EIOPA Article 275, taking into account the nature, scale and complexity of the risks inherent in PA's business and therefore also supports PA's fair treatment of customers.

PA aims to create an environment that motivates high performance so that all employees can positively contribute to the Company's strategy and values.

The Company has a robust performance management practice, which ensures equitable and, where appropriate, competitively benchmarked pay levels with incentives which are geared to agreed performance outcomes that are consistent with the level of tolerated risk of the Company.

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

- Ensuring all 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. PA aims to create an environment that motivates high performance so that all employees can positively contribute to the Company's strategy and values.

### ***B1.2 Material Transactions with Shareholders:***

During the year PA paid dividends to its immediate undertaking of £6.5m.

### ***B1.3 Adequacy of System of Governance:***

PA employs an 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.

### ***B1.4 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. She 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 could be exposed to. To fulfil this role, the function sets strategies, standards, policies and procedures that provide reasonable assurance that PA achieves its financial, operational and strategic objectives in a manner consistent with its risk tolerances and appetites agreed.

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.

PA's Risk Management function ensures that reporting standards and appetites are adequately reflected in its risk policies and that escalation procedures are correctly defined and linked to the overall risk appetite. In addition, it provides ongoing monitoring of exposures exceeding appetite limits and ensures clear escalation criteria to report these exposures to the relevant individual /committee within PA.

### **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 function is managed by the CFO. Each year the audit strategy and plan is approved as being fit for purpose by the Audit Committee. The Audit Committee, which is chaired by a Non-Executive Director of PA, 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 in the jurisdictions where it operates. The Compliance Department is an integral component of corporate governance and is designed to promote full compliance with all applicable regulatory requirements, and to foster and promote ethical conduct by the Company and its employees.

PA's compliance function reports on a quarterly basis to the Board and the RCC.

### **Actuarial**

The purpose of the actuarial function is to provide actuarial support to the SMT and its business and finance functions. Actuarial support includes underwriting pricing support, IBNR reserving, capital modelling, planning and budgeting, business analysis, including rate monitoring, statements of actuarial opinion and regulatory filings. Mazars is currently providing actuarial support to PA on reserving, capital modelling and regulatory filings.

### ***B2 Fit and Proper Requirements***

The Board of PA is responsible for the appropriateness of appointment of roles requiring Approved Persons, as well as other key roles and PA's policy on this is set out in the Approved Persons Policy Statement and the Senior Insurance Managers Appointment Policy.

EIOPA's Guidelines on Systems of Governance require that the Board should collectively possess appropriate qualification, experience and knowledge about at least:

- a) insurance and financial markets;
- b) business strategy and business model;
- c) system of governance;

- d) financial and actuarial analysis;
- e) regulatory framework and requirements.

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 & 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 & 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 & 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 (shown in General governance arrangement section above) are all PRA/FCA approved persons.

The members of the PA Board are all PRA/FCA approved persons:

Board member	Controlled Function(s) allocated
Mark Winlow	SIMF9 - Chairman
Ken Rooney	SIMF10 – Chair to the Risk Committee
Deborah Rees	SIMF12 - Chair to the Remuneration Committee
Bob Head	SIMF11 – Chair to the Audit Committee
Mark Scanlon	SIMF1 – Chief Executive
Mike Dugdale	SIMF2 – Chief Finance Function SIMF4 – Chief Risk Function SIMF5 – Head of Internal Audit Function SIMF 22 – 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	CF1: Director
Rebekah Tapping	CF1: Director
Sarah Mace	CF1: Director

Mike Dugdale manages the outsourced contract with RSM for the provision of internal audit services.

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

### **Assessing "Fit and proper"**

PA has established processes for ensuring all employees 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. In addition, psychometric testing is used to gain further insights into the individual both to ensure diverse thinking and team attributes.

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.

### **Appointment and oversight**

Appointment 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 ethos is designed to promote learning and development and to satisfy the PRA/FCA's requirement of ensuring PA 'must employ 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.

As part of the appraisal process, all staff are asked to consider their individual training needs which are supplemented with any training needs their line manager may have identified. This is then discussed as part of the appraisal process and a training plan agreed. Staff will identify specific courses that they wish to attend and in turn will obtain approval from their respective manager.

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.

### ***B3 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.

The ERM framework seeks to engender a culture of no surprises and to ensure adequate tools including capital modelling are available to manage the most important risks to PA, improve decision-making and to support the achievement of PA's business objectives.

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 are 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 that align with 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 & 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 CEO, Risk & Audit Committees and involvement in key decision making forums. In addition, the risk function's roles and responsibilities include:

- developing, communicating 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 (Actuarial, Compliance, external and internal Audit) 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 for identifying and managing key risks 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; and
- providing input and challenge into the development of stress and reverse stress tests for PA.

By adopting such an approach, ERM and risk management more broadly are key considerations as part of the decision making process.

### **Own Risk and Solvency Assessment ("ORSA")**

PA carries out an ORSA on at least an annual basis. The ORSA is a key management tool and is linked to PA's business planning and strategy, the risks PA is exposed to and the capital required to mitigate such risks.

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 forms part of the organisation's risk management framework and is underpinned by the Company's behaviours, ethics and values.

The ORSA process provides PA management with a mechanism to assess the risks its faces and to determine the necessary level of capital required to ensure PA meets its strategic and business objectives. The ORSA is PA's view of its exposure to underwriting

and non-underwriting risks and its solvency position and documents how PA has reached its conclusions. The ORSA aims to assess, in a continuous and forward looking manner, the overall solvency needs of PA, whilst being mindful of its risk profile and business environment.

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%,

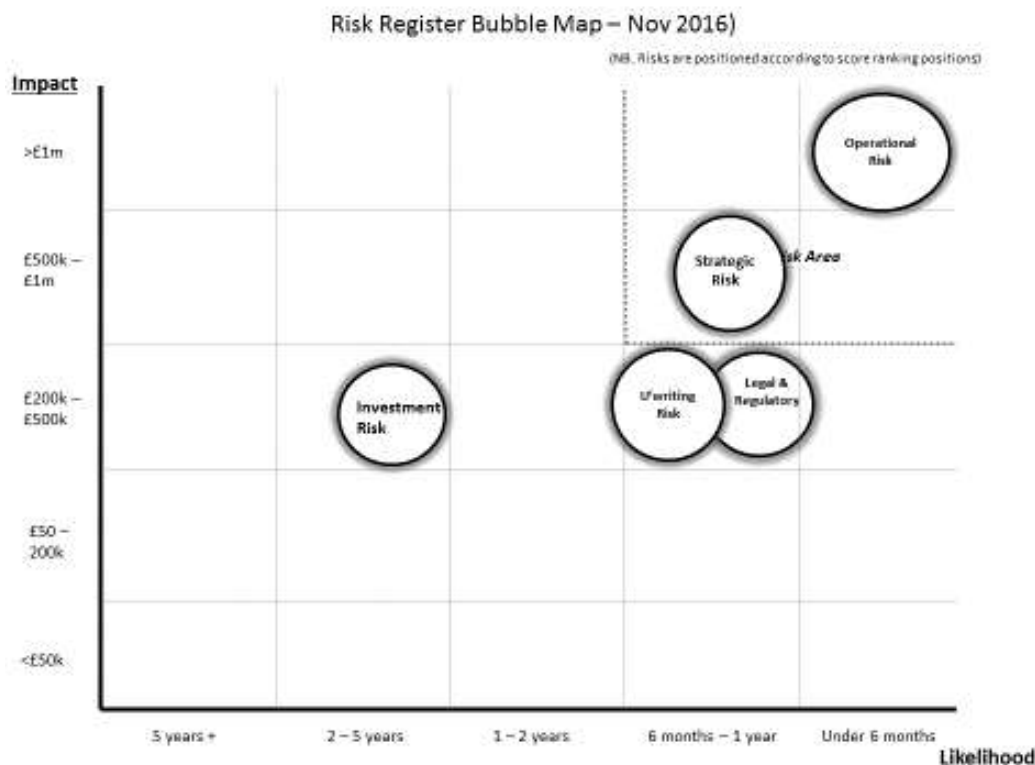
**The risks** PA has identified it is exposed to are:

- Operational risk
- Strategic risk
- Underwriting risk
- Failure to meet legal and regulatory requirements
- Investment risk

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 and none is forecast.

PA’s **current risk profile** can be summarised into the diagram (Diagram 2) below:



PA's risk profile is captured in an internal Risk Register, discussed and challenged by the SMT 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.

The SMT continues to review the business and to ensure that there are no material risks which impact capital requirements and execution of business objectives.

#### ***B4 Internal Control Systems***

Within PA, there is a robust internal control system that includes:

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

PA adopts the 'Three Lines Of Defence' model as its risk governance operating model. PA has an established a system of internal controls to mitigate the risks it faces. The system comprises detailed policies and procedures to ensure an adequate degree of risk oversight across the business.

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 PGH Board to the CEO and through him to his direct reports, managers and staff within the business. The First Line is responsible for identifying, establishing, maintaining and monitoring controls to manage the risks that the Group faces.

**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 the Group will follow;
- providing oversight and challenge to the First Line via monitoring and auditing activity, the gathering of Key Risk Information ("KRI") data and reporting significant trends and deviance from appetite appropriately; and
- ensuring that the business has sufficient information to respond to changes to the risk environment in a timely way;
- coordinating effort in the management of risk; and
- enhancing the quality of information provided to Senior Management.

**Third Line – Independent Assurance:** The Group internal audit function (currently outsourced to RSM) together with the external auditors provide an independent assessment to the board of processes and controls, including the effectiveness of the Second Line function risk management framework.

## ***B5 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 Mike Dugdale, CFO, who is registered as PA's Senior Insurance Management Function ("SIMF") 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 Risk & Compliance and 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 which is chaired by a Non-Executive Director. Mike Dugdale, in his role of SIMF for the Internal Audit Function, attends the meetings and takes instruction from the Committee accordingly. As a result, independence and objectivity are maintained.

An update on the internal audit function is a standing agenda item at both Risk & Compliance and Audit Committee meetings where outstanding internal audit actions are also tracked and progress reported.

In addition to reporting into PA's Audit Committee, the Internal Audit function holds regular meetings with PA's Head of Risk to evaluate the effectiveness and adequacy of the internal control system and other areas of governance, as well as to discuss progress against the annual internal audit plan.

## ***B6 Actuarial Function***

The CFO, Mike Dugdale, is responsible for the overall management and day-to-day leadership of PA's Actuarial function and has a direct reporting line to the CEO of PA, 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.

The Actuarial function reports to CFO and to the Board as a standing agenda item. In addition, an annual internal Actuarial Function Report is provided to the Board.

Reserve risk is one of the key drivers of PA, and it is the responsibility of the CFO supported by external actuarial expertise to establish reserves and thereby manage reserve risk. PA's process of assessing the gross and net held reserves is divided into the following:

- An annual reserve study which back tests the reserves held at 31 December each year to ensure adequacy and accuracy;
- Annual review of the IBNR provision for developed years to ensure adequacy. Due to the short tail nature of the business this can be assessed within the first few months of development; and
- Periodic review by the Risk Team that the agreed methodology of setting reserve levels is being followed.

PA's Actuarial function has been supported by Mazars LLP in the UK since September 2016. Mazars, the actuarial consultancy firm, who provide support to PA with the preparation of Solvency II technical provisions and Solvency II Capital Requirements ("SCR").

### **B7 Outsourcing**

PA outsources the internal audit function

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 has adopted the definition of "outsourcing" included in the Solvency II Directive, being:

- An arrangement of any form between an insurance or reinsurance undertaking and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the insurance or reinsurance undertaking itself.

In addition, PA has adopted the following definition of "material outsourcing", defined by the PRA as:

*"...outsourcing services of such importance that weakness or failure,...would cast serious doubt upon the firm's continuing satisfaction of the threshold conditions or compliance with the Fundamental Rules and similarly defined by the FCA with regard to satisfaction of the threshold conditions and compliance with the Principles for Businesses."*

Material outsourcing are defined as the delegation of underwriting, the granting of claims handling authorities and the outsourcing of the performance of any control functions or other key functions.

A function is regarded as critical or important if *"a defect or a failure in its performance would materially impair the continuing compliance of a ... firm with the conditions and obligations of its authorisation, its obligations under the regulatory system, its financial performance, or the soundness or continuity of its relevant services and activities."*



Material outsourcing does not include the use of professional services in the normal course of business, including legal and accountancy services, external auditors, claims adjusters, training of staff, recruitment agencies or office security services. Material outsourcing also does not include the provision of standardised market services, for example market information services.

The following key risks are associated with outsourcing and, in particular, with material outsourcing:

- breach of contractual requirements
- inadequate or insufficient execution of the outsourced arrangement
- outsource failure (both operational and financial) and the associated reputational risk.

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 identify, 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.

The administration and sales of insurance policies are dealt with by PAS and PGB respectively, these relationships are not formally outsourced but operate under ToBA's with these other group companies.

### ***B8 Any other information***

There is no other information to disclose.

## C Risk Profile (unaudited)

Personal Assurance Plc ("PA") maintains a risk management framework that defines the risks that PA is in business to accept and those that it does not, together with the material business risks that PA needs to manage and the framework and standards of control that are needed to manage those risks.

PA has established some internal controls, and continues to develop others, to manage material business risks in its key areas of exposure. PG's core business involves the provision of an employee benefits programme supported by the underwriting of insurance risk, for example, hospital plan, death benefit plan, accidental death and dismemberment plan, convalescence plan, income protection and the management of risks associated with this activity.

The key risk category PA is exposed to is:

- Underwriting risk as indicated in the capital break down table below, and
- Other financial and non-financial risk (credit risk, market risk, liquidity risk, operational risk, strategic risk (incorporating reputational risk) and Group risk.

Risk management and Internal controls systems are designed, to provide reasonable assurance that the assets of PA and the Group are safeguarded, insurance and investment exposures are within desired limits, reinsurance protections are adequate, counterparties are subject to appropriate assessment and customers are treated fairly.

As at 31 December 2016 the capital requirements based on risk areas were as follows:

<b>Capital Components</b>	<b>2016</b>	<b>2015</b>
	<b>GBP £000's</b>	<b>GBP £000's</b>
Market Risk	293	280
Counterparty Default Risk	1,415	931
Non-life Risk	-	-
Life Underwriting Risk	-	-
Health Underwriting Risk	4,630	4,330
<b>Total</b>	<b>6,338</b>	<b>5,541</b>
Less: Diversification	(1,076)	(803)
<b>BSCR</b>	<b>5,262</b>	<b>4,738</b>
SCR Operational	764	764
Adjustment - LADT	(1,205)	(1,101)
<b>SCR</b>	<b>4,821</b>	<b>4,401</b>
<b>MCR</b>	<b>2,251</b>	<b>2,251</b>
<b>SII Own Funds</b>	<b>12,563</b>	<b>11,436</b>
<b>Excess over SCR</b>	<b>7,742</b>	<b>7,035</b>
<b>Excess over MCR</b>	<b>10,312</b>	<b>9,185</b>

## **C1 Underwriting Risk**

The underwriting risks to which PA is exposed include:

- the reduction in premium income should a large client fail or be lost to a competitor; and
- the impact of a change in taxation, particularly Insurance Premium Tax.

Reserving risk

- reserve risks, including inadequate reserving due to flaws in the provisioning/reserving methodology or in the application of the methodology, inadequate Incurred But Not Reported ("IBNR").

Underwriting risk is effectively monitored and regularly managed through:

- the client acquisition approach (including due diligence arrangements) adopted by intra-group companies which introduce business to PA.
- continuous monitoring and adjustments to the selling price for new and legacy business.

Reserve risk is effectively managed through key controls include:

- a comprehensive annual reserve study;
- semi-annual reserve review;
- reserving risk controls that include major activity reports, high cost claim alerts, major loss memos; and
- independent validation of reserves has been completed for the 2016 SFCR.

## **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 committee.

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.

## **C2 Market Risk**

Market risk is the risk of loss or of adverse change in PG's financial situation arising, directly or indirectly, from fluctuations in the level and volatility of market prices of assets or income from assets and financial instruments. Market risk arises from movements or volatility in interest rates, equity prices.

PA reviews, at least annually, the investment strategy which is based on four key principles:

1. preserve capital;
2. increase surplus;
3. maintain liquidity; and

4. optimise after tax total return on investments, subject to (1)-(3) above.

Most of the funds are kept in cash with a number of banks. Equities are a relatively small part of the overall value of investments. The management of the equity portfolio and by extension the management of the risk of equity devaluation is carried out by a third-party investment management company. The quarterly reports of whom are reviewed by the PA management team to ensure that outcomes are meeting expectations which are based on the movement of the FTSE indexes.

The equity value is split across 33 different listed entities, of which no single investment totals more than 6% of the equity portfolio. The total equity portfolio makes up 4% of the Companies Solvency II assets.

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

### **Stress and sensitivity tests**

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

For the 2016 ORSA, the solvency position and the projected solvency position over the business planning period were re-calculated following adverse stresses, including a 50% reduction on the overall equity investments. Since equity investments are a relatively small proportion of funds, The analysis indicated that PA was strongly capitalised and was able to withstand adverse equity shocks, without breaching its SCR.

### **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.

### **C3 Credit Risk**

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

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 CEO. The increase in counterparty risk in the year has been 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 9 different banks with no bank making up more than 19% of the total amount on deposit. Cash and Cash Equivalents make up 60% of the Companies Solvency II assets.

Management review the spread of money between financial institutions by reference to risk, return and upcoming cash requirements.

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 PG 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 via payroll deduction from the employee and sent to PA in the subsequent month.

There are 453 companies that owe PA money at year end, of which the average amount due is £7,300 and the largest single amount due is £473,000. Insurance and Intermediary Receivables make up 15% of the Companies Solvency II assets.

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.

## ***C4 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.

Liquidity risk monitoring and cash flow forecasting is a key management tool that is performed on an ongoing basis through weekly cash reports.

### **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 its business model.

## **Expected profit included in future premiums (“EPIFP”)**

The EPIFP as at 31 December 2016 is £383K which includes expected profit commissions and any reinsurance recoveries.

## ***C5 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:

- regulatory and legal risks - the risk of legal or regulatory sanctions or loss caused by a failure to comply with applicable laws, regulations, internal policy and standards of best practice;
- financial crime, including internal and external fraud – this is the risk that the firm might be used to further financial crime;
- 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;
- 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;
- model risk; - the risk that the output from the models used by PA is incorrect or flawed due to errors in the design or operation or management's failure to understand the limitations in the output of the models;
- outsourcing; failures relating to the outsourcing of key activities; and
- external events and other changes; failure to react to changes in the external business environment.

It is managed by the systems and controls operated by the same intra-group companies.

PA Board receives information as to their effectiveness via the Group's Risk and Compliance Committee.

Quarterly, PA's directors and senior managers identify the key risks, causes and consequences together with relevant mitigating controls, within their function/ span of control, on an ongoing basis.

The results of the assessment are recorded in PA's Risk Register and reviewed by the Senior Management Team and Risk and Compliance Committee. PA maintains an Operational Risk policy that sets out PA's approach to mitigating risks arising from Operational Risks.

PA has no appetite for behaviour at any level which could compromise the effective operation of the business model, whether through inadequate or failed internal processes, failure of systems or poor capability of staff.

PA is reliant upon other firms for the provision of administrative services, such as the issuing of policy documents, reconciliation of payments received. The risk is limited as the provider is an intra-group firm with the same ultimate Parent, aims and values.

## **Key Controls**

Key controls that aid in mitigating this risk include (but not limited to):

- Risk & Audit Committee oversight;
- policies and procedures, including the Group's Code of Conduct;
- service level agreements;
- purchase of insurances; and
- underwriting audits performed by internal audit.

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 market risk. Results are presented quarterly at the Risk & Compliance Committee and considered as part of the ORSA process.

For the 2016 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.

## ***C6 Other material risks***

### **Regulatory Risk**

Regulatory risk arises from the failure to meet regulatory standards such as adequate PI insurance, sufficient capital, and appropriate conduct standards.

The risk is managed by the risk function of the Group and the effectiveness of the management is reported both directly to the PA Board via the Group Risk & Compliance Committee.

### **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 a minimum of 28% 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 the sales force activity dashboard, internally known as the EEE-dashboard, and weekly management information, internally known as the weekly Health Check, to the CEO.

### **Emerging Risk**

Emerging risks arise mainly from:

- Changes in regulation and law;
- Changes in technology;
- Environmental changes; and
- Changes in our market place.

Looking at each in turn:

- 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 undermine 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.
- The increase in cyber-crime is acknowledged within the financial services sector to be a rapidly growing risk.

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.

### **Acceptability of Material Risks**

The monthly **SMT 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 SMT Risk Forum held on a monthly basis. Any resultant actions are captured in the Minutes and completed by the owner/s.

The **Risk & Compliance Report** reflects the outputs from SMT 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 & 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 Dashboard** shows the current and residual risk positions of each risk and is used to monitor risk movement progress for the Board.

### **C7 Any Other Information**

PA does not consider there is any other material information to disclose on its Risk Profile.



## D Valuation for Solvency Purposes (audited)

### D1 Assets

PA's Solvency II assets and liabilities are presented on an economic 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 economic basis. Assets and liabilities measured at cost or amortised costs in the Company's financial statements have been revalued to economic 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. Further, investment values are shown as reported on template S.06.01 (Summary of Assets). 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	UK GAAP Valuation	Solvency II Valuation	Solvency II reference	Recognition method
Deferred Acquisition Costs	£147K	-	R0020 – Deferred Acquisition Costs	Removed in line with removal of unearned premiums
Deferred Tax Assets	£135K	£196K	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	£177K	£177K	R0060 – Property, plant & equipment for own use	Fair value and cost less accumulated depreciation are immaterially different and so no Solvency II adjustment is proposed
Equities – Type 1 Non – Strategic	£672K	£672K	R0110 – Equities – Listed	Valued in line with quoted prices
Bank Deposits	£5,365K	£5,365K	R0200 – Deposits other than cash equivalents	Valued in line with FRS 101

Reinsurance – Health similar to life	£310K	£159K	R0300 – Reinsurance Health Non Similar to Life	Revalued in line with changes to technical provisions under Solvency II
Insurance & intermediaries receivables	£3,218K	£2,404K	R0360 – Insurance Intermediaries Receivable	Removal of unearned premiums
Receivables (trade, not insured)	£69K	£19K	R0380 – Receivables (trade not insured)	Valued in line with FRS 101
Cash & Cash Equivalents	£4,267K	£4,267K	R0410 – Cash and Cash Equivalents	Valued in line with FRS 101
Any other assets	£2,845K	£2,845K	R0420 – Any other assets, not shown elsewhere	Includes corporation tax and intercompany assets and is valued in line with FRS 101
<b>Total</b>	<b>£17,205K</b>	<b>£16,104K</b>		

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 financial instruments classified in categories that require them to be measured at their fair value at the reporting date, fair value is determined with reference to the quoted market bid prices, or by using an appropriate valuation model. 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 comprises cash on hand and on demand deposits with banks.

#### **(Re)insurance and Intermediaries Receivable**

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

The presentation of reinsurance receivables on the Solvency II balance sheet differs from the Company's statutory financial statements, since reinsurance receivables for financial reporting purposes include premiums and claims which are included in Technical Provisions in the Solvency II Balance Sheet. The total value of UPR which has been deducted is £814K.

#### **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.

Other receivables include amounts receivable from and payable to non-insurance debtors. Other receivables also include current tax assets, 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 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.

#### **Other Assets**

Other assets includes £2,682K of intercompany assets and £162K of corporation tax assets.

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

## **D2 Technical Provisions**

### **GAAP Accounts**

PA's financial statements include provisions for claims incurred based on earned premiums taking into account all reasonably foreseeable best estimates. Within these provisions, they have reserves for claims incurred and an allowance for claims IBNR. PA also considers recoveries from reinsurance contracts in respect of its claims reserves and IBNR.

### **Solvency II**

#### **Technical provisions by line of business: As at 31 December 2016**

<b>Line of Business</b>	<b>Best Estimate</b>	<b>Risk Margin</b>	<b>Reinsurance</b>
Medical Expense	£1,446K	£333K	
Income Protection	£116K	£25K	(£159K)

#### **As at 31 December 2015**

<b>Line of Business</b>	<b>Best Estimate</b>	<b>Risk Margin</b>	<b>Reinsurance</b>
Medical Expenses	£1,456K	£313K	
Income Protection	£236K	£15K	(£155K)

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 gross claims provisions on business which has been earned to date is made up of the reserves for claims outstanding and IBNR from the statutory accounts. The IBNR is calculated by reference to previous claims history and amounts expected to be paid based on the current claims pattern and trends. There is no margin booked within the accounts so these items have not been adjusted.

For unearned business, the Unrealised Premium Received ("UPR") from the statutory accounts is replaced by the claims expected on the unearned premiums. The loss ratio used for this is the most recent January loss ratio. 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 unaccepted 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 unaccepted 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 20.47% 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, income protection and PMI 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:

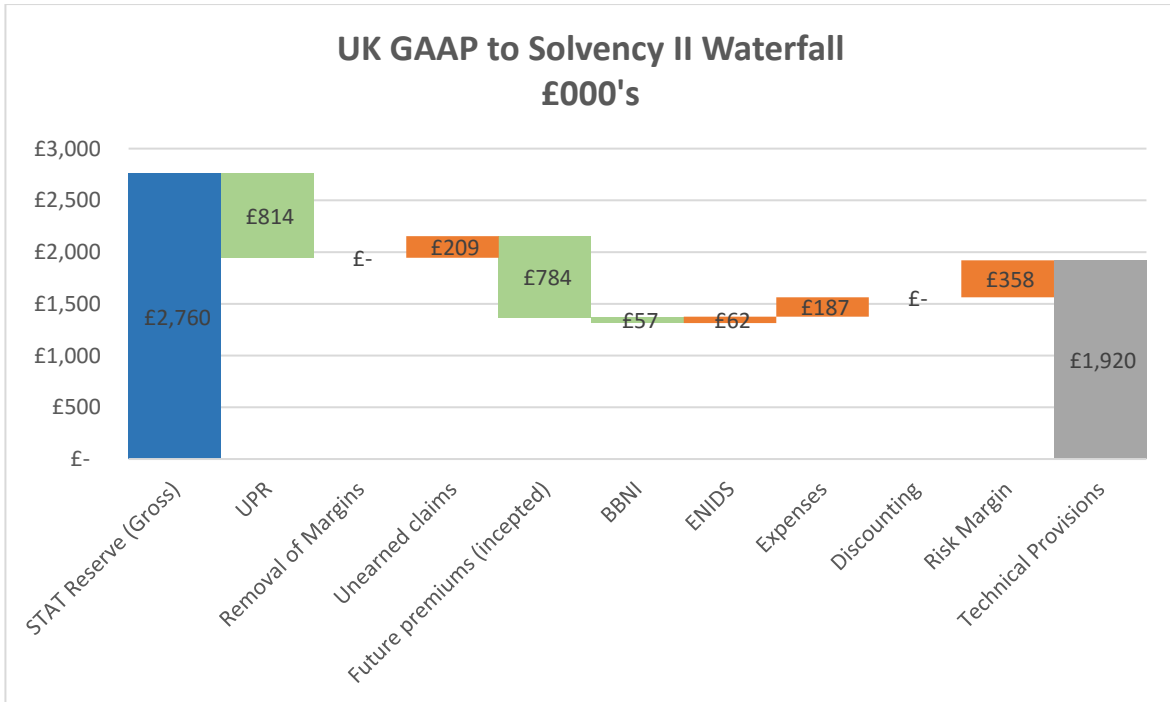
Underwriting risk (i.e. premium and reserve risk, lapse risk and catastrophe risk) across all the business lines, counterparty default risk, and the operational risk and cat risk are used for the calculation of risk margin.

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 2016 are £1,864k and is part of the £2,760k that makes up the STAT Reserve.

UPR – This amount of £814k is removed from the stat reserve and relates to the full value of unearned premiums.

Premium Provision on claims – The premium provision on claims is determined to be £209k. This is the expected claims pay-out on unexpired risks.

Future premiums – the future premiums receivable from policy holders is £784k

The net impact of adding BBNI business is to decrease provisions by £57k 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 £62k.

Run-off provision – The change in expenses from the figure reported in the statutory financial statements is £187k. 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 £358k as at 31 December 2016.

## 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.

## D3 Other Liabilities

Liability Type	UK GAAP Valuation	Solvency II Valuation	Solvency II reference	Recognition method
Deferred tax liability	£35K	£35K	R0780 – Deferred tax liabilities	Included to reflect adjustment in technical provisions
Reinsurance Payable	£40K	£149K	R0830 – Reinsurance payables	Valued in line with FRS 101 less unearned value
Payables (trade, not insurance)	£1,546K	£1,546K	R0840 – Payables (trade, not insurance)	Valued in line with FRS 101
Total	£1,621K	£1,898K		

### 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.

#### ***D4 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 2016.

PA's view is that there have been no material changes to the recognition and valuation bases used or to estimations during 2016. As such, there are no material differences with the bases, assumptions and methods used for financial statements purposes.

#### ***D5 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. 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.



## E Capital Management (audited)

### E1 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 2016, PA's own funds are made up as follows:

<b>Reconciliation of valuation differences</b>	<b>£000</b>
Called up share capital	1,528
Available for sale reserve	30
Profit and loss account	11,158
<b>Total equity per financial statements</b>	<b>12,716</b>
Difference in valuation of technical provisions	838
Difference in valuation of assets	(1,100)
Difference in valuation of liabilities	109
<b>Excess of assets over liabilities for solvency purposes</b>	<b>12,563</b>

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

	<b>2016 Actual £000</b>	<b>2015 Actual £000</b>
<b>Assets</b>		
Equity	672	661
Cash and deposits	9,632	11,011
Property, Plant & Equipment	177	164
R/i Provisions Recoverables	159	39
Other Assets	5,464	3,478
<b>Total Assets</b>	<b>16,104</b>	<b>15,353</b>
<b>Liabilities</b>		
Gross Technical Provisions	1,563	1,682
Risk Margin	358	305
Other Liabilities	1,621	1,930
<b>Total Liabilities</b>	<b>3,541</b>	<b>3,917</b>
<b>SII Own Funds</b>	<b>12,563</b>	<b>11,436</b>

The companies own funds are split into tier 1,2 and 3 as follows;

	<b>Total £000</b>	<b>Tier 1 £000</b>	<b>Tier 2 £000</b>	<b>Tier3 £000</b>
Ordinary Share Capital	1,528	1,528	-	-
Reconciliation Reserve	10,874	10,874	-	-
Deferred Tax Assets	161	-	-	161
	<b>12,563</b>	<b>12,402</b>	<b>-</b>	<b>161</b>

- Tier 1: £12,402K – This is made up of £1,528K of ordinary share capital, £10,874K of the reconciliation reserve, which constitutes distributable reserves from a solvency II perspective.
- Tier 2: £nil
- Tier 3: £161K – 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.

## **E2 SCR & MCR**

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

	<b>2016 Actual £000</b>	<b>2015 Actual £000</b>
<b>SCR</b>	4,821	4,401
<b>MCR</b>	2,251	1,841
<b>SII Own Funds</b>	12,563	11,436
<b>Excess over SCR</b>	7,742	7,035
<b>Excess over MCR</b>	10,312	9,595
<b>Solvency Ratio</b>	261%	260%

The SCR requirement has increased in the year due to increases in Type 2 receivables and due to a decrease in credit ratings of certain financial institutions with whom money is held.

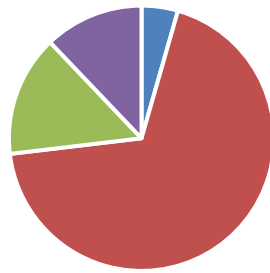
The MCR is the absolute floor, namely 2.5M Euros, in Sterling. This has increased in the year due to the movement in exchange rates.

Due to the predictability of the business, the actual SCR at the end of each period is broadly in line with previous expectations.

	<b>2016 Actual</b>	<b>2016 Prediction</b>	<b>2015 Actual</b>	<b>2015 Prediction</b>
<b>Solvency Capital Requirement Results</b>	4.8	4.8	4.4	4.7

As can be seen in the chart on the next page, the major components of the SCR for PA relate to health underwriting risk and counterparty default risk and so the majority of the sensitivity tests, which have been agreed as appropriate by the Board, have been based around these areas.

### SCR Components - (post diversification within modules but not between)



■ Market Risk ■ Health Risk ■ Counterparty Default Risk ■ Operational Risk

#### ***E3 Use of the duration based equity risk sub-module in the calculation of the Solvency Capital Requirement***

This is not applicable for PA.

#### ***E4 Differences between the standard formula and any internal model used***

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

#### ***E5 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.

#### ***E6 Any other information***

There is no further information to disclose.

## Independent auditor's opinion

Report of the external independent auditor to the Directors of Personal Assurance Plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Except as stated below, we have audited the following documents prepared by Personal Assurance Plc as at 31 December 2016:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Personal Assurance Plc as at 31 December 2016, (**the Narrative Disclosures subject to audit**); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21, S28.01.01, (**the Templates subject to audit**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the Solvency and Financial Condition Report'.

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

- The 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- Information relating to 31 December 2015 voluntarily disclosed by the Company in the 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by the Directors of their responsibilities, including for the preparation of the Solvency and Financial Condition Report (**the Responsibility Statement**).

### Respective responsibilities of directors and auditor

As explained more fully in the Responsibility Statement, the Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

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

Our responsibility is to audit, and express an opinion on, the Relevant Elements of the Solvency and Financial Condition Report in accordance with applicable law and International Standards on Auditing (UK and Ireland) together with ISA (UK) 800 and ISA (UK) 805. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the Relevant Elements of the Solvency and Financial Condition Report

A description of the scope of an audit is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on the Relevant Elements of the Solvency and Financial Condition Report

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Personal Assurance Plc as at 31 December 2016 is

prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

### **Emphasis of Matter - Basis of Accounting**

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

### **Matters on which we are required to report by exception**

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Personal Assurance Plc's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **The purpose of our audit work and to whom we owe our responsibilities**

This report of the external auditor is made solely to the Company's directors, as its governing body, in accordance with the requirement in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Company's directors and issued in accordance with the requirement set out in Rule 4.1(2) of the External Audit Part of the PRA Rulebook and to facilitate the discharge by the PRA of its regulatory functions in respect of the Company, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1(2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company through its governing body, for our audit, for this report, or for the opinions we have formed.

*KPMG*

### **KPMG LLP**

*Chartered Accountants*

1 St Peter's Square

Manchester

M2 3AE

17/5/17

- The maintenance and integrity of Personal Assurance PLC's website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency Financial Condition Report since it was initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions

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

**Solo standard formula**

The Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

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

# 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  
SMT – Senior Management 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.02.01.02**  
**Balance sheet**

		<b>Solvency II value</b>
		C0010
<b>Assets</b>		
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	196
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	177
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	6,037
R0080	<i>Property (other than for own use)</i>	0
R0090	<i>Holdings in related undertakings, including participations</i>	0
R0100	<i>Equities</i>	672
R0110	<i>Equities - listed</i>	672
R0120	<i>Equities - unlisted</i>	0
R0130	<i>Bonds</i>	0
R0140	<i>Government Bonds</i>	0
R0150	<i>Corporate Bonds</i>	0
R0160	<i>Structured notes</i>	0
R0170	<i>Collateralised securities</i>	0
R0180	<i>Collective Investments Undertakings</i>	0
R0190	<i>Derivatives</i>	
R0200	<i>Deposits other than cash equivalents</i>	5,365
R0210	<i>Other investments</i>	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	<i>Loans on policies</i>	0
R0250	<i>Loans and mortgages to individuals</i>	
R0260	<i>Other loans and mortgages</i>	
R0270	Reinsurance recoverables from:	159
R0280	<i>Non-life and health similar to non-life</i>	159
R0290	<i>Non-life excluding health</i>	0
R0300	<i>Health similar to non-life</i>	159
R0310	<i>Life and health similar to life, excluding index-linked and unit-linked</i>	0
R0320	<i>Health similar to life</i>	
R0330	<i>Life excluding health and index-linked and unit-linked</i>	
R0340	<i>Life index-linked and unit-linked</i>	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,404
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	19
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	4,268
R0420	Any other assets, not elsewhere shown	2,845
R0500	<b>Total assets</b>	<b>16,104</b>

		<b>Solvency II value</b>
		C0010
<b>Liabilities</b>		
R0510	Technical provisions - non-life	1,921
R0520	<i>Technical provisions - non-life (excluding health)</i>	0
R0530	<i>TP calculated as a whole</i>	0
R0540	<i>Best Estimate</i>	0
R0550	<i>Risk margin</i>	0
R0560	<i>Technical provisions - health (similar to non-life)</i>	1,921
R0570	<i>TP calculated as a whole</i>	0
R0580	<i>Best Estimate</i>	1,563
R0590	<i>Risk margin</i>	358
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	<i>Technical provisions - health (similar to life)</i>	0
R0620	<i>TP calculated as a whole</i>	
R0630	<i>Best Estimate</i>	
R0640	<i>Risk margin</i>	
R0650	<i>Technical provisions - life (excluding health and index-linked and unit-linked)</i>	0
R0660	<i>TP calculated as a whole</i>	
R0670	<i>Best Estimate</i>	
R0680	<i>Risk margin</i>	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	<i>TP calculated as a whole</i>	
R0710	<i>Best Estimate</i>	
R0720	<i>Risk margin</i>	
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	35
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	40
R0840	Payables (trade, not insurance)	1,546
R0850	Subordinated liabilities	0
R0860	<i>Subordinated liabilities not in BOF</i>	
R0870	<i>Subordinated liabilities in BOF</i>	0
R0880	Any other liabilities, not elsewhere shown	
R0900	<b>Total liabilities</b>	<b>3,541</b>
R1000	<b>Excess of assets over liabilities</b>	<b>12,563</b>

**S.05.01.02**

**Premiums, claims and expenses by line of business**

**Non-life**

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		Total
		Medical expense insurance	Income protection insurance	
		C0010	C0020	C0200
<b>Premiums written</b>				
R0110	Gross - Direct Business	24,703	534	25,237
R0120	Gross - Proportional reinsurance accepted			0
R0130	Gross - Non-proportional reinsurance accepted			0
R0140	Reinsurers' share		248	248
R0200	Net	24,703	286	24,989
<b>Premiums earned</b>				
R0210	Gross - Direct Business	24,886	579	25,464
R0220	Gross - Proportional reinsurance accepted			0
R0230	Gross - Non-proportional reinsurance accepted			0
R0240	Reinsurers' share		269	269
R0300	Net	24,886	310	25,196
<b>Claims incurred</b>				
R0310	Gross - Direct Business	5,800	158	5,958
R0320	Gross - Proportional reinsurance accepted			0
R0330	Gross - Non-proportional reinsurance accepted			0
R0340	Reinsurers' share		139	139
R0400	Net	5,800	18	5,819
<b>Changes in other technical provisions</b>				
R0410	Gross - Direct Business	-236	2	-234
R0420	Gross - Proportional reinsurance accepted			0
R0430	Gross - Non-proportional reinsurance accepted			0
R0440	Reinsurers' share		-17	-17
R0500	Net	-236	18	-217
R0550	<b>Expenses incurred</b>	12,376	260	12,637
R1200	<b>Other expenses</b>			
R1300	<b>Total expenses</b>			12,637

**S.05.02.01**

**Premiums, claims and expenses by country**

		C0010	C0020	C0030	C0040	C0050	C0060	C0070
<b>Non-life</b>		<b>Home Country</b>	<b>Top 5 countries (by amount of gross premiums written) - non-life obligations</b>					<b>Total Top 5 and home country</b>
R0010		C0080	C0090	C0100	C0110	C0120	C0130	C0140
<b>Premiums written</b>								
R0110	<i>Gross - Direct Business</i>	25,237						25,237
R0120	<i>Gross - Proportional reinsurance accepted</i>	0						0
R0130	<i>Gross - Non-proportional reinsurance accepted</i>	0						0
R0140	<i>Reinsurers' share</i>	248						248
R0200	<i>Net</i>	24,989	0	0	0	0	0	24,989
<b>Premiums earned</b>								
R0210	<i>Gross - Direct Business</i>	25,464						25,464
R0220	<i>Gross - Proportional reinsurance accepted</i>	0						0
R0230	<i>Gross - Non-proportional reinsurance accepted</i>	0						0
R0240	<i>Reinsurers' share</i>	269						269
R0300	<i>Net</i>	25,196	0	0	0	0	0	25,196
<b>Claims incurred</b>								
R0310	<i>Gross - Direct Business</i>	5,958						5,958
R0320	<i>Gross - Proportional reinsurance accepted</i>	0						0
R0330	<i>Gross - Non-proportional reinsurance accepted</i>	0						0
R0340	<i>Reinsurers' share</i>	139						139
R0400	<i>Net</i>	5,819	0	0	0	0	0	5,819
<b>Changes in other technical provisions</b>								
R0410	<i>Gross - Direct Business</i>	-234						-234
R0420	<i>Gross - Proportional reinsurance accepted</i>	0						0
R0430	<i>Gross - Non-proportional reinsurance accepted</i>	0						0
R0440	<i>Reinsurers' share</i>	-17						-17
R0500	<i>Net</i>	-217	0	0	0	0	0	-217
R0550	<b>Expenses incurred</b>	12,637						12,637
R1200	<b>Other expenses</b>							
R1300	<b>Total expenses</b>							12,637

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance		Total Non-Life obligation
		Medical expense insurance	Income protection insurance	
		C0020	C0030	C0180
R0010	<b>Technical provisions calculated as a whole</b>	0	0	0
R0020	Direct business	0	0	0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	0	0	0
<b>Technical provisions calculated as a sum of BE and RM</b>				
<b>Best estimate</b>				
<b>Premium provisions</b>				
R0060	<b>Gross - Total</b>	-323	-122	-445
R0070	Gross - direct business	-323	-122	-445
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		-62	-62
R0150	<b>Net Best Estimate of Premium Provisions</b>	-323	-60	-383
<b>Claims provisions</b>				
R0160	<b>Gross - Total</b>	1,769	238	2,007,580.88
R0170	Gross - direct business	1,769	238	2,007,580.88
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		221	221
R0250	<b>Net Best Estimate of Claims Provisions</b>	1,769	18	1,787
R0260	<b>Total best estimate - gross</b>	1,446	116	1,563
R0270	<b>Total best estimate - net</b>	1,446	-42	1,404
R0280	<b>Risk margin</b>	333	25	358
<b>Amount of the transitional on Technical Provisions</b>				
R0290	TP as a whole	0	0	0
R0300	Best estimate	0	0	0
R0310	Risk margin	0	0	0
R0320	<b>Technical provisions - total</b>	1,779	141	1,921
R0330	<b>Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total</b>	0	159	159
R0340	<b>Technical provisions minus recoverables from reinsurance/SPV and Finite Re- total</b>	1,779	-17	1,762

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0010

Accident year / underwriting year Accident Year

Gross Claims Paid (non-cumulative)

(absolute amount)

Year	C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170 In Current year	C0180 Sum of years (cumulative)
	Development year												
	0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior										0	0	0
R0160	N-9	0	0	0	0	0	0	0	0	0	0	0	0
R0170	N-8	0	0	0	0	0	0	0	0	0		0	0
R0180	N-7	0	0	0	0	0	0	0	0			0	0
R0190	N-6	0	0	0	0	0	0	0				0	0
R0200	N-5	0	0	0	0	0	0					0	0
R0210	N-4	0	0	0	0	1						1	1
R0220	N-3	0	0	0	-65							-65	-65
R0230	N-2	0	0	127								127	127
R0240	N-1	0	1,251									1,251	1,251
R0250	N	4,549										4,549	4,549
R0260												<b>Total</b>	5,863
													5,863

**Gross undiscounted Best Estimate Claims Provisions**

(absolute amount)

Year	C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Development year											Year end (discounted data)
	0	1	2	3	4	5	6	7	8	9	10 & +	
Prior											0	0
N-9	0	0	0	0	0	0	0	0	0	0		0
N-8	0	0	0	0	0	0	0	0	0			0
N-7	0	0	0	0	0	0	0	0				0
N-6	0	0	0	0	0	0	0					0
N-5	0	0	0	0	0	0						0
N-4	0	0	0	0	0							0
N-3	0	0	0	6								6
N-2	0	0	64									64
N-1	0	103										103
N	1,691											1,691
<b>Total</b>												<b>1,864</b>

**S.23.01.01**

**Own Funds**

**Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35**

R0010	Ordinary share capital (gross of own shares)
R0030	Share premium account related to ordinary share capital
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings
R0050	Subordinated mutual member accounts
R0070	Surplus funds
R0090	Preference shares
R0110	Share premium account related to preference shares
R0130	Reconciliation reserve
R0140	Subordinated liabilities
R0160	An amount equal to the value of net deferred tax assets
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above

Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
C0010	C0020	C0030	C0040	C0050
1,528	1,528		0	
0	0		0	
0	0		0	
0		0	0	0
0	0			
0		0	0	0
0		0	0	0
10,874	10,874			
0		0	0	0
161				161
0	0	0	0	0

**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
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**Deductions**

R0230	Deductions for participations in financial and credit institutions	0	0	0	0	
R0290	<b>Total basic own funds after deductions</b>	12,563	12,402	0	0	161

**Ancillary own funds**

R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				



R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	<b>Total ancillary own funds</b>	0			0	0

**Available and eligible own funds**

R0500	Total available own funds to meet the SCR	12,563	12,402	0	0	161
R0510	Total available own funds to meet the MCR	12,402	12,402	0	0	
R0540	Total eligible own funds to meet the SCR	12,563	12,402	0	0	161
R0550	Total eligible own funds to meet the MCR	12,402	12,402	0	0	

R0580	<b>SCR</b>	4,821
R0600	<b>MCR</b>	2,251
R0620	<b>Ratio of Eligible own funds to SCR</b>	261%
R0640	<b>Ratio of Eligible own funds to MCR</b>	551%

**Reconciliation reserve**

C0060

R0700	Excess of assets over liabilities	12,563
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	1,689
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	<b>Reconciliation reserve</b>	10,874

**Expected profits**

R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	383
R0790	<b>Total Expected profits included in future premiums (EPIFP)</b>	383

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

Z0010

Article 112

Regular reporting

R0010	Market risk
R0020	Counterparty default risk
R0030	Life underwriting risk
R0040	Health underwriting risk
R0050	Non-life underwriting risk
R0060	Diversification
R0070	Intangible asset risk
R0100	<b>Basic Solvency Capital Requirement</b>
	<b>Calculation of Solvency Capital Requirement</b>
R0120	Adjustment due to RFF/MAP nSCR aggregation
R0130	Operational risk
R0140	Loss-absorbing capacity of technical provisions
R0150	Loss-absorbing capacity of deferred taxes
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC
R0200	<b>Solvency Capital Requirement excluding capital add-on</b>
R0210	Capital add-ons already set
R0220	<b>Solvency capital requirement</b>
	<b>Other information on SCR</b>
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

Gross solvency capital requirement	USP
C0040	C0080
293	
1,415	
4,630	
0	
-1,076	
0	
5,262	
C0100	
764	
0	
-1,205	
4,821	
4,821	

**S.28.01.01**

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

**Linear formula component for non-life insurance and reinsurance obligations**

C0010

R0010 MCR<sub>NL</sub> Result 1,253

- R0020 Medical expense insurance and proportional reinsurance
- R0030 Income protection insurance and proportional reinsurance
- R0040 Workers' compensation insurance and proportional reinsurance
- R0050 Motor vehicle liability insurance and proportional reinsurance
- R0060 Other motor insurance and proportional reinsurance
- R0070 Marine, aviation and transport insurance and proportional reinsurance
- R0080 Fire and other damage to property insurance and proportional reinsurance
- R0090 General liability insurance and proportional reinsurance
- R0100 Credit and suretyship insurance and proportional reinsurance
- R0110 Legal expenses insurance and proportional reinsurance
- R0120 Assistance and proportional reinsurance
- R0130 Miscellaneous financial loss insurance and proportional reinsurance
- R0140 Non-proportional health reinsurance
- R0150 Non-proportional casualty reinsurance
- R0160 Non-proportional marine, aviation and transport reinsurance
- R0170 Non-proportional property reinsurance

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
C0020	C0030
1,446	24,703
0	286
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	
0	

**Linear formula component for life insurance and reinsurance obligations**

C0040

R0200 MCR<sub>L</sub> Result 0

- 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

Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
C0050	C0060

<b>Overall MCR calculation</b>		C0070
R0300	Linear MCR	1,253
R0310	SCR	4,821
R0320	MCR cap	2,169
R0330	MCR floor	1,205
R0340	Combined MCR	1,253
R0350	Absolute floor of the MCR	2,251
R0400	<b>Minimum Capital Requirement</b>	2,251