COUNTRYWIDE ASSURED PLC

Solvency and Financial Condition Report

For the year ended 31 December 2016

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Information subject to audit:
The information in the above contents page that has been shaded is subject to external audit.

Summary

Background

This is the first Solvency and Financial Condition Report ('SFCR') that has been prepared by Countrywide Assured plc (CA plc, the company), and is for the year ended 31 December 2016. The report has been prepared to comply with the reporting requirements of the new EU-wide regulatory framework for insurance companies, known as Solvency II, which came into force on 1 January 2016. This report has been prepared for the benefit of policyholders and other parties who have an interest in the solvency and financial condition of the company. In accordance with the Solvency II framework this report follows a standardised structure and includes specific content to meet the detailed reporting requirements of the framework.

A summary of this report has been provided below. It focuses on key messages and highlights key changes during 2016 that have been reported in the main body of this report. To aid the reader of this report the summary has been prepared to follow the structure of the main body of this report.

A. Business and performance

This section of the report provides background information on the company and its performance. CA plc is a life insurance company that forms part of the Chesnara plc group. Chesnara plc is listed on the London Stock Exchange. CA plc is substantially closed to new business and its strategic focus is the efficient run off of the existing portfolio of policies. The company's portfolio of policies have come from four separate companies and were combined within CA plc as part of Chesnara's acquisition strategy. The business of CA plc has not changed significantly over the reporting period. Highlights from the business and performance section of this report include:

- The company has reported an underwriting performance, taken as being the profit before tax as included in the company's financial statements, of £42.7m (2015: £34.4m).
- During March 2016 the Financial Conduct Authority ('FCA') announced an investigation into how the company disclosed exit fees to customers. Discussions are continuing with the FCA to progress the investigation following recent requests for further information.
- During November 2016, as part of the Government's "pensions freedoms" agenda it was announced that a 1% exit fee cap would be introduced on all pension products where the policyholder is over 55, effective from 1 March 2017. The company's results provide for the impact of this change.
- A number of new board appointments have been made during the year to strengthen the board, including the appointment of a new CEO (Ken Hogg) and two new non-executive directors.

B. Systems of governance

This section of the report provides further information on the overall governance structure of the business and its risk management and internal control system. It details the board's overall responsibilities and how the board delivers these through the use of its sub-committees. The section also provides further information on the key functions that exist within the business and how these functions support the company in achieving its goals. The key functions that have been identified are; Risk Management, Compliance, Internal audit, Actuarial, Operations, Finance and Investments.

There have been no significant changes in the company's overall system of governance over the year. The board and committee structures in place have remained the same throughout the period.

C. Risk profile

Further information on the risk profile of the company can be found in this section of the report. A combination of qualitative and quantitative information has been provided to articulate the risk profile of the company. Quantitative risk profile information in this section has been provided using the results of the company's solvency capital requirement calculations. The company is required to hold capital to help it deal with the financial impact should any of the risks materialise. Regulators have specified a "standard formula" to use when calculating the amount of capital that it is required to hold against each Solvency II risk category and the board has determined that the standard formula, without any adjustments, gives an appropriate outcome.

There have been no fundamental changes in the overall risk profile of the company over the reporting period. Whilst there have been no fundamental changes, the following new factors have contributed to our assessment of the risk profile of the company during the year:

- ***EU referendum ('Brexit'):*** The announcement of the referendum result during the year is not deemed by management to fundamentally affect the risk profile of the company. That said, Brexit does appear to have had some impact on investment markets, notably equities and fixed income securities, and the company's financial performance is influenced by such markets. There also remains a level of uncertainty over the longer term impact that Brexit may have on both investment markets and the wider economy.
- ***Regulatory activity:*** There was a significant amount of regulatory activity during 2016, with the issue of the FCA's findings into its review of the "Fair treatment of long-standing customers in the life insurance sector" and the imposition of the 1% exit fee cap on pension policies where the policyholder is over 55 years old. As such the company is exposed to any one-off costs of addressing these regulatory changes, as well as any permanent increase in the cost base in order to meet enhanced standards going forward.

Summary (continued)

D. Valuation for solvency purposes

This section of the report provides further information on the company's assets and liabilities. It gives a combination of quantitative information regarding the value of assets and liabilities held at the reference date of this report, and also provides information on how the key asset and liability classes have been calculated.

The practices used for valuing assets and liabilities for solvency purposes have remained consistent throughout the reporting period. There are no new material classes of assets or liabilities to which the company is exposed.

A summary of the company's assets and liabilities at 31 December 2016 has been provided below:

	Solvency II value £'000
Assets	2,854,160
Net technical provisions	(2,497,402)
Other liabilities	(149,828)
Assets less liabilities	**206,930**

E. Capital management

The final section of the SFCR provides information on the capital position of the company. It builds on the information included in section D of the report and introduces further information on the level of capital that is required to be held by the company, and how the assets and liabilities that are held by the company meet these requirements. The section also provides information on the policies and practices that are employed by the company in managing its capital.

There have been no significant changes to the way in which the company manages its capital. The board-approved capital management policy underpinning any capital decisions has remained materially unchanged over the reporting period.

The company's capital position at 31 December 2016 can be summarised in the following table:

	31 December 2016 £'000
Assets less liabilities	206,930
Foreseeable dividends	(30,000)
Restricted own funds in ring fenced funds	(10,602)
Own funds	**166,328**
Solvency Capital Requirement (SCR)	**129,812**
Surplus own funds over SCR	**36,516**
Ratio of eligible own funds to SCR	**128.1%**

- The company has own funds (representing the net assets and liabilities of the company as measured on a Solvency II basis) that exceed the capital requirements of the company by £36.5m.
- This gives rise to a solvency ratio of 128.1% at 31 December 2016 and is stated after a proposed dividend of £30.0m, which was paid on 17 May 2017.

Auditor’s report and opinion

Report of the external independent auditor to the directors of Countrywide Assured plc (‘the company’) pursuant to rule 4.1 (2) of the external audit chapter of the Prudential Regulation Authority (PRA) Rulebook applicable to Solvency II firms.

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

Opinion

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

– the ‘Valuation for solvency purposes’ and ‘Capital Management’ sections of the SFCR of the Company as at 31 December 2016, (‘the Narrative Disclosures subject to audit’); and
– Company templates S02.01.02, S12.01.02, S23.01.01, S25.01.21, S28.01.01 (‘the Templates subject to audit’).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the ‘relevant elements of the SFCR’.

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

– the ‘Summary’, ‘Business and performance’, ‘System of governance’ and ‘Risk profile’ elements of the SFCR;
– Company templates S05.01.02, S05.02.01;
– the written acknowledgement by management of their responsibilities, including for the preparation of the SFCR (‘the Responsibility Statement’).

In our opinion, the information subject to audit in the relevant elements of the SFCR of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (‘ISAs (UK and Ireland)’), and ISA (UK) 800 and ISA (UK) 805. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the SFCR in the UK, including the APB’s Ethical Standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required to report in respect of the following matters where:

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

We have nothing to report in relation to these matters.

Emphasis of matter – Basis of Accounting

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

Other information

The Directors are responsible for the Other Information.

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

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

We have nothing to report in this regard.

Auditor's report and opinion (continued)

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

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/Our-Work/Audit-and-Actuarial-Regulation/Audit-and-assurance/Standards-and-guidance/Standards-and-guidance-for-auditors/Auditors-responsibilities-for-audit/Description-of-auditors-responsibilities-for-audit.aspx. The same responsibilities apply to the audit of the SFCR.

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

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

We have nothing to report in this regard.

Stephen Williams FCA (senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, United Kingdom

18 May 2017

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

- Elements of the 'Valuation for solvency purposes' and 'Capital management' sections of the SFCR identified as 'unaudited'.

Directors' Responsibility Statement in respect of the Solvency and Financial Condition Report ("SFCR")

The Directors are responsible for preparing the Solvency and Financial Condition Reports in accordance with applicable law and regulations.

The PRA Rulebook for Solvency II firms in Rule 6.1(2) and Rule 6.2(1) of the reporting Part requires that the Company must have in place a policy of ensuring the ongoing appropriateness of any information disclosed and that the company must ensure that its SFCR is approved by the directors.

Each director certifies that:

(a) the Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations;
(b) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and
(c) it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued so to comply, and will continue so to comply in future.

By order of the board:

Ken Hogg
Chief Executive Officer
18 May 2017

Andrew Richards
Finance Director
18 May 2017

A. Business and performance

A.1 Business

A.1.1 Name and legal form

Countrywide Assured plc (CA plc, the company) is a UK based life and pensions business which is substantially closed to new business. The company was established in 1988. CA plc is a public limited company, limited by shares.

A.1.2 Name and contact details of the responsible supervisory authority

CA plc is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority. The PRA is also the group supervisor of the insurance group to which CA plc belongs. Contact details for the PRA and FCA can be found on their respective websites:

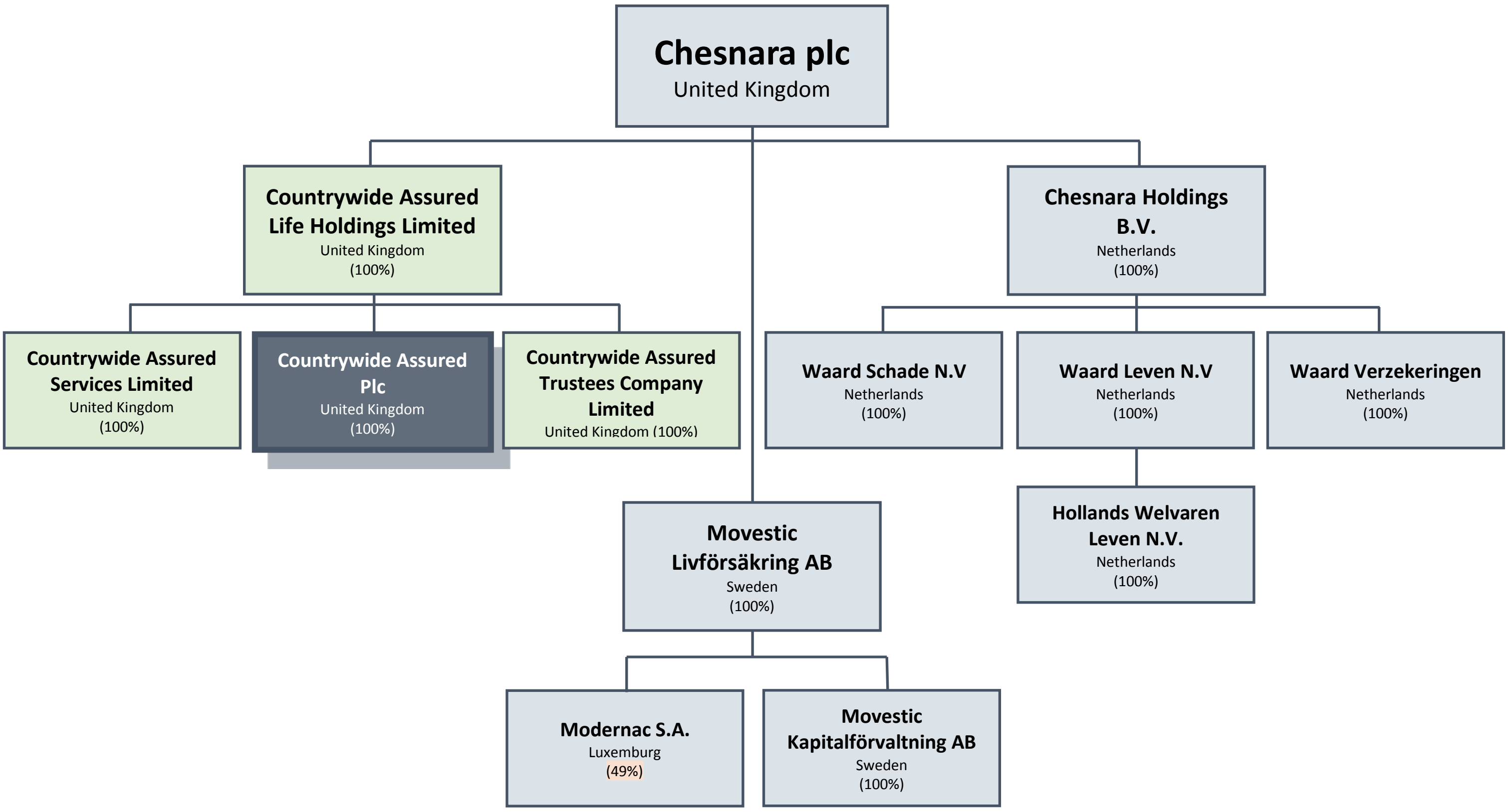
www.bankofengland.co.uk/pra
www.fca.org.uk

A.1.3 Name and contact details of external auditor

The company's external auditor is Deloitte LLP, London, United Kingdom.

A.1.4 Shareholders and position within the group

CA plc is a member of the group headed by Chesnara plc. The group organisational structure shown below is as at 31 December 2016, with the position of CA plc highlighted.



The company is limited by shares, 100% of which are owned by Countrywide Assured Life Holdings Limited, which in turn is 100% owned by Chesnara plc, the ultimate parent company of the CA.

On the 6 April 2017, Chesnara Holdings B.V. acquired the entire share capital of Legal & General Nederland Levensverzekering Maatschappij N.V. which was subsequently renamed Scildon N.V.

A. Business and performance (continued)

A.1 Business (continued)

A.1.5 Material lines of business and material geographical areas where business is carried out

A.1.5.1 Management segments:

The principal activity of CA plc consists of the servicing of long-term life insurance and pensions business, which is substantially closed to new business. It comprises four life and pensions portfolios which have been acquired over time, as follows:

- 'CA': This represents the original life and pensions business of the company, which was previously part of the Countrywide plc estate agency group;
- 'CWA': This represents business that was transferred into Countrywide Assured plc under Part VII of the Financial Services and Markets Act 2000 (FSMA) from City of Westminster Assurance Company Limited. City of Westminster Assurance Company Limited was purchased by the Chesnara group in 2005;
- 'S&P': This represents the 'Save & Prosper' business that was transferred into Countrywide Assured plc under Part VII of FSMA during 2011 from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited. The two 'S&P' companies were purchased by the Chesnara plc group in 2010; and
- 'PL': This represents the 'Protection Life' business that was transferred into Countrywide Assured plc under Part VII of FSMA on 31 December 2014. The company was purchased on 28 November 2013 from Direct Line Insurance Group plc by the Chesnara plc group.

As these historic books of business are all substantially closed to new business; the primary focus of management is a well-governed and efficient run-off of the existing life and pensions portfolios.

The company consists of two material reporting segments being CA and S&P, and these segments are used for reporting both internally and externally. The CA segment includes the 'CA', 'CWA' and 'PL' books of business.

CA segment: This consists of index-linked and unit-linked insurance which makes up the vast majority of life insurance business managed by CA plc. The business mainly consists of endowment contracts and whole life assurance contracts, and also includes some term assurance, annuity and health insurance contracts. This segment also contains some with-profits business, which is 100% re-insured with ReAssure Limited.

S&P segment: This consists mostly of life and pension business, the vast majority of which is pension related. Some of this business is with profits in nature. There are maturity guarantees on all of this with profits business, including guaranteed minimum pensions and guaranteed minimum fund values. This segment also, contains index-linked and unit-linked insurance.

A.1.5.2 Solvency II lines of business:

Although the company manages its business using the reporting segments referred to above, Solvency II introduces some pre-defined "lines of business". The table below provides some insight into the types of insurance the company has written, as classified on a Solvency II basis, and how this maps across to the reporting segments used by the company to manage the business. The company only contains policies classified as "Life Insurance Obligations" and there are no non-life insurance obligations. All business is within the United Kingdom.

Line of business	Net technical provisions (SII basis)			Net premiums earned (IFRS basis)		
	Total £'000	CA £'000	S&P £'000	Total £'000	CA £'000	S&P £'000
Life insurance						
With Profits insurance business	313,730	–	313,730	2,007	13	1,994
Index-linked and unit-linked insurance	1,785,982	991,178	794,804	19,501	16,745	2,756
Other life insurance	154,480	154,480	–	13,715	13,578	137
Total life insurance	**2,254,192**	**1,145,659**	**1,108,534**	**35,223**	**30,336**	**4,887**
Health insurance						
Health insurance (direct business)	243,209	243,209	–	15,590	15,590	–
Total health insurance	**243,209**	**243,209**	**–**	**15,590**	**15,590**	**–**
Total	**2,497,402**	**1,388,868**	**1,108,534**	**50,813**	**45,926**	**4,887**

The underwriting performance in section A.2.2 has been analysed by business segment as opposed to the Solvency II lines of business.

A. Business and performance (continued)

A.1 Business (continued)

A.1.6 Product mix within the material line of business

Insurance with profit participation: Most of the with-profits business resides in the two ring-fenced with-profits funds – Save & Prosper Insurance WP and Save & Prosper Pensions WP. There are maturity guarantees on all of this business, including guaranteed minimum pensions and guaranteed minimum fund values. There is also some with-profits business in CA, which is 100% re-insured with ReAssure Limited.

Index-linked and unit-linked insurance: This makes up the vast majority of life insurance business managed by CA plc and encompasses products held in the CA, CWA and S&P books of business. Approximately two thirds of this is pensions business primarily made up of individual contracts, with some group money purchase schemes. The life business mainly consists of regular premium-paying endowment contracts with a small number of single premium endowments and whole life assurance contracts.

Other life insurance: This mainly relates to the CA, CWA and PL books of business and mainly includes a mixture of term assurance, annuity, endowment and whole life assurance contracts.

Health insurance: The vast majority of health insurance business sits in the CA book of business and covers contracts for which the future benefits are primarily or wholly relating to health. Product types include critical illness and income protection contracts with most of these being index-linked in nature.

A.1.7 Significant business or other events that have occurred over the reporting period

The company analyses its significant business developments against its strategic objective, and associated areas of management focus. This can be summarised in the diagram below:

<table>
<tr><td>Strategy:</td><td colspan="6">Efficient run off of the existing life and pensions portfolios</td></tr>
<tr><td rowspan="3">Management focus:</td><td colspan="2">Capital and value management</td><td colspan="2">Customer outcomes</td><td colspan="2">Governance</td></tr>
<tr><td colspan="6">Culture & values</td></tr>
<tr><td>Responsible risk-based management</td><td>Fair treatment of customers</td><td colspan="2">Competitive return to shareholder</td><td>Robust regulatory compliance</td><td>Maintain adequate financial resources</td></tr>
</table>

An update on progress against each category has been provided below:

Strategic focus:

Area of focus	Summary for 2016
Capital and value management	– Positive performance in equity markets contributes to growth in value of the business. – Falling bond yields have put downward pressure on value in the year. – During 2016 the company implemented the recommendations from its strategic asset review of the assets backing the S&P with-profit funds, improving the position of the funds. – Outsourcers and investment managers have delivered in line with plans and budgets. – Cash of £21.3m has been generated by the division during the year. – The overall Economic Value of the business, before the impact of dividend distributions and taxation, has increased by £38m during the year. – Positive mortality and morbidity experience in the year. – On 23 June 2016 the UK voted to leave the European Union. As all of the company's business is written in the UK the direct impact of the Brexit decision was not significant. The company's results are, however, affected by investment markets and wider economic factors, and the longer-term impact of the referendum is not known at this stage.

A. Business and performance (continued)

A.1 Business (continued)

A.1.7 Significant business or other events that have occurred over the reporting period (continued)

Strategic focus (continued)

Area of focus	Summary for 2016
Customer outcomes	– During March 2016 the FCA announced an investigation into the company's disclosure of exit charges to customers. We are continuing to work with the FCA on the investigation. The FCA have confirmed that they: • are not looking to change terms and conditions of policies • will not apply an inappropriate interpretation of the TCF principles to the disclosure during the period the investigation covers • will not retrospectively apply standards that did not previously exist during the period the investigation covers. – Discussions are continuing with the FCA to progress matters following recent requests for further information. – An action plan has been created to ensure compliance with the draft and final guidelines of "FG16/8 Fair treatment of long-standing customers in the life insurance sector" that were issued by the FCA during the year. Good progress made to date. – Establishment of a customer committee to further embed customer focus. – Creation of a product review framework to assess whether products remain fit for purpose. – Preparations for implementation of the 1% exit fee cap on all pension products where the policyholder is over 55. – Delivered policyholder returns in three main managed funds in excess of benchmark, representing a significant proportion of the assets under management. The CA Pension Managed Fund, which represents a significant proportion of CA policyholder funds under management, provided a positive return of 17.2% over the year ended 31 December 2016 (31 December 2015: positive 1.9%), while the CWA Balanced Managed Pension Fund, which also represents a significant proportion of CWA policyholder funds under management, also provided a positive return of 15.8% over the same period (31 December 2015: positive 1.7%). The S&P Managed Pension Fund produced a positive return of 14.2% (31 December 2015: positive 4.7%).
Governance	– A number of new appointments have been made to strengthen the CA board during the year, including the appointment of a new CEO. – Successful transition to new Solvency II capital management and reporting regime. – Continued embedding of risk management framework, including full implementation of governance. – Solid delivery of outsourced services.

A.1 Business (continued)

A.1.7 Significant business or other events that have occurred over the reporting period (continued)

Culture and values:

Area of focus	Summary for 2016
Responsible risk-based management	– Embedded the CA plc governance map. – Adopted SII, and started embedding our understanding of the complex capital dynamics of the regime, particularly ensuring the linkage to our risk-based decision making processes. – Refreshed the company's capital management policies to ensure fully reflective of the Solvency II regime. – Delivered our Own Risk and Solvency Assessment (ORSA) to the prudential regulator. The ORSA process has become a powerful internal reporting and analysis process supporting the company in making informed risk based decisions.
Fair treatment of customers	– The company has delivered a good standard of customer service. – Our administrative outsource service partners have delivered within stringent service level requirements. – The investment management outsourcing is overseen by CA plc's Investment Committee and has continued to deliver strongly. – Fund performance was above benchmark for all three primary managed funds. – Where complaints do arise the company continues to manage them in accordance with regulatory best practice. – Regulatory developments are closely monitored to ensure customers continue to be treated fairly in accordance with regulatory requirements and their contract terms where those terms are deemed to remain fair.
Competitive return to shareholder	– Delivered against our objectives in the year of making sound risk-based decisions across all aspects of the business.
Robust regulatory compliance	– Effective implementation of Solvency II. – Continued to support the work performed by the FCA in relation to its investigation into the disclosure of exit fees in customer correspondence. – Developed an action plan supporting the delivery of the FCA's final guidance on treating customers fairly, issued in December 2016.
Maintain adequate financial resources	The company has maintained adequate financial resources over the year, and had a post-dividend solvency ratio of 128% at 31 December 2016. The target management limit is set at 120% at which point the dividend would cease to be paid. Further information on the solvency position of the company at 31 December 2016 can be found in Section E "Capital management", which starts on page 48.

A. Business and performance (continued)

A.2 Underwriting performance

A.2.1 Introduction

Sections A.2, A.3 and A.4 of this report require qualitative and quantitative information to be provided on various different aspects of the performance of the company. Whilst this report in general provides information that is based on valuation rules required by the Solvency II reporting regime, sections A.2, A.3 and A.4 are required to be reported in accordance with the measurement basis as shown in the company's financial statements, which in CA plc's case, is IFRS. The disclosure rules of Solvency II require this information to be analysed by material line of business, as defined by the Solvency II rules. However, as the business is managed by business segment, rather than individual business lines, the underwriting performance has been presented in a format which is consistent to that disclosed within the company's financial statements.

A.2.2 Underwriting performance

The company has interpreted underwriting performance as being the IFRS profit before tax, as reported in the company's financial statements.

The table below summarises the underwriting performance of CA plc by material business segment, in line with the presentation disclosed in the annual financial statements. All business was written in the United Kingdom.

	2016			2015		
	CA £'000	S&P £'000	Total £'000	CA £'000	S&P £'000	Total £'000
Premiums earned	45,927	4,886	**50,813**	52,041	5,413	**57,454**
Claims incurred	(164,707)	(92,386)	**(257,093)**	(150,884)	(92,832)	**(243,716)**
Changes in other technical provisions	(77,259)	(33,274)	**(110,533)**	79,390	56,189	**135,579**
Expenses incurred	(13,429)	(9,466)	**(22,895)**	(14,149)	(9,648)	**(23,797)**
Other expenses	(501)	(3)	**(504)**	(127)	(1)	**(128)**
Investment performance (section A.3 for detail)	206,747	131,155	**337,902**	24,538	37,605	**62,143**
Other operating income	2,568	10,792	**13,360**	2,854	11,331	**14,185**
Fee & commission income	29,000	2,610	**31,610**	30,216	2,513	**32,729**
Underwriting performance (IFRS profit before tax)	**28,346**	**14,314**	**42,660**	**23,879**	**10,570**	**34,449**

***Premiums earned*:** This represents the sum of gross premiums during the year reduced by the amount ceded to reinsurance undertakings. Deposit accounting has not been performed.

***Claims incurred*:** This is the sum of the claims paid and the change in the provision for claims outstanding during the financial year, net of reinsurance.

***Changes in other technical provisions*:** This represents the changes in provisions, net of reinsurance, for policyholder liabilities. These have been calculated using actuarial methods.

***Expenses incurred*:** This represents all technical expenses incurred by CA during the year, on an accruals basis.

***Other expense*:** Other technical expenses including amounts payable under profit sharing arrangements.

Investment performance: Further detail on investment performance can be found in section A.3 of this report. Investment performance includes a combination of interest / dividend income on assets held and realised and unrealised gains and losses.

Other operating income: This line item mainly consists of other investment related income.

Fee and commission income: This represents policy-based fees, fund management-based fees and benefit-based fees.

A. Business and performance (continued)

A.2 Underwriting performance (continued)

A.2.3 Overall results commentary

The overall underwriting performance of the company reflects surpluses arising from the company's life and pensions contract portfolios, which have remained resilient to policy attrition. The underwriting result of £42.7m (2015: £34.4m) comprises £28.3m (2015: £23.9m) from the combined CA, CWA & PL portfolios (collectively known as the "CA" business), and £14.3m (2015: £10.6m) from the S&P book.

CA: The CA segment has reported results for the period in excess of those in 2015. Positive mortality experience has resulted in a positive change in mortality assumptions being reflected in the results. Modest investment market profits of c£2m have been reported, reflecting the impact of positive equity markets, offset by the negative impact of a fall in yields in the year.

S&P: The S&P segment has reported an increase in profits on the prior year. Positive economic profits of c£4m arise from the net impact of positive equity markets offset by falling bond yields. Positive assumption changes of c£5m include the positive impact of lapse assumption changes and a change in annuity pricing assumptions, off-set by the negative impact of additional reserves of c£3.5m being required for the impact of the 1% exit fee cap that was announced in the year for all pension policies where the policyholder is aged 55 and over.

A.3 Investment performance

A.3.1 Investment performance

The investment performance of the company can be summarised in the below table:

	2016			2015		
	CA £'000	S&P £'000	Total £'000	CA £'000	S&P £'000	Total £'000
Dividend income	21,432	7,732	**29,164**	21,924	8,622	**30,546**
Interest income	11,244	8,760	**20,004**	11,446	12,528	**23,974**
Rental income from investment properties	11	–	**11**	(2)	111	**109**
Net fair value gains and losses:						
Equity securities designated as at fair value through income on initial recognition	129,118	95,110	**224,228**	2,841	24,571	**27,412**
Debt securities designated as at fair value through income on initial recognition	44,941	23,061	**68,002**	(11,685)	(11,679)	**(23,364)**
Derivative financial instruments	–	(3,508)	**(3,508)**	–	(811)	**(811)**
Investment properties	–	–	**–**	14	4,263	**4,277**
Total	**206,748**	**131,115**	**337,902**	**24,538**	**37,605**	**62,143**

Key reasons for improvement in investment performance in the year are:

- A positive performance in the indexed-linked & unit-linked and non-linked investments, predominantly driven by the strong performance in equity markets over 2016 compared with 2015.
- Bond yields have fallen during the year which has resulted in an increase in total investment returns due to the associated growth in capital values.

A.3.2 Investment in securitisation

The company does not invest directly in securitised assets. CA plc does, however, have exposures to securitised assets within the Save & Prosper Pension (SPP) with-profits fund via the fund's investments in certain collective investment schemes. These schemes, as part of their overall portfolio of investments, include some holdings in securitised assets. As at 31 December 2016, out of a total CA plc investment portfolio of £2,795m, £11.7m was invested in securitised assets via the holdings in these collective investment schemes.

A.4 Performance of other activities

The company's only activity is that of life insurance and pension business. There are no other activities that take place in the company.

A.5 Any other information

There is no other information required to be disclosed regarding the performance of the business.

B. System of governance

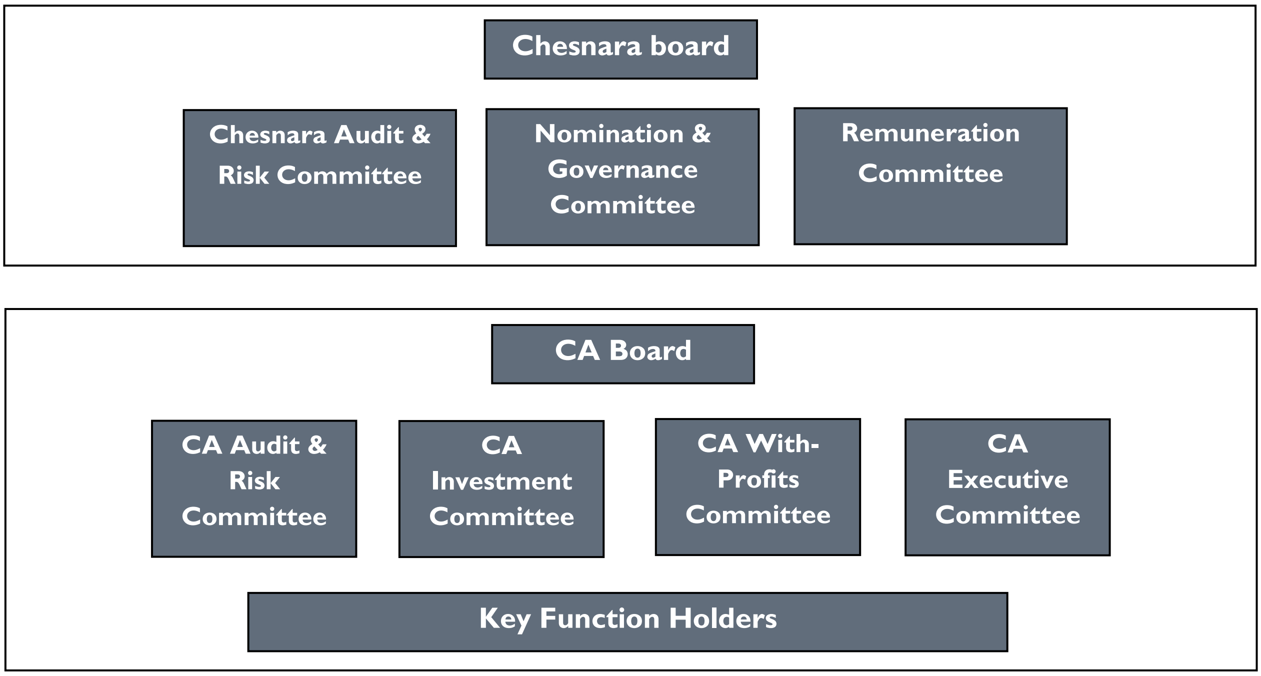
B.1 General information on the system of governance

B.1.1 Governance structure

Overview

CA plc's governance system sits within the overarching governance system of the Chesnara group. It consists of the board, board committees and the delegation of responsibilities to key function holders. CA plc maintains a governance map which documents the detailed implementation of the system of governance. This includes the terms of reference of committees, and detailed roles and responsibilities of key functions.

The governance structure is summarised in the diagram below:



Board responsibilities

The CA plc board is made up of both executive directors and non executive directors. It is collectively responsible for promoting the success of the business by directing and supervising its activities. Its role is to deliver appropriate outcomes for all stakeholders within a framework of prudent and effective controls which enable risks to be assessed and managed. It will set the strategy and business plan within the overall context of the group's plans and ensure that the necessary financial and human resources are in place to meet its objectives and monitor management performance.

Sub-committees

The board has additional sub committees as follows:-

– **Audit & Risk Committee:** The responsibilities of the committee include monitoring the integrity of the annual financial statements, reviewing the definition and application of the company's internal control and risk management systems, monitoring the use of capital within the company, reviewing and challenging risk information and treatment, and reviewing the risk management responsibilities across the company.

– **Investment Committee:** Responsibility for the review of the company's investment strategy and policy and to monitor and challenge investment performance. This includes setting investment strategy that is appropriate for shareholder and policyholder needs and the company's risk appetite, overseeing implementation and performance of the shareholder and policyholder funds and ensuring that shareholder and policyholder investment governance frameworks are effective.

– **With Profits Committee:** Responsibility for ensuring that the interests of with-profits policyholders are appropriately considered within governance arrangements and to consider issues affecting with-profits policyholders as a whole or as separately identifiable groups. Other responsibilities include ensuring that management of the With-Profits business is carried out in accordance with the Principles and Practices of Financial Management (PPFM) and that the With-Profits policyholders are being treated fairly and that conflicts of interest between policyholders and shareholders are effectively addressed.

– **Executive Committee:** This is the principal body to assist the CEO in carrying out the responsibilities assigned by the board. Responsibilities include: recommending strategy and objectives for the company having regard to the interests of policyholders and its ultimate shareholder Chesnara; developing and reviewing objectives, plans and budgets for approval by the board; reviewing business performance against agreed targets; ensuring the control, co-ordination and monitoring of capital, risk and internal controls; implementation and review of the risk management system and risk policies; monitoring the on-going capital and liquidity position of the company. From time to time the executive committee may appoint sub-committees to provide a focus on specific areas or parts of the business plan.

B. System of governance (continued)

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

The board has delegated its Remuneration and Nomination responsibilities to the relevant Chesnara plc committees as follows:

- **Chesnara board Remuneration Committee**: Responsible for ensuring that the remuneration practices are appropriate. It is responsible for the development and implementation of the group remuneration policy across each of the divisions (including CA plc) and determining targets for performance related incentive schemes. CA plc maintains a remuneration policy which is based on the principles and practices set by the group. This is covered in more detail in Section 1.3 below.

- **Chesnara board Nominations and Governance Committee**: The role of the Nominations and Governance Committee is to ensure appointments are appropriate and that board members and executive committee members are 'fit and proper'. It is responsible for the development and implementation of the group fit and proper policy across each of the divisions (including CA plc) and for determining criteria for skills, knowledge, and experience. The Nominations and Governance Committee is responsible for succession planning for board and senior executive roles across each of the divisions. CA plc maintains a fit and proper policy which is based on the principles and practices set by the group. This is covered in more detail in Section 2 below.

Senior management responsibilities

To assist the board with its responsibilities, it has delegated the responsibility for key functions to senior management. These are functions that have a material effect on the internal control of the business and influence material decision making. The key functions have been defined taking into account the requirements of Solvency II regulations and guidance from regulators, with each key function classified as a Senior Insurance Management Function under the Senior Insurance Managers Regime. Each key function is headed by a Key Function Holder who has responsibility for that area. The key functions are as follows:

- Risk management
- Compliance
- Internal audit
- Actuarial
- Operations
- Finance
- Investments

Each key function holder is a member of the executive committee. As well as reporting to the executive committee on a monthly basis each key function holder prepares a report to the board on a quarterly basis.

The detailed responsibilities for each key function holder are documented in the company's governance map which is reviewed and approved by the board on a regular basis. This ensures that each key function holder has the necessary authority and operational independence to carry out their role. On an annual basis, as part of the business planning process, each key function holder will ensure that they have the necessary resources to deliver their responsibilities. The business plan is reviewed by the executive committee and approved by the board.

The responsibilities of each of the key functions holders, together with the responsibilities of the Chief Executive Officer and With Profits Actuary are summarised below.

- The Chief Executive Officer is a member of the board, chairs the Investment Committee and the executive committee and attends the Audit & Risk and With-Profits Committees. The CEO's main responsibilities include: delivering the company's business plan, and operating within the company's budget, as approved by the board; managing the business within the CA plc and group's risk appetite parameters; meeting the requirements of the regulators in relation to all activities within the company.
- The Finance Director is a member of the board and the executive committee and attends the Audit & Risk Committee. The Finance Director oversees all financial aspects of the CA plc strategy and financial management and ensures the flow of financial information to the CA and group CEO, the CA and group executive committee, the CA and Chesnara boards and, where necessary, external parties such as auditors and regulators. In addition the Finance Director is responsible for the day to day control of the accounting function including effective oversight and governance of outsourced accounting services.
- The Chief Risk Officer attends the Audit & Risk Committee, is a member of the executive committee and is a regular attendee at the board, and has responsibility for the development and review of the risk management system, governance system and internal control system; implementation of risk management processes and systems; reporting on the risk profile of the business, preparation and presentation of the Own Risk and Solvency Assessment (ORSA).
- The Chief Actuary attends meetings of the board and Audit & Risk Committee and is a member of the Investment, With Profits and executive committees. The Chief Actuary oversees all actuarial aspects of company's strategy and financial management. This includes oversight of the appropriateness of methodologies, models, bases and calculation of technical provisions within CA including those provided by the outsourcers; assessment of the sufficiency and quality of the data used in the calculation of technical provisions; reporting on the reliability and adequacy of the calculation of technical provision; advising of any concerns regarding the sufficiency of financial assets to meet liabilities to policies; the modelling of risk capital for the ORSA, including advising on suitable stress and scenario testing; reinsurance arrangements; oversight of investment strategy and asset-liability matching. The Chief Actuary is also the Head of Investments (see below).
- The head of internal audit reports directly to the Chair of the Audit & Risk Committee and is responsible for providing reasonable, but not absolute, assurance to the board and the Audit & Risk Committee about the adequacy and effectiveness of the internal control environment including procedures, controls and policies operated by outsourced service providers and for the establishment of an annual audit plan.

B. System of governance (continued)

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

Senior management responsibilities (continued)

- The Compliance Officer is responsible for ensuring that the company fulfils its regulatory, legislative and corporate standards and obligations in a cost effective way, and for assessing the adequacy of measures taken to prevent non-compliance. The Compliance Officer is also the Data Protection Officer and the Money Laundering Officer.
- The Head of Operations is responsible for ensuring an appropriate customer strategy is implemented and maintained, and that outsourced administration services are delivered to the agreed service levels, quality standards and contractual terms. The Head of Operations is also responsible for HR services, IT and Office facilities to the company's employees.
- The Head of Investments has responsibility for implementing the policies and practices agreed by the Investment Committee, oversight of the unit pricing, and advising the Investment Committee of matters they need to be aware of when undertaking their role, such as changes to market practice or regulation.
- The With Profits Actuary reports to the Chair of the With Profits Committee and is responsible for the review and development of principles and practices for the financial management of the with profits funds, advising on key aspects of discretion and reporting on an annual basis to the board and with profits policyholders. The With-Profit actuary is employed by Willis Towers Watson and his services provided under a separate service agreement.

B.1.2 Material changes in the system of governance

There have been no material changes to the system of governance over the year.

B.1.3 Information on the remuneration policy

Overview

The company's remuneration policy is intended to set out rules and principles for remuneration, taking into account relevant regulatory requirements and guidance. In particular, it aims to ensure:

- the implementation of appropriate remuneration practices and activities; and
- the implementation of suitable reporting and monitoring routines, to ensure effective control of remuneration activities and management of the associated risks.

A professional corporate governance team is responsible for delivering the statutory, regulatory and operational requirements of the company. The operating model of the CA business is to seek to outsource all support activities to specialist outsourcing providers (OSPs) whilst maintaining appropriate oversight and governance of these services. The remuneration package for CA staff is composed of fixed and variable elements. This includes members of the Executive Committee. Fixed remuneration refers to remuneration, the amount and size of which is determined in advance. Variable remuneration refers to remuneration, the amount or size of which is not determined in advance.

- The fixed remuneration package consists of: (a) basic salary; (b) taxable benefits; and (c) pension benefits.
- The variable remuneration package consists of an annual bonus scheme for all employees.

For members of the CA Executive Committee, variable remuneration for on target performance currently ranges between 20% and 60% of salary. For staff below executive level, variable remuneration ranges between 15% and 20% of salary, dependent upon the role and grade of the individual.

The remuneration package for non-executive directors (NEDs) is fee based. A base fee is paid to all NEDs and an additional fee is paid to the Senior Independent Director, the chairs of the board committees and to other NEDs to reflect additional time commitments and responsibilities required by their role.

CA has identified the individuals to whom specific arrangements will be applied, in line with the Solvency II Delegated Acts, Article 275, and the policy reflects a proportional interpretation of paragraph 2 of Article 275. The Regulation requires firms to apply specific arrangements to 'the administrative, management or supervisory body, persons who effectively run the undertaking or have other key functions and other categories of staff whose professional activities have a material impact on the undertaking's risk profile' ("Solvency II staff"). These individuals consist of members of the board and the executive committee. The latter includes all key functions holders. Material risk takers are considered to be persons who either individually via their authority level or collectively through the auspices of the board or executive committee are able to make decisions which could materially impact the risk appetite of the business. There are currently no individuals who are not members of the board or executive committee, who have this level of authority, nor do the board plan to provide such authority. It will be kept under review.

B. System of governance (continued)

B.1 General information on the system of governance (continued)

B.1.3 Information on the remuneration policy (continued)

Business strategy consistency

The company recognises that remuneration practices and principles influence the management of the business and desires that its practices promote sound, prudent and effective management of its business and does not encourage risk-taking that exceed the risk tolerance limits of the company.

The company recognises remuneration policies and schemes are essential to attract, motivate and retain high calibre resource with the required skills and experience needed for their role and to contribute to the success of the company. Its remuneration objectives, consistent with the business strategy, are:

- To drive and reward the achievement of the business strategy and plan;
- To promote sound and effective risk management and not encourage risk-taking that exceeds the risk tolerance limits of the undertaking;
- To recruit and retain employed individuals with the skills and experience needed for the role and to contribute to the success of CA plc;
- To recruit and retain independent consultants and/or contractors with the skills and experience and qualities relevant to the role and who are also able to fulfil the required time commitment.

In addition, CA's variable remuneration is closely aligned to the performance of the individual and the company.

B.1.4 Material related party transactions

The below provides information on transactions that the company has entered into during the year with shareholders, persons who have significant influence and members of the board:

Transactions with ultimate parent company, Chesnara plc

Chesnara plc undertakes centralised administration functions, the costs of which it charges back to its operating subsidiaries. The following amounts, which effectively comprised a recharge of expenses, were charged to the company for the respective periods.

	2016 £'000	2015 £'000
Recharged group expenses	**3,470**	**3,054**

Transactions with immediate parent company

Countywide Assured Life Holdings Limited (CALHL) is the immediate parent company of CA plc. Typically the only transactions between CA plc and CALHL are the remittance of annual dividends. The dividend payments made during 2016 and 2015 can be summarised in the table below.

	2016 £'000	2015 £'000
Dividends paid to CA Life Holdings Limited	**30,500**	**65,000**

Further to the dividend payments made in the year of £30,500,000, CA plc has declared a dividend of £30,000,000 in relation to the year ended 31 December 2016. This was paid in May 2017.

Transactions with fellow subsidiary companies

Countywide Assured Services Limited, a subsidiary company, undertakes centralised supplier payment and administration functions, the costs of which it charges back to CA plc. The following amounts which effectively comprised a recharge of expenses at a mark up of one quarter of a percent were charged to the company for the respective periods.

	2016 £'000	2015 £'000
Recharge of expenses from CA Services Limited	**2,638**	**2,630**

Other transactions

There were no transactions between the company and any persons who exercise a significant influence on the company, or who are members of the administrative, management or supervisory body. Directors and members of the board are remunerated by Chesnara plc, and recharged on an appropriate basis.

B. System of governance (continued)

B.1 General information on the system of governance (continued)

B.1.5 Assessment of the adequacy of the system of governance

Through the implementation of Solvency II in 2015 and further refinements in 2016, the company has carried out various informal and formal Systems of Governance (SoG) review exercises. During 2016, a framework has been developed to assess the effectiveness of SoG. The framework consists of a two tier approach:

a) Brief, 'top down' assessment completed by the board and senior management
b) Detailed, 'bottom up' assessment on each component of the SoG

The first stage of the process was completed in May 2016 to help inform the wider development of the risk and governance framework. In November 2016, the second stage of the assessment was completed, by reviewing each of the SoG guidelines published by the European Insurance and Occupational Pension Authority (EIOPA) to support the introduction of Solvency II. The detailed results of the review were presented to the board for review and approval. In summary, the company has attested full compliance with all 60 relevant guidelines, subject to noting a small number of minor caveats, comments or points of clarification. The review also acknowledged that whilst the SoG meet the regulatory requirements, there will be continued development moving forward to refine and further embed these across the business.

In light of the above the board concluded that the company had adequate systems of governance in place over the year.

The board has discretion over the scope and terms of the SoG review each year. Whilst the approach for 2016 centred around the review against EIOPA guidelines, this does not preclude the board undertaking a different form of review in future years.

B.2 Fit and proper requirements

CA plc has a fit and proper policy that has been signed off by the board and ensures that appropriate resource are in place to deliver effective and efficient management of the business. The company takes appropriate steps to ensure that directors, senior managers, individuals responsible for key functions and those working in key functions are fit and proper.

The requirements are proportionate to the role and responsibilities of the various positions. Checks are made on initial appointment and are re-assessed every year. The results of all assessments are reported to the board. During 2015 and 2016, all employees were assessed against appropriate fit and proper tests. These tests included some or all of the following:

- Fit and proper questionnaires;
- Criminal record checks;
- Credit referencing;
- Curriculum Vitae detailing skills, qualifications and experience;
- Continuous professional development / performance management framework;
- Membership of professional institutes; and
- The recruitment and selection process in place at the time of appointment.

All directors and employees also have to confirm their fitness and propriety annually. Each year personal performance assessments include a review of fitness and propriety of all employees and senior managers. The company notifies the Financial Conduct Authority and Prudential Regulation Authority of any changes to the identity of the persons responsible for the Senior Insurance Manager Functions and Controlled Functions along with all the information needed to assess whether any new persons appointed to these roles are fit and proper. The fit and proper policy is transparent and made available to all employees to ensure that all decisions made on the fitness and propriety of an individual are made in a consistent manner.

B. System of governance (continued)

B.3 Risk management system including the own risk and solvency assessment

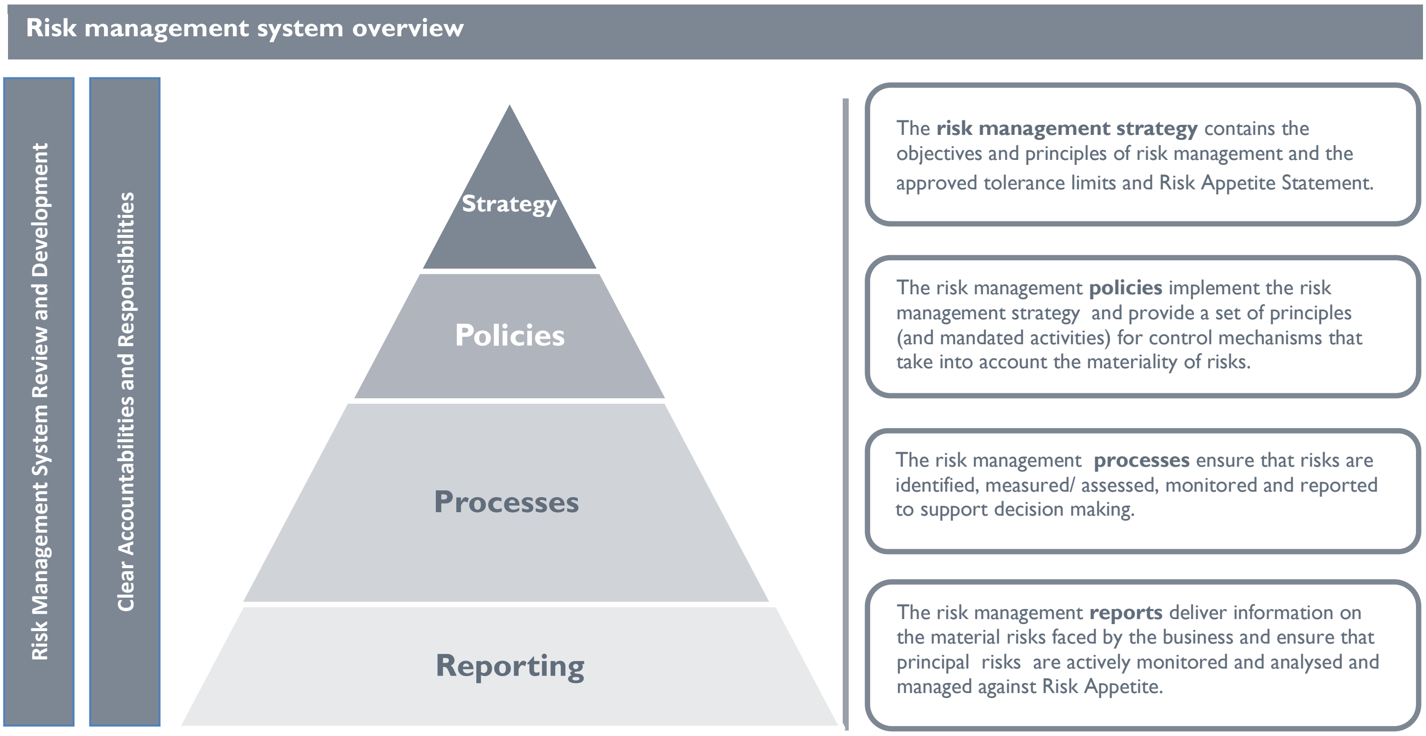
B.3.1 Risk management system

Overview

CA has an established risk management system, which incorporates:
(a) Risk management strategy;
(b) Risk management and internal control policies;
(c) Risk management processes;
(d) Risk reporting.

The risk management system applies to all categories of risk, and unless stated otherwise, the following information applies for each separate risk category.

The risk management system is summarised in the diagram below:



B. System of governance (continued)

B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.1 Risk management system (continued)

Risk universe

CA has a defined categorisation of risks that are relevant to its business model and strategic focus, as shown in the following diagram. The company recognises that risks within each of these categories need to be identified, measured, monitored, managed and reported upon on a continuous basis.

Life underwriting risk	Health underwriting risk	Market risk	Counterparty default risk	Liquidity risk	Business / strategic risk	Operational risk
Mortality	Health expense	Interest rate	Reinsurance		Operational change	People
Longevity	Morbidity	Equity	Derivatives		Regulatory change	Information systems
Disability		Property	Outsourcer		Legal change	Physical assets / facilities
Life expense		Spread	Security		Political change	Prudential risk
Lapse		Concentration	Concentration		Reputational risk	Conduct
Life catastrophe		Currency				Process
						Financial crime

Risk management strategy

The **primary risk objective** of CA's risk management system is to:

"Maintain solvency and liquidity of CA whilst delivering continuity of business services; fair customer outcomes; and a regulatory compliant service to customers and making dividend payments to Chesnara Plc in line with expectations."

CA has a board-approved risk appetite statement and risk tolerance limits for each of the categories of risk. This is fully consistent with and aligned to the Chesnara group's risk appetite statement. The aim of the risk appetite statement and risk tolerances is to enable the board to articulate the amount of risk CA is willing to take and provide boundaries to when potentially too much, or too little, risk is being taken. This provides guidance to enable management to take on the "appropriate" risks, and the "appropriate" amount of risk as part of the pursuit of its strategic objectives.

Business decision making

So that all business decisions are risk- informed on a forward looking basis, CA has established processes so that:

(a) Forward looking risk analysis is an integral part of business planning;
(b) Risk assessment is made for all significant change proposals made to the board;
(c) Risk analysis, including ongoing identification and monitoring of implementation risks is an integral part of project governance; and
(d) Own Risk and Solvency Assessment is considered quarterly by the board in order to ensure that the board is aware of the risk profile of the business prior to decision making, and to consider whether any of the matters, they discussed, or decisions they have taken, have a material impact on the ORSA.

B. System of governance (continued)

B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.1 Risk management system (continued)

Risk management policies

CA has risk management policies that are annually reviewed and approved by the board, that cover all the key risks that the organisation is exposed to. These cover all the categories of risk. These include:
(a) Underwriting and reserving policy;
(b) Asset and liability management policy;
(c) Investment policy;
(d) Reinsurance and risk mitigations policy;
(e) Outsourcer policy;
(f) Concentration risk policy;
(g) Liquidity risk policy;
(h) Operational risk policy;
(i) Conduct risk policy;
(j) Business continuity; and
(k) Capital management policy.

These policy documents clearly articulate the principles and practices for the management of risks including: an articulation of objectives; reporting procedures; roles and responsibilities; and processes and key controls in a manner that is consistent with the business strategy. Each policy document is owned by an allocated member of the executive committee who is responsible for attesting policy compliance on an annual basis.

Risk management processes

CA maintains a risk register, which is a comprehensive list of risks and the key controls in place to manage them. The continuous maintenance and update of the risk register is the responsibility of senior management. This is supported by a quarterly maintenance process and uses the risk universe to ensure completeness of capture. The risk register is considered at both Audit & Risk Committee and executive levels.

In the identification of risks CA considers:

- those risks that management are aware of and understand
- those risks that management are aware of but do not yet fully understand because of their changing nature including new risks that emerge during the period and forward looking risks that may emerge in the future.

For each of the risks contained within the risk register, the risk owner makes an assessment of the risks both with and without controls applied. The assessment is undertaken both in terms of likelihood and consequences. Consequences of each risk are considered in terms of: impact on customer, processes, capital, cash outflow, reputation and regulatory relationship.

On an ongoing basis CA scans the horizon and identifies potential risk events (including political; economic; sociocultural; technological; environmental and legislative) and assesses their proximity and their potential impact.

CA has established processes and procedures for the management of crystallised risks. Outsourced service providers report all significant incidents, to the applicable first line function. These incidents are monitored along with any in house incidents and an action plan for treating the risk is defined and agreed with CA. Annually, trend analysis is undertaken to establish whether there are any significant weaknesses in controls leading to systemic incidents.

Risk management information and communication

CA produces regular reports to support the board with its monitoring of the risk management of the business.

- On a quarterly basis, the risk function produces a risk report which includes information on the principal risks of CA, information on any emerging risks, tracking of the risk profile versus risk appetite, information on crystallised risk events and the tracking of key metrics to support the continuous solvency monitoring framework. The quarterly risk report is reported to the board Audit & Risk Committee.
- On an annual basis, or more frequently if required, CA produces an ORSA report detailing the qualitative and quantitative results of the own risk and solvency assessment, including stress and scenario testing, and the conclusions drawn from those results. The ORSA is reviewed and approved by the board.
- On an annual basis, or more frequently if required, CA produces a report providing information on the adequacy and effectiveness of the risk management system.
- On an annual basis, risk policy owners provide an attestation of policy compliance, with supporting evidence where required. The results of this activity are summarised by the risk function and reported to the board Audit & Risk Committee.

B. System of governance (continued)

B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.1 Risk management system (continued)

Risk management responsibilities

The board is responsible for the adequacy of the design of the risk management system and ensuring it is consistent with the practices defined by the group. All significant decisions for the development of the risk management system are the board's responsibility. This includes developments in risk strategy, developments in risk management policies, and development in risk management tools, methodologies and processes.

The Chief Risk Officer is responsible for providing management information to the board regarding the effectiveness of the risk management system and reporting to the board regarding the risk profile of CA. The Chief Risk Officer has direct access to the board.

B.3.2 Process undertaken to conduct an Own Risk and Solvency Assessment

Overview

As part of its risk management framework CA conduct an Own Risk and Solvency Assessment (ORSA). This assessment considers the operating environment and wider risks to which CA is exposed and provides a forward looking assessment of the potential risks and capital impacts, within the wider context of the CA business strategy.

The aim of the ORSA is to support the board and senior management in making risk based strategic and operational decisions, as well as understanding the impacts on capital, and potential dividend paying capacity to Chesnara plc, if more extreme scenarios were to occur.

The ORSA follows a defined ORSA process which is documented in the ORSA policy. This policy is reviewed on an annual basis and approved by the board. The ORSA process is described in more detail below, and incorporates several key processes to manage risk and capital.

ORSA – decision making

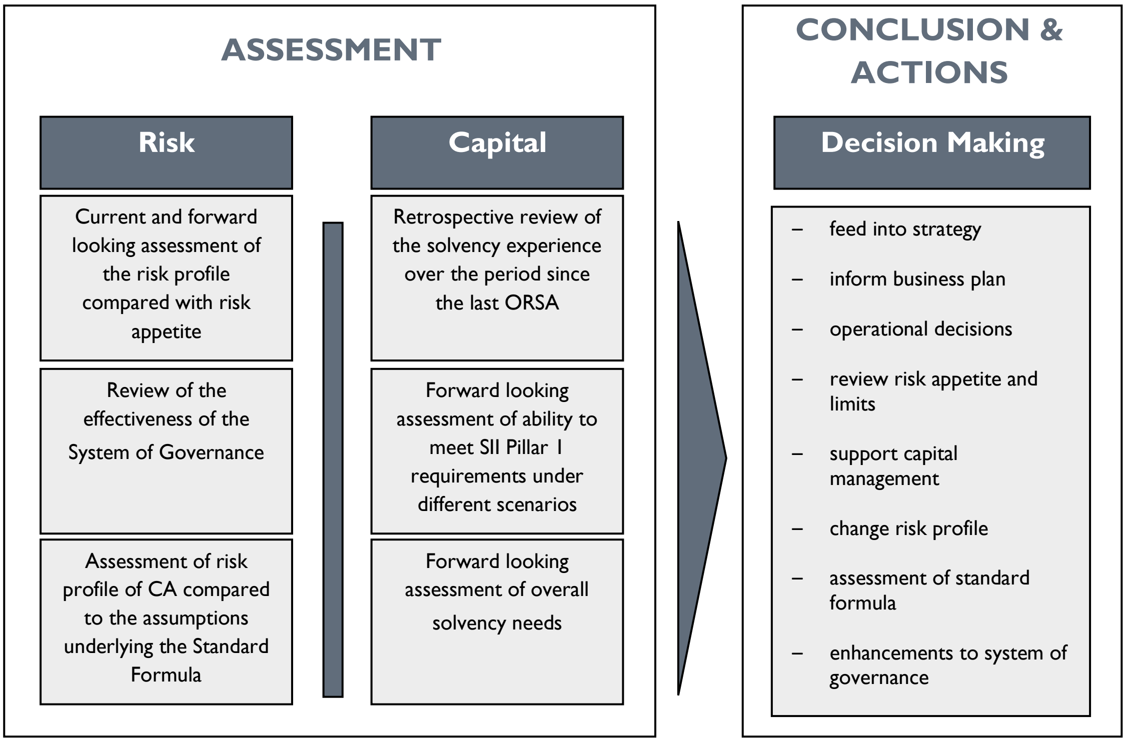
The output from the ORSA process is an ORSA report, which is produced on an annual basis, or more frequently if there is a material change in the risk profile. The ORSA report is based on outputs from a number of different sub-processes within the wider risk management framework, many of which have been reviewed and approved by the board.

The ORSA report is prepared by the Chief Risk Officer, reviewed by senior management and then reviewed and approved by the board. As a minimum the ORSA report covers all of the areas described in the ORSA process, and includes observations, conclusions and recommendations to assist senior management and the board in business planning, and to support risk based strategic and operational decisions.

Following approval by the board, the ORSA report is submitted to the Prudential Regulation Authority.

ORSA process overview

The following diagram provides a summary of the overall ORSA process.



B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.2 Process undertaken to conduct an Own Risk and Solvency Assessment (continued)

The above diagram shows how CA's risk and capital management activities interact in order to assess its ability to meet regulatory capital requirements, and to determine its overall solvency needs, with the conclusions summarised in the ORSA report to support decision making.

To assess its ability to meet regulatory solvency requirements, the capital position is projected forward taking into account the business plan, dividend payments and the capital management policy. The projections consider the impact of a range of pre-specified stress and scenario tests. The ORSA also considers the results of the reverse stress testing analysis, identifying potential events that could cause the business model to fail.

As part of the assessment to determine its overall solvency needs, the following factors are taken into account:

- **Risk appetite:** Whether the board wishes to hold capital over and above the regulatory risk capital requirements.
- **Limitations within the regulatory calculation of own funds:** There may be aspects of the calculation of own funds that CA would wish to alter for an accurate internal assessment.
- **Appropriateness of the standard formula to calculate capital requirements:** Conclusions from the comparison of the risk profile with the assumptions underlying the standard formula.
- **Future solvency needs taking account of the business plan:** Whether the solvency projections or sensitivity analysis has resulted in any desire to hold additional capital, taking into account the future business plan and expected dividend paying profile, as well as potential future changes in its risk profile due to the business strategy or other external factors.
- **Non-quantifiable risks:** Whether the board wishes to hold additional capital to allow for risks that are more difficult to quantify, and may not have resulted in explicit capital requirements.
- **Nature and quality of own funds:** The nature and quality of own fund items or other resources appropriate to cover the risks identified.

B.4 Internal control system

B.4.1 Description of internal control system

CA has an established internal control system to support the achievement of CA's objectives, in terms of operational effectiveness, reliable financial reporting, and compliance with laws, regulations and policies. CA operates a "three lines of defence model" for the management of risks and internal control which is summarised in the diagram below.

1st Line Business functions	• Ownership of risk management policies defining key controls • Operation of business processes including control activities • Management of incidents / crystallised risk events • Governance of outsourcers processes and controls
2nd Line Risk, compliance & actuarial functions	• Develop risk management system principles and practices • Review and challenge of risk management policies and adequacy of control environment • Actuarial reviews and compliance monitoring
3rd Line Audit function	• Independent testing of control activities • Provide an independent perspective and challenge the process

The management and control of operational risks is shared with the outsourced service providers. CA has adopted a governance model that provides oversight over all three lines of defence of the outsourced service providers.

1st line procedures
The 1st line business functions provide the day to day management and control of key business processes. A key component of the internal control system are the risk management policies that are annually reviewed and approved by the Board. These set out the principles and practices for the management of risks including roles and responsibilities, reporting procedures and key processes and controls. Each policy is owned by a member of the executive committee who is responsible for attesting policy compliance on an annual basis.

B.4 Internal control system (continued)

B.4.1 Description of internal control system (continued)

2nd line procedures
Compliance monitoring
CA has an established compliance monitoring procedure. The purpose of compliance monitoring activity is to assess the adequacy of implementation of regulations and legislation into business as usual activity. Material compliance breaches are reported to CA's Audit & Risk Committee. The activities of the compliance function are described in more detail in section B.4.2 below.

Actuarial review and verification
CA has an established actuarial review procedure. The purpose of the actuarial review activity is to assess the reliability of valuations and calculations of technical provisions. This includes consideration of the methodology and assumptions, an assessment of the information systems used for the valuations systems and an assessment of the quality of the data. The activities of the actuarial function are described in more detail in section B.6 below.

Risk review and challenge
The risk function is responsible for developing the risk management system principles and practices and for reviewing the completeness and appropriateness of risk and control policies (including the identification of risks and effectiveness of controls) and provides oversight to the adherence of line 1 to the agreed standards in the board-approved policies.

3rd line procedures
Internal audit
The 3rd line describes the independent assurance and testing provided by the internal audit function. The activities of the internal audit function are described in more detail in section B.5 below.

Internal control system reporting
The board is responsible for monitoring the internal control system and carrying out a review of its effectiveness. To assist the board in its duties the board commissions an annual internal control report. This report contains:-
(a) A statement of the adequacy of the risk management and internal controls system;
(b) Description of the internal control system
(c) Description of monitoring and reporting activity undertaken in the reporting period;
(d) Results of monitoring activity including audit findings and attestations;
(e) Description of any significant changes to the control environment over the reporting period.

B.4.2 Implementation of compliance function

B.4.2.1 Overview

The compliance function is independent and objective in relation to the operational activities of the company and is headed up by the Compliance Officer, who acts as the primary contact with the FCA and the PRA.

The Compliance Officer ensures that all regular regulatory reporting and ad hoc requests are satisfied within the timescales set.

The compliance function ensures that all employees have an adequate level of compliance knowledge and advises the board on compliance with applicable laws, regulations and administrative provisions that apply to financial services, including those adopted pursuant to the Solvency II Directive. It also includes an assessment of the possible impact of any changes in the legal and regulatory environment on the operations of the undertaking concerned and the identification and assessment of compliance risk.

The Compliance Officer is responsible for the identification, measurement and monitoring of the risks that can impact the business in respect of the specific areas of responsibility within the compliance function for example regulatory risk. It ensures that an effective control environment is in place to manage those risks. The regular assessment and reporting of risks are carried out in line with the CA risk policy, and reported to the board and the Audit & Risk Committee. The function maintains a compliance plan that provides detail of how the compliance function shall achieve its responsibilities.

B. System of governance (continued)

B.4 Internal control system (continued)

B.4.2.2 Reporting lines

The Compliance Officer reports directly to the CEO for management purposes, and directly to the board in delivering his role.

B.4.2.3 Responsibilities

The table below provides a summary of the key responsibilities of the compliance function:

Responsibility	Description
Regulatory Reporting	Ensure all regulatory reporting is completed in a timely manner.
PRA Quarterly Meetings and PSM	Ensure update meetings take place with the PRA and records are maintained of those meetings.
TCF Review	Oversee the annual review of TCF (conduct) measures.
Compliance Risk oversight	Identify any compliance related risks and ensure they are included within the risk framework. Monitor these risks on a regular basis
Fit and Proper	Oversee the process to ensure that all SIMFs, CFs, Key Function Holders, Persons Performing Key Functions and Non Executive Directors are fit and proper for their roles. This includes being owner of the Fit and Proper Policy.
AML Oversight	Ensure all AML procedures and policies are reviewed on an annual basis and an MLRO report is presented to the Board.
Compliance Plan	Prepare a compliance plan and gain Board approval.

B.4.2.4 Reporting

As part of delivering its obligations the compliance function produces the following key reports:

- **Monthly compliance report:** Covers regulatory changes, regulatory interaction, compliance monitoring, complaints information and a conduct risk summary.
- **Quarterly compliance board report:** Provides the board with a detailed compliance function update, covering regulatory changes, regulatory interaction, compliance monitoring, complaints information and a conduct risk summary.
- **Money-Laundering Reporting Officer report:** Report on the anti-money laundering risks and controls within the business.
- **Annual assurance report:** An annual summary of the monitoring activities carried out by the OSP compliance functions and the compliance function
- **OSP report:** A summary report covering breaches, SLAs, compliance monitoring, AML and regulatory change.

B.5 Internal audit function

B.5.1 Overview

Internal auditing is an independent and objective assurance activity that sits within the company's governance team and is guided by a philosophy of adding value to improve the operations of the company. It assists the company's management team in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of the company's risk management, control, and governance processes both internally and within its outsourcer providers. The head of internal audit is appointed on recommendation by the Audit & Risk Committee, and the internal audit function derives its authority from this committee.

Independence is obtained by virtue of the fact that the function does not have any operational responsibilities, to ensure no conflicts of interests arise. In addition, there is regular direct access to the Audit & Risk Committee, including formal access to the Non-Executive Directors without the Executive Directors being present.

B.5.2 Reporting lines

The head of internal audit reports functionally to the Audit & Risk Committee and administratively to the CEO.

B.5.3 Responsibilities

The table below provides a summary of the key responsibilities of the internal audit function:

Responsibility	Description
Devise audit plan	An internal audit plan is drawn up on an annual basis which includes the proposed scope, timing and resource requirements for the forthcoming year
Carry out audits and make recommendations	This involves audit planning, an internal controls assessment and the drafting of audit recommendations where deemed appropriate.
Follow up recommendations	All agreed audit recommendations are periodically followed-up to ensure all agreed recommendations have been implemented.

B. System of governance (continued)

B.5 Internal audit function (continued)

B.5.4 Reporting

In delivering the responsibilities within B.5.3, the head of internal audit produces a number of reports that are presented to the Audit & Risk Committee. These include:

– an annual audit plan, which includes a rationale for the selected plan, associated timings and any resource constraints; and
– a quarterly report is prepared for the Audit & Risk Committee that includes: a summary of progress against and/or changes to the aforementioned audit plan; key findings, significant issues and key themes arising from the performance of audits; and analysis of management's progress against implementing the recommendations made by internal audit.

B.6 Actuarial function

B.6.1 Overview

The actuarial function is headed up by the Chief Actuary who has day to day responsibility for delivering the actuarial function's responsibilities. A With-Profits Actuary (WPA) is also appointed for the with profit business within the company.

B.6.2 Reporting lines

The Chief Actuary reports to the CEO for management purposes, but for a number of the regulated tasks, to the board. As such, the Chief Actuary has direct access to the board and its board Committees, namely the Audit & Risk Committee. The With-Profits Actuary also has access to the board.

B.6.3 Responsibilities

The Chief Actuary has the responsibility to advise the CA CEO and CA FD of any concerns regarding the sufficiency of financial assets to meet liabilities. To aid this, the main responsibilities of the actuarial function include the following areas:

Responsibility	Description
Assumptions	The actuarial function has to "ensure the appropriateness of the assumptions made in the calculation of technical provisions" and "compare best estimates against experience". The detailed work will be undertaken by the actuarial team under the guidance of the Chief Actuary. A report will be presented by the Chief Actuary to the Audit & Risk Committee and the board, at least annually, proposing the assumptions to be used for the calculation of the technical provisions.
Data	The Chief Actuary is responsible for the data policy and adherence to it.
Technical provisions	The actuarial team of CA plc will act as the Actuarial Function to coordinate such work, including proposing the methodologies and assumptions to be used. The Chief Actuary is responsible for such work, ensuring it meets appropriate standards and regulations.
Underwriting	The Chief Actuary is responsible for the underwriting policy. The Chief Actuary provides the board annually with an opinion on the underwriting policy, as required by the guidelines.
Reinsurance	The Chief Actuary is responsible for the separate reinsurance policy for the company. The Chief Actuary provides the board annually with an opinion on the reinsurance policy, as required by the guidelines.
Risk management	The Chief Actuary and the actuarial function support the Chief Risk Officer with the risk management for the company. Specific tasks reasonably expected to be undertaken by the actuarial function, include the production of an Own Solvency Needs Assessment (OSNA) and stress testing and projections to support the delivery of Own Risk and Solvency Assessment (ORSA) and for business planning purposes.
With-Profits business	The Chief Actuary is a member of the With-Profits Committee (WPC). The With-Profits Actuary attends all meetings of the WPC in his/her capacity as a key advisor for the management of the with-profits business.
Investments	The Chief Actuary advises the Investment Committee in respect of asset-liability matching, and is responsible for (a) the Investment policy and (b) the asset-liability matching policy.

B.6.4 Reporting

The Chief Actuary reports to the Audit & Risk Committee and the board on the following:

– the results of each quarterly valuation of technical provisions, covering the results of the calculations, including commentary on any material changes in data, methodologies or assumptions;
– at least annually, this includes coverage of the validation process and quality of data;
– the report also considers any deficiencies in the process or output and makes recommendations, in such cases, on how improvements can be introduced;
– separate papers on assumptions and methodologies used; and
– the results of the annual review of the underwriting and reinsurance policy.

Both the Chief Actuary and the With-Profits Actuary are also required, in certain circumstances, to report the relevant matter to the PRA.

B. System of governance (continued)

B.7 Outsourcing

B.7.1 Overview

Outsourcing is an arrangement of any form between a firm and a service provider by which that service provider performs a process, a service or an activity, which would otherwise be undertaken by the firm itself.

CA's operating model is to maintain a skilled and experienced corporate governance team and outsource operating activity to professional specialists, wherever feasible. The governance team will maintain oversight of the outsourced operations. Outsourcing does not result in the delegation by CA executive management of their responsibility or accountability for carrying out an activity.

B.7.2 Responsibilities

CA recognises its accountability for services outsourced and has a defined governance model for outsourcers that provide critical services. Critical services can be defined as *"services that are vital for the ongoing operation of CA's business*". These have been identified as:

- Administration of life and pensions policies including call centre operations
- Actuarial services including valuations of technical provisions
- Investment of assets or portfolio management including unit pricing
- Claims handling
- Compliance
- Internal auditing
- Financial reporting
- Risk management
- Actuarial support
- Provision of cloud services, data storage and information security

CA has nine critical outsourced service providers.

Overall accountability is still retained within CA and the oversight of the outsourced activities is a significant part of the responsibility of the corporate governance team. The maintenance of service and performance standards is governed through a strict regime of service level agreements and through continuous monitoring of performance. This includes responsibility to ensure that outsourced activities are carried out in accordance with laws, regulations and industry best practice standards and adhere to the principles and practices of treating our customers fairly by delivering fair customer outcomes. All of the outsourcers' activities are UK jurisdiction contracts. Outsourced activity takes place in the UK and India.

To ensure effective control of outsourced activities, a documented outsourcing policy is in place. The aim of this policy is to set out rules and principles for outsourcing of activities. In particular it aims to ensure that:

- *There are processes in place for how to enter into outsourcing agreements in a way that takes into account the effects of the agreement on the Company's operation;*
- *The implementation of suitable reporting and monitoring routines, to ensure effective control of the outsourced activities and manage the associated risks*

CA has mandated key controls defined across the entire outsourcing lifecycle:

- Strategy
- Selection
- Negotiation
- Migrate and integrate Services
- Performance and Quality Management
- Completion Renegotiation and Exit.

B.8 Any other information

There is no other material information regarding the system of governance of CA plc that is deemed necessary to include.

C. Risk profile

Introduction

The sections below provide a qualitative and quantitative summary of the risk profile for each category of risk. Where information is specific to each risk category it has been set out under the relevant heading. Where the information is common across all risk categories it has been included in Section C.7.

CA is substantially closed to new business and in run-off and so the risk profile is relatively stable. The risk profile is considered to be fairly standard for a UK life insurer and there are not considered to be any particularly unusual risks or features in CA.

Section C.7.1 shows the risk profile of CA using the risk capital requirements calculated by the standard formula as at 31/12/16, together with the equivalent results from 31/12/15. This shows how the risk profile, and any concentrations of risk, have changed over the reporting period, which is generic for all the risk types described below.

C.1 Underwriting risk

C.1.1 Qualitative review of risk profile

Underwriting risk

As a life insurer, CA carries mortality and morbidity risk although much of this is controlled through the use of reinsurance. This risk can arise due to experience being higher than expected, resulting in higher than expected claims pay-outs. This can be due to trend risk (e.g. worsening experience over time) or catastrophe risk (e.g. one off events or pandemics). CA is less exposed to anti-selection risks, given that business has been in force for a significant period. Mortality risk can be mitigated to some extent as CA is able to increase mortality charges on some in force contracts.

CA is subject to longevity risk through deferred annuities and annuities in payment. Given that the size of the book is relatively small (in industry terms) CA use industry models to estimate future mortality changes.

Underwriting risk - expense

CA is exposed to expense risk if future expenses turn out to be higher than expected. This may arise if expenses exceed budgeted levels, or if there are one off unexpected costs e.g. regulatory change costs, or if future expense inflation is higher than expected. This risk can be mitigated to a certain extent whereas CA is able to increase expense charges on some inforce contracts.

As CA is in run off, it is also exposed to the expense risks associated with a reducing book, where fixed costs need to be spread over a smaller in force policy base. The CA operating model is to outsource all support activities to professional specialists where appropriate and aims to reduce the impact of fixed and semi-fixed costs, which may otherwise occur as the inforce business runs off. By securing long-term contracts to support these activities, CA aims to align the variability of the expense base with the size of the in-force policy portfolio.

Underwriting risk - lapse

Lapse risk arises mainly on unit linked business due to the loss of future income from charges if lapses are higher than expected. In capital terms, lapse risk is a material risk for CA and can be driven by external events such as economic recession, government initiatives such as “pension freedoms” or reputational damage, or by internal factors such as poor fund performance or customer service delivery. However, given that business has been in force for a significant period, lapse experience tends to be relatively stable over time. In addition, as the CA book has a large proportion of pensions business, where polices under the age of 55 can only be transferred and not surrendered, it is less likely to be exposed to mass lapse type events.

C.1.2 Risk mitigation techniques and monitoring

Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.

C.1.3 Stress and scenario testing

Section C.7.3 provides a description of the methods used, the assumptions made and the outcome of the stress and scenario testing carried out for the material risks.

C. Risk profile (continued)

C.2 Market risk

C.2.1 Qualitative review of risk profile

Market risk emerges in different ways through each of the different funds. It arises directly in the assets backing the non-linked policyholder funds, and retained shareholder surplus and indirectly in the linked funds where future charge income is dependent on the investment performance of the underlying funds. Market risk also arises in the with-profit funds due to the existence of minimum guaranteed benefits for with-profit policyholders. There is currently no material direct exposure to foreign currencies, although it does arise indirectly due to the linked funds being invested in overseas assets, and to a lesser degree in the with profits funds where most of the currency exposure is hedged. Derivatives are held within the linked and with-profit funds only for the purpose of efficient portfolio management and as a risk reduction tool.

C.2.2 Risk mitigation techniques and monitoring

Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.

C.2.3 Stress and scenario testing

Section C.7.3 provides a description of the methods used, the assumptions made and the outcome of the stress and scenario testing carried out for the material risks.

C.2.4 Assets invested in accordance with the prudent person principle

The company holds assets to back its various liabilities and its surplus funds and through appropriate investment management, CA plc can achieve an appropriate level of investment return as well as maintaining and potentially improving the immediate / longer term solvency position of its with-profits and non-profit funds. In turn, achieving an appropriate level of investment return is not the sole aim, as the company needs to manage the related risks within the tolerances set by the Risk Appetite with the aim to achieve pay outs in line with policyholders' reasonable expectations.

CA plc has a limited risk appetite for excess exposure to equities, property and foreign currency exposure, except in funds where the policyholder bears the risk or where it aids the operation of such funds, e.g. the use of a manager's box.

CA plc also has a limited risk appetite for excess interest rate exposure, which is maintained by holding assets which match the features of the liabilities. However, there is a positive risk appetite towards credit to the extent that the corporate bonds and deposits the company invests in are of a sufficiently high credit rating and offer an acceptable risk-adjusted return.

Finally, CA plc has a limited risk appetite for liquidity risk and concentration risk. Subsequently, when setting the asset mix and determining suitable investments it is important to maintain a minimum level of deposit holdings and also to ensure that it does not invest too much with a single counterparty, for which strict limits exist.

C.2.4.2 Investment management

The board is responsible for ensuring that the controls for investment management are appropriate and effective. As such the board is responsible for the approval of the Investment policy and oversight of its operation. This includes signing off major changes in the approach used for investment management.

C.3 Credit risk

C.3.1 Qualitative review of risk profile

Credit risk arises principally within non-linked policyholder funds and from the investment of surplus assets. Within the with-profits policyholder funds credit risk is generally borne by the policyholders, however any defaults, or significant downgrades, could increase the cost of the guarantees in the funds. The portion of the with-profits funds which is attributable to shareholders is exposed to credit risk.

C.3.2 Risk mitigation techniques and monitoring

Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.

C.3.3 Stress and scenario testing

Section C.7.3 provides a description of the methods used, the assumptions made and the outcome of the stress and scenario testing carried out for the material risks.

C.3.4 Assets invested in accordance with the prudent person principle

This is covered in Section C.2.5 above.

C.4 Liquidity risk

C.4.1 Qualitative review of risk profile

In terms of investment funds, the main area where liquidity risk could arise is property investments for unit-linked policyholders. With the exception of a small number of personal funds, property exposure is mainly carried out through investment in authorised unit trusts. This risk is currently being actively monitored following the temporary suspension of a number of property funds in 2016 after the EU Referendum.

Other liquidity issues could arise from counterparty failures, a large spike in the level of claims or other unexpected expense outgo. However, given that CA holds a substantial portion of liquid assets, liquidity risk is not a major risk for CA.

C. Risk profile (continued)

C.4 Liquidity risk (continued)

C.4.2 Risk mitigation techniques and monitoring
Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.

C.4.3 Stress and scenario testing
Section C.7.3 provides a description of the methods used, the assumptions made and the outcome of the stress and scenario testing carried out for the material risks.

C.4.4 Expected profit included in future premiums
The expected profit in future premiums as at 31 December 2016, was £196.0m (31 December 2015: £212.9m).

The expected profits included in future premiums (EPIFP) result from the inclusion in technical provisions of premiums on existing (in-force) business that will be received in the future, but that have not yet been received. Any premiums already received by the undertaking are not included within the scope of EPIFP. Single premium contracts where the premium has already been received are also excluded.

C.5 Operational risk

C.5.1 Qualitative review of risk profile
Operational risk is the risk of losses resulting from inadequate, unfair or failed internal processes, people or systems or from external events. CA carries the same operational risks as most insurers. However, the CA operating model is to outsource support activities to specialist service providers typically covering IT, legal and compliance, policy administration, claims management, complaints management, finance and accounting, actuarial, investment operations and fund management. Consequently much of the operational risk within CA arises within its outsourced providers, and therefore operational risk management is heavily focused on the review, oversight and monitoring performed by the corporate governance team within CA. Operational and expenses risks may also arise if the outsource service providers do not have adequate business continuity plans or if the outsource provider defaults on the contract (e.g. due to financial difficulties) requiring the service to be transferred to another provider.

C.5.2 Risk mitigation techniques and monitoring
Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.

C.5.3 Stress and scenario testing
Section C.7.3 provides a description of the methods used, the assumptions made and the outcome of the stress and scenario testing carried out for the material risks.

C.6 Other material risks

C.6.1 Qualitative review of risk profile
Counterparty default risk
The reassurance arrangements in place create some counterparty default exposure. This primarily relates to CA having significant liabilities reassured with ReAssure, although this risk is mitigated to a large extent by the legal charge between CA and ReAssure which, in the event of ReAssure’s insolvency, enables CA’s reassured liabilities to rank equally with ReAssure’s other direct liabilities.

Conduct risk
As CA is substantially closed to new business it is generally not exposed to the conduct risks associated with the design, sales and marketing of new products. Conduct risk however arises in respect of inforce business if CA fails to follow regulatory standards and guidance, breaches internal standards of achieving good customer outcomes, or does not treat customers fairly. Conduct risk may also arise due a change in regulatory standards, particularly if this is applied retrospectively to policies that were set up a number of years ago. Risk capital is not explicitly held to cover conduct risk but is included as part of the capital for operational risk.

C.6.2 Risk mitigation techniques and monitoring
Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.

C.6.3 Stress and scenario testing
Section C.7.3 provides a description of the methods used, the assumptions made and the outcome of the stress and scenario testing carried out for the material risks.

C. Risk profile (continued)

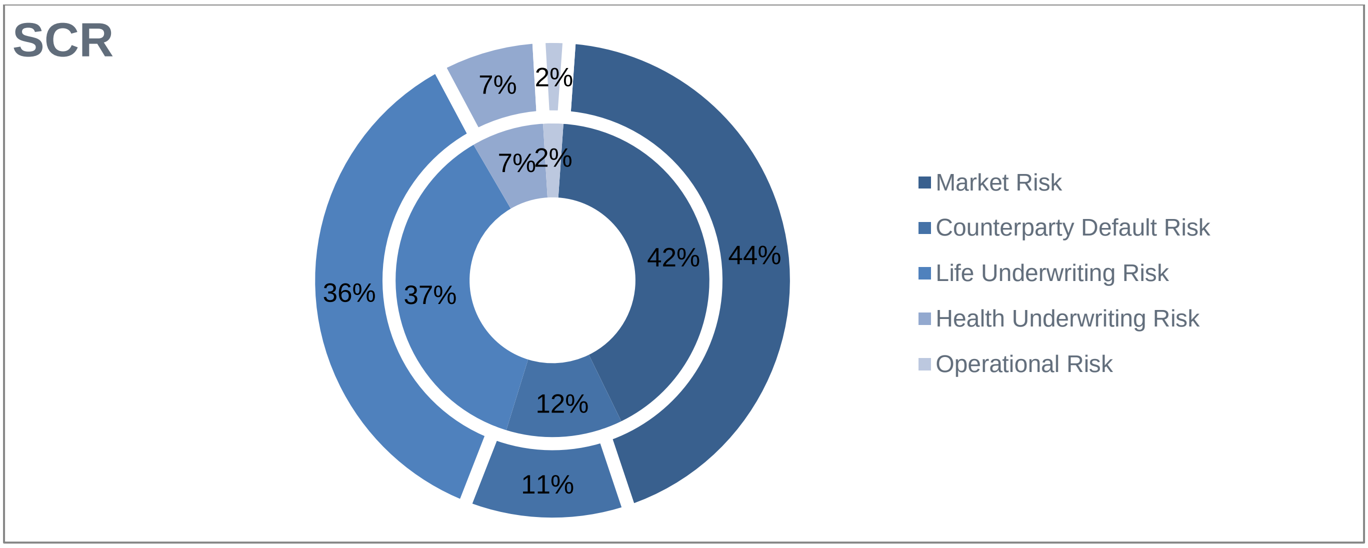
C.7 Any other information

C.7.1 Risk profile (quantitative)

This section considers the risk profile of CA using the risk capital requirements calculated using the standard formula under Pillar 1 regulatory requirement as at 31/12/16, together with the equivalent results from 31/12/15. This therefore shows how the risk profile, and any concentrations of risk, have changed over the reporting period.

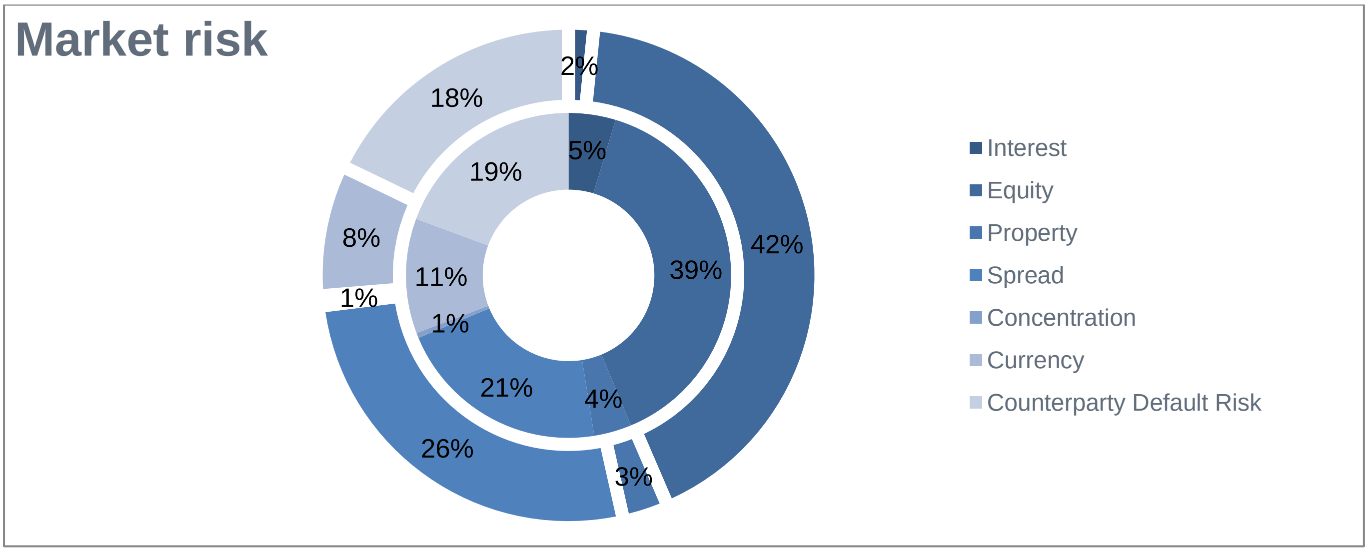
C.7.1.1 Risk profile by risk category

The following chart shows a breakdown of the overall Solvency Capital Requirement (SCR) into the major risk categories. The outer circle shows the position at 31/12/16 and the inner circle shows the position at 31/12/15. The results are shown after allowing for diversification between the sub-risks within each risk category, but do not allow the diversification between each risk category. The results do no allow for any benefits arising from the Loss Absorbing Capacity of Deferred Tax.



The risk profile, at a high level, is dominated by Market, Credit and Life Insurance risk, as would be expected for an insurance business. The risk profile is well diversified and has remained relatively stable during the reporting period. A further breakdown of market and non-market risk capital is shown in the two following charts. These results are before allowing for diversification between individual risks.

C.7.1.2 Market risk breakdown



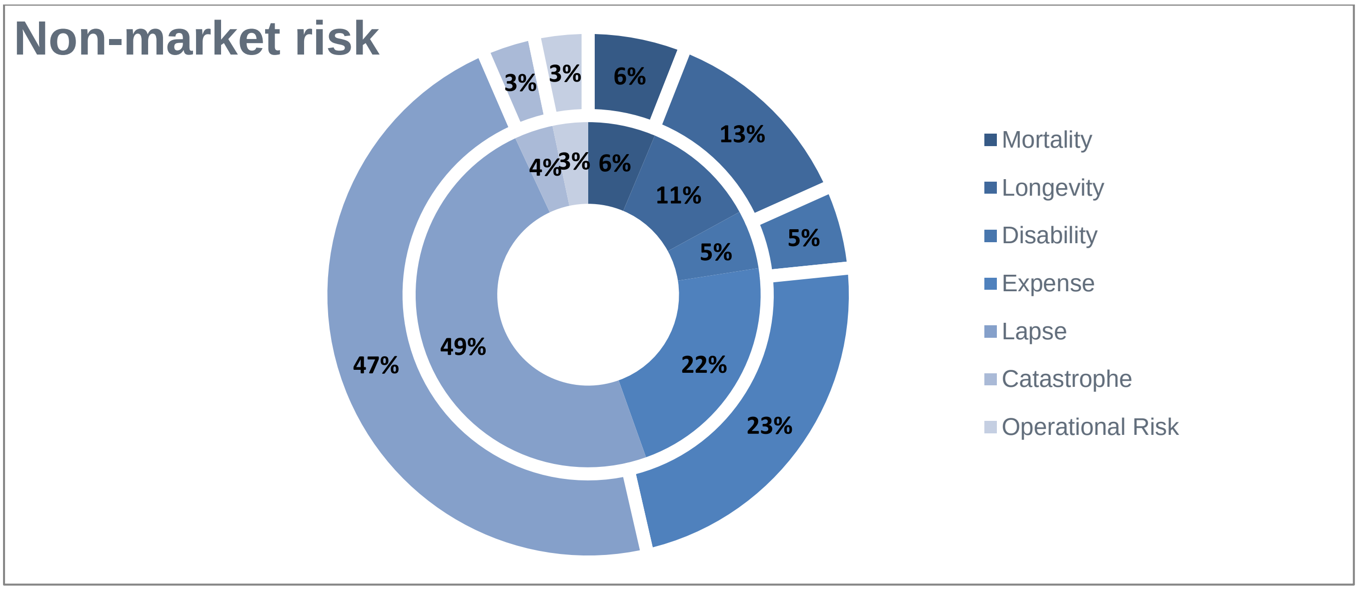
The chart illustrates a diversified portfolio of market risks, which has remained relatively stable over the reporting period. Equity, Credit Spread and Counterparty Default Risks dominate the risk profile. Movements in individual risks have been mainly caused by the relative impact of market movements during 2016 and the classification of individual assets on a look through basis, as required by Solvency II regulations.

C. Risk profile (continued)

C.7 Any other information (continued)

C.7.1 Risk profile (quantitative) (continued)

C.7.1.3 Non-market risk



The chart shows that the risk profile of non-market risks has remained stable over the period, with lapse and expense risks making up the majority of the risk profile. Mortality risk is well controlled through the use of reassurance, and also through potential management actions to increase mortality charges in the event of sustained adverse experience.

C.7.2 Risk mitigation techniques and monitoring

Risk assessment

Section B.3.1 sets out the Risk Management System for CA and section B.3.2 explains how CA carries out its Own Risk and Solvency Assessment (ORSA). This provides the framework by which individual risks are identified, assessed, monitored and managed. As part of this framework, CA quantifies the capital impact of different risks by:

- Determining the risk capital requirements using the standard formula as part of the quarterly financial reporting cycle.
- Performing additional stress and scenario testing to support the ORSA.

An assessment is carried out on an annual basis to confirm that the standard formula remains appropriate for establishing the regulatory capital requirements for CA. This assessment is approved by the Board.

The quantitative and qualitative review in the previous sections showed that there have been no material changes in risks over the reporting period.

Risk mitigation

CA has an established Risk Management System which incorporates risk strategies, policies, control processes and reporting. The Risk Management System provides the framework to monitor and manage risks, and to assess the effectiveness of controls and risk mitigation techniques.

Within the Risk Management System there are a number of specific risk policies covering all the main categories of risk. The risk policies set out the reporting procedures, roles and responsibilities, and the processes and controls to manage risk. A summary of the key controls and risk mitigation techniques for each of the main risk areas is shown in the table below. Given that CA is substantially closed to new business, these are not anticipated to change materially over future periods.

C. Risk profile (continued)

C.7 Any other information (continued)

C.7.2 Risk mitigation techniques and monitoring (continued)

Risk Category	Key Controls and Risk Mitigation Techniques
Underwriting Risk	
– Mortality/Morbidity	– Reinsurance programmes to manage mortality and morbidity risk. – Regular experience investigations, and industry analysis, to support best estimate assumptions and identify trends. – Options on certain contracts to vary premiums in the light of adverse experience
– Expense Risk	– Stringent regime of budgetary control, monitored as part of the annual planning and quarterly reporting cycles. – Outsourcing strategy to help reduce the impact of semi and fixed costs as the existing book runs off. – Options on certain contracts to increase policy charges.
– Lapse Risk	– Regular experience investigations to support best estimate assumptions and identify trends. – Active investment management to support competitive policyholder returns. – Stringent management of customer service delivery and adherence to treating customers fairly (TCF) principles
Market risk	– Wide range of investment funds and managers to avoid significant concentrations of risk. – Individual fund mandates to diversify risks and produce competitive returns. – Matching of assets and liabilities to reduce the impact of adverse interest rate movements. – Established investment governance framework to provide review and oversight of external fund managers, and monitor adherence to investment policy.
Credit and counterparty default	– Operation of controls which limit the level of exposure to any single counterparty and impose limits on exposure by credit rating. – Reinsurance treaties with multiple reinsurers to help reduce reliance on a single reinsurance counterparty. – For the most significant reinsurance exposure, there is a charge over the reinsurer's assets, which ranks CA equally with other policyholders.
Liquidity	– Monthly cash flow forecasts to anticipate funding requirements over the following 12 months and taking into account wider funding requirements from the business planning and/or group dividend payments. – Monthly treasury reporting showing the liquid assets held and how this compares to the minimum threshold set by the Board Investment Committee.
Operational risk	– Close oversight of the performance and risk management of all outsourced service providers. – Rigorous service level measures for outsourced service providers and management information flows under its contractual arrangements. – Ongoing monitoring and testing of business continuity plans and financial assessments of outsource service providers.
Conduct risk	– Close oversight of the performance and risk management of all outsourced service providers. – The Compliance Function maintains a Compliance Plan which includes a comprehensive compliance monitoring programme. The activities of the Compliance Function are summarised in Section B.4.2

C.7.3 Stress and scenario testing

C.7.3.1 Overview

CA uses the standard formula to determine its regulatory capital requirements and these are calculated and reported on a quarterly basis. As part of the Own Risk and Solvency Assessment (ORSA) CA performs a forward looking assessment of its ability to meet the regulatory capital requirements under a range of stresses and scenarios.

Full details of the stresses and scenarios, the methodologies used and the results are included in the ORSA report which is approved by the Board and submitted to the Prudential Regulatory Authority. The stress and scenario tests approved by the Board and included in the ORSA are summarised below.

C. Risk profile (continued)

C.7 Any other information (continued)

C.7.3 Stress and scenario testing (continued)

These were selected for the ORSA based on the outcomes of Executive workshops, and follow the principles set out in the Group Stress and Scenario Testing Framework. As well as current known risks, the stresses and scenarios take account of forward looking and emerging risks. The stress and scenarios selected were approved by the Board in July 2016 and consist of:

- Stresses to market events including:
  - A fall in the value of equities
  - A fall in the value of sterling against other currencies
  - A rise and fall in interest rates, including an assessment of negative interest rates and a change in shape of the yield curve
  - The impact of widening credit spreads following a downgrade of corporate bonds
  - Combined economic events where different market events occur in combination
- Stresses to insurance risks including:
  - A permanent and sustained increase in lapse rates.
  - A permanent increase in mortality rates
  - An increase in expenses either due to one off costs or a permanent increase in the cost base
  - Scenarios that lead to a reduction or capping of policyholder charges
  - A downgrade in the credit rating of reassurance partners
- Events which may cause a significant strain on liquidity
- Operational risks including:
  - Material events affecting the performance of an outsource service provider
  - Cyber risk and/or a breach of data security

C.7.3.2 Methodology

The stress and scenario tests have been carried out with a base date of 30th June 2016. The base capital position uses the same methodology and assumptions as the 30th June 2016 Solvency II financial reporting, but updated to take account of the draft expense modelling work to support the 2017 Business Plan.

Assets are recorded at market value, liabilities are calculated based on best estimate assumptions, with risk capital (SCR) determined in accordance with the standard formula. A Risk Margin is also held on the balance sheet to reflect the capital cost of holding capital to support the SCR.

In quantifying the financial impact of each stress, it is assumed that each stress occurs immediately after the valuation base date i.e. at 1st July 2016, with no subsequent recovery during the projection period.

After applying the stress, risk capital is recalculated in accordance with the standard formula in order to re-establish the regulatory capital requirements.

C.7.3.3 Outcomes from the stress and scenario testing

Each stress and scenario test was performed using the methodology described above, and the Solvency Capital Ratio (the ratio of Own Funds to the Solvency Capital Requirement) was compared to the base financial position.

The analysis concluded that the free assets at 30 June 2016 are sufficient to withstand all of the stresses and scenarios approved by the Board, and continue to meet its regulatory capital requirements. In other words the Solvency Capital Ratio remained above 100% under all scenarios.

D. Valuation for solvency purposes

D.1 Assets

Introduction

This section of the Solvency and Financial Condition report shows how the assets and liabilities of the company have been valued, both for Solvency and IFRS reporting purposes. The below table summarises the own funds (as measured on a solvency basis) and net assets (as measured on an IFRS basis) and provides a reference where further information has been provided:

		31 December 2016	
	Section reference	**Solvency II value £'000**	**Statutory accounts value £'000**
Assets	***Section D1***	2,854,160	2,857,049
Net technical provisions	***Section D2***	(2,497,402)	(2,568,120)
Other liabilities	***Section D3***	(149,828)	(142,818)
Assets less liabilities		**206,930**	**146,111**

The table below shows separately each class of asset under Solvency II values and the statutory accounts (IFRS) value:

		31 December 2016	
	Note	**Solvency II value £'000**	**Statutory accounts value £'000**
Assets			
Deferred acquisition costs	*1.01*	-	2,889
Investments (other than assets held for index-linked and unit-linked contracts)		741,689	741,689
Bonds		297,836	297,836
Government Bonds	*1.02*	259,876	259,876
Corporate Bonds	*1.02*	36,877	36,877
Collateralised securities	*1.02*	1,083	1,083
Collective Investments Undertakings	*1.02*	350,833	350,833
Derivatives	*1.02*	61,644	61,644
Deposits other than cash equivalents	*1.02*	31,376	31,376
Assets held for index-linked and unit-linked contracts	*1.03*	2,053,431	2,053,431
Loans and mortgages		31	31
Loans on policies	*1.04*	31	31
Insurance and intermediaries receivables	*1.05*	1,876	1,876
Reinsurance receivables	*1.06*	28,086	28,086
Receivables (trade, not insurance)	*1.07*	7,390	7,390
Cash and cash equivalents	*1.08*	20,084	20,084
Any other assets, not elsewhere shown	*1.09*	1,573	1,573
Total assets		**2,854,160**	**2,857,049**

D. Valuation for solvency purposes (continued)

D.1 Assets (continued)

Introduction

Bases, methods, assumptions and inputs used in asset valuation for Solvency purposes, and difference between the amounts recorded in the financial statements:

In general assets are recognised and valued in line with IFRS accounting principles and consequently valued at fair value. For assets valued using market value, CA plc relies on quoted prices in active markets to value its investments. Quoted market prices in an active market provide the most reliable evidence of fair value and are used without adjustment to measure fair value whenever available. The company assesses whether markets are active my considering both the frequency and volume of trades and whether these are sufficient to provide appropriate pricing information.

Further detail by material asset class has been provided below:

D.1.01 Deferred acquisition costs (DAC):

Basis and methods for IFRS valuation:

Deferred acquisition costs are stated at amortised cost, less impairment. On initial recognition the carrying value is based on cost. These costs are subsequently amortised over the expected life of the underlying policyholder contract to which they relate. Impairment losses are booked at the point of identification.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:

Judgment is applied in deciding the amount of direct costs that are incurred in acquiring the rights to the policyholder contract. Judgment is also applied in establishing the amortisation of the assets representing these contractual rights. Estimates are applied in determining the lifetime of the policyholder contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels.

Inputs for IFRS valuation:

- Direct costs that are incurred in acquiring the rights to a policyholder contract.
- Estimated life of policyholder contracts to which the acquisition costs relate.

Solvency II valuation:

The general rule is that intangible assets, other than goodwill, are recognised in the Solvency II balance sheet at a value other than zero only if they can be sold separately and the insurance undertaking can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets. As deferred acquisition costs fail to meet these criteria, these are valued at zero in line with Solvency II rules.

Changes made to the recognition and valuation bases used or on estimations made during the year:

During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.02 Non-linked investment assets

Basis and methods for IFRS valuation:

Non-linked assets are measured at fair value. Fair values are determined by reference to observable market prices where available and reliable. The fair value of financial assets quoted in an active market, are their bid prices as at the balance sheet date.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:

No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs for IFRS valuation:

Observable market prices.

Solvency II valuation:

There are no differences between IFRS and SII for valuation purposes.

Changes made to the recognition and valuation bases used or on estimations made during the year:

During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D. Valuation for solvency purposes (continued)

D.1 Assets (continued)

D.1.03 Assets held for index-linked & unit-linked funds

Basis and methods for IFRS valuation:
Assets held for index-linked & unit-linked funds are measured at fair value. Fair values are determined by reference to observable market prices where available and reliable. The fair value of financial assets (other than those held in collective investment schemes) quoted in an active market, are their bid prices as at the balance sheet date. For collectives, fair value is taken to be the published bid price.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs for IFRS valuation:
Observable market prices.

Solvency II valuation:
There are no differences between IFRS and SII for valuation purposes.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.04 Loans on policies

Basis and methods for IFRS valuation:
Loans on policies are measured at fair value.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs for IFRS valuation:
Observable market prices.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.05 Insurance & intermediaries receivables

Basis and methods for IFRS valuation:
Insurance and intermediaries receivables are measured at fair value. Fair value is taken to be the value of the receivable on initial recognition. Should a subsequent indication of impairment be identified then the carrying value is adjusted to reflect the reduced value of the receivable.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Insurance and intermediaries receivables are reviewed annually for impairment.

Inputs for IFRS valuation:
Period end statements and calculations that reflect amounts outstanding as at the balance sheet date from policyholders, reinsurers, financial institutions and other sundry debtors.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D. Valuation for solvency purposes (continued)

D.1 Assets (continued)

D.1.06 Reinsurance receivables

These comprise of: -
a) Reinsurers' share of insurance contract provisions;
b) Amounts deposited with reinsurers; and
c) Reinsurers' share of accrued policyholder claims.

Basis and methods for IFRS valuation:
Reinsurance receivables are measured at fair value, taken as being the amount of reinsurance that is expected to be recoverable on initial recognition of the reinsurance asset.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Rights under reinsurance contracts comprising the reinsurers' share of insurance contract provisions, amounts deposited with reinsurers and accrued policyholder claims are estimated in a manner that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer.

Inputs for IFRS valuation:
Reinsurance accounts prepared in accordance with the provisions contained within the underlying reinsurance treaties.

Solvency II valuation:
Reinsurance receivables are valued in SII on the same basis as for IFRS except as follows:
- "reinsurers' share of deferred income" valued at zero for Solvency II purposes due to the intangible nature of the asset to which it relates
- Reinsurance recoverables are valued using Solvency II reserving methodologies as a key input, as opposed to IFRS reserving methodologies.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.07 Receivables (trade, not insurance)

Basis and methods for IFRS valuation:
Receivables are measured at fair value. Fair value is taken to be the value of the receivable on initial recognition. Should a subsequent indication of impairment be identified then the carrying value is adjusted to reflect the reduced value of the receivable.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Receivables are assessed annually for impairment.

Inputs for IFRS valuation:
Invoices that reflect the initial recognition value.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.08 Cash and cash equivalents

Basis and methods for IFRS valuation:
Cash and cash equivalents include cash-in-hand, deposits held at call with banks and other short-term highly liquid investments and are measured at fair value. Highly liquid is defined as having a short maturity of three months or less at their acquisition.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
- Bank and term deposit statements.
- Bank reconciliation timing differences.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D. Valuation for solvency purposes (continued)

D.1 Assets (continued)

D.1.09 Any other assets, not elsewhere shown

Basis and methods for IFRS valuation:
This category of assets only includes prepayments. Prepayments are valued by spreading the up front cost of an asset or service over the time period over which the service is received / time period over which the asset is consumed.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Judgement is applied in estimating the benefit arising from the prepayment and the duration over which the asset is recognised.

Inputs for IFRS valuation:
The initial prepaid cost and spreading profile.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods as the carrying value in the IFRS balance sheet is deemed to represent the fair value of the asset.

Changes made to the recognition and valuation bases used or on estimations made during the period:
There are no differences between the IFRS and SII valuation methods as the carrying value in the IFRS balance sheet is deemed to represent the fair value of the asset.

Lease arrangements
CA plc has previously held leases on several offices arising from its historical business model. The last of these leases expired in 2016. It therefore no longer holds any operating or finance leases.

D. Valuation for solvency purposes (continued)

D.2 Technical provisions

D.2.1 Value of technical provisions

The following table analyses the net technical provisions / insurance liabilities under Solvency II and IFRS values:

	31 December 2016	
	Solvency II value £'000	IFRS value £'000
Net technical provisions:		
Health (similar to life):		
Best Estimate / statutory accounts value	233,637	256,072
Risk margin	6,099	
Reinsurance recoverables	3,474	2,097
Total	**243,209**	**258,169**
Life (ex-health and index-linked and unit-linked):		
Best Estimate / statutory accounts value	553,169	671,540
Risk margin	14,349	
Reinsurance recoverables	(99,308)	(111,163)
Total	**468,210**	**560,377**
Index-linked and unit-linked:		
Best estimate / statutory accounts value	1,861,116	1,872,710
Risk margin	17,412	
Reinsurance recoverables	(92,546)	(123,136)
Total	**1,785,982**	**1,749,574**
Total net technical provision	**2,497,402**	**2,568,120**

The Technical Provisions for CA plc consist of the Best Estimate Liabilities ('BEL') and the Risk Margin. This section considers the BEL and Risk Margin separately, describing the basis, methods and main assumptions. Where relevant, this section highlights differences in basis, methods and main assumptions between the Lines of Business.

BEL basis and methodology

The BEL corresponds to the probability-weighted average of future policyholder cash-flows allowing for items such as premiums, claims, expenses and lapses. The calculation takes account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure supplied by EIOPA. The calculation is conducted at a per-policy level for all business with negative BELs being permitted. Similarly, no implicit or explicit surrender value floor is assumed.

Policyholder cash-flows

The cash-flow projections include all the cash in-flows and out-flows required to settle the insurance and reinsurance obligations over the lifetime of the policy. Specifically:

- claim payments including both guaranteed and discretionary;
- expenses;
- premiums;
- renewal and initial commission;
- payments between CA and investment firms; and
- taxation payments.

Future developments that will have a material impact on the cash-flows within the BEL calculation are allowed for appropriately and include items such as demographic, legal, medical, technological, social, environmental and economic developments. Cash-flows included in the BEL are gross of any amounts recoverable from reinsurance. Reinsurance recoverables are calculated separately, by a similar cash flow approach as per the BEL taking into account the key features of relevant treaties, and sit within the assets on the SII balance sheet.

Through the cash-flow approach, CA does not use any significant simplified methodology in calculating technical provisions.

Probability weighting

The probability weighting applied to each cash-flow explicitly takes account of the probability that the cash-flow will occur for the policyholder at each future time.

D. Valuation for solvency purposes (continued)

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

BEL description of main assumptions

Discount rates

The time-value of money is taken into account via discounting the cash-flow at a future time with reference to risk-free interest rates prescribed by EIOPA. The risk-free rates varying by time, for each currency and are derived with reference to interest rate swaps, with an adjustment to remove the credit risk. For CA no matching adjustment or volatility adjustment have been adopted.

Demographic assumptions

The calculation of the probability weighting for each future cash-flow requires information on the likelihood of the policy still being in-force at the time that the cash-flow would materialise. This requires assumptions on the mortality, lapse and morbidity of the policy, as well as the point at which the policy matures. The approach to deriving appropriate assumptions for these demographics involves:

- Analyses of actual experience;
- Assessment on both amounts and policy bases;
- Comparison to standard tables (not for lapses);
- Ensuring appropriate time periods are used to minimise volatility in own-experience results; and
- Expert judgement

CA's mortality experience for annuity business is expressed as a proportion of an appropriate industry-standard table of mortality rates.

Assumptions are derived using analysis of actual experience and set separately for each class of business covering for example:

- Assurance products
- Term products
- Annuity products
- Critical illness products

Where applicable, assumptions are also required for future mortality improvement. The Continuous Mortality Investigation provides mortality projection models for modelling improvements that are utilised in the BEL calculation.

Expense assumptions

CA outsources certain services as identified in section B.7.2. The full cost associated with these arrangements are included in the BEL. CA also outsources the investment management, for which agreements fix the charges for the term of the agreement, as a percentage of funds under management. This covers investment management expenses. Direct expenses also incurred by CA, or recharged from CA's parent, Chesnara plc. Allowance is made within the BEL for these costs.

Policyholder behaviour - Lapse and Surrender Assumptions

It is necessary to make assumptions regarding the number of policies that are terminated early by policyholders as these can have a variety of effects on the value of future liabilities. These policyholder discontinuances include:

- Lapsing a policy such that no future premiums or benefits are payable.
- Making the policy paid-up by stopping paying premiums but with the policy continuing for the remainder of the term with a reduced level of benefits.
- Early retirement or transfer under a pension policy.

Risk margin

The risk margin is calculated in accordance with the Solvency II specifications with no significant simplified methodology approaches utilised. It represents the cost of capital which would be added to the BEL to arrive at a fair value of the liabilities. The risk margin is calculated by projecting certain aspects of the Solvency Capital Requirement (SCR) using a risk driver approach, applying the stipulated 6% cost of capital rate and then discounting the cost of capital using the stipulated base risk-free rate term structure without any matching adjustment or volatility adjustment.

Reference Undertaking SCR

The SCR used in the calculation of the Risk Margin is not the same as that produced for CA. Instead, it represents the subsequent SCR of the 'reference undertaking'. The following cover the way in which the reference undertaking's SCR is calculated compared to that of CA.

Market Risk SCR

The reference undertaking is assumed to have invested in such a way as to minimise its market risk SCR; hence it is assumed to be invested entirely in UK government securities. Where this is not possible, e.g. where investment in equities is expected by policyholders, it is assumed that futures can be obtained to mitigate the market risk. As a result there is no residual market risk other than interest rate risk. Residual interest rate risk is required to be excluded from the reference undertaking SCR, hence the market risk SCR of the reference undertaking is zero.

Life and Health Underwriting Risk SCR

The life underwriting risk SCR and health underwriting risk SCR are unchanged from those in the CA SCR.

D. Valuation for solvency purposes (continued)

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

Counterparty Default Risk SCR
The counterparty default risk SCR of the reference undertaking will follow the same calculation approach as for CA.

Operational Risk SCR
The operational risk SCR of the reference undertaking is unchanged from that of CA.

Loss Absorbing Capacity of Technical Provisions and Deferred Tax Asset (DTA)
CA has no loss absorbing capacity of Technical Provisions.
There will be no loss absorbing capacity of DTA for the reference undertaking.

Projection of SCR
The methodology requires the calculation of the reference undertaking's SCR at all future time periods. The following subsections cover the approach to projection of SCR for each of the risk modules.

Market Risk
Not applicable, as there is no market risk SCR for the reference undertaking.

Life and Health Underwriting Risk
The underwriting risk modules will be projected in full at the sub-module level (lapse risk, mortality risk, etc.), with the profile being run-off using a risk driver for each risk.

Counterparty Default Risk
It is assumed that the most material driver of the counterparty default risk SCR is reinsurance recoverables, and the projection of these is used as the risk driver for this SCR.

Operational Risk
All aspects of the operational risk SCR (i.e. premiums, provisions, BSCR and unit-linked expenses) are projected forward and a SCR at each future date is calculated based on the drivers.

Aggregation
The aggregation of the projected risk modules and sub-module SCR's into an overall reference undertaking SCR at each future time period, is carried out in the same manner, using the same correlation matrices, as in the base CA SCR.

Aggregate Risk Margin
The total Risk Margin is based on that calculated for the CA as a whole, which therefore ignores ring-fenced fund restrictions.

Allocation by Line of Business ('LoB')
The allocation of the total Risk Margin to the LoBs reflects that LoB's contribution to the overall reference undertaking SCR. A LoB's contribution to the reference undertaking SCR will be derived by reference to the sum of its underwriting risk sub-modules, as a proportion of the sum of the underwriting risk sub-modules across all LoBs. All calculations exclude any diversification effects.

For With-profits and Health LoBs, the underwriting risks are explicitly identifiable as the with-profits ring-fenced fund has its own SCR calculation. For Unit Linked and Other LoBs, the Risk Margin is split in line with the notional SCR for each LoB.

D.2.2 Level of uncertainty within the Technical Provisions

In terms of the BEL calculation, a characteristic of the discounted cash-flow technique which is core to the requirements is the reliance on assumptions regarding future experience. Any such assumptions are inherently uncertain, although detailed analysis is applied to mitigate the risk of misestimating.

D. Valuation for solvency purposes (continued)

D.2 Technical provisions (continued)

D.2.3 Comparison of Technical Provisions Valuation Methods, Bases, Assumptions and Values for Solvency Purposes and IFRS

A comparison of the technical provisions under both IFRS and Solvency II bases is shown in the table below. All figures are net of reinsurance.

	Note	**Remaining Part £'000**	**SPI With-Profit Fund £'000**	**SPP With-Profit Fund £'000**	**Total £'000**
IFRS technical provisions	*1*	2,253,523	23,730	291,445	2,568,698
Recognition of value in force	*2*	(127,740)	(1,180)	3,406	(125,514)
Contract boundary restrictions	*3*	13,774	–	–	13,774
Other adjustments for SII	*4*	9,700	(1,562)	(5,553)	2,584
SII BEL		**2,149,257**	**20,987**	**289,298**	**2,459,543**
SII risk margin	*5*	34,583	1,296	1,979	37,859
SII technical provisions		**2,183,841**	**22,284**	**291,277**	**2,497,402**

The main differences between the two bases can be explained as follows:

- Note 1: IFRS technical provisions continue to be largely based on the Solvency I regime. The main difference is the inclusion of an additional cost of guarantee ('CoG') reserve in each of the with-profit funds which aim to better model the guarantees to which the funds are exposed.
- Note 2: The IFRS assumptions contain prudence margins, whereas the Solvency II assumptions are best estimate. This impact represents the removal of these prudence margins.
- Note 3: Under Solvency II it is a requirement to establish contract boundaries to determine whether an insurance obligation or reinsurance obligation is to be treated as existing or future business (with only existing business considered in scope for the calculation of technical provisions). The impact shown above primarily relates to products with reviewable premiums, whereby the next premium review date is considered to be the termination date of the contract for the purposes of calculating technical provisions under Solvency II.
- Note 4: This represents the impact of other changes in methodology that have been introduced under Solvency II. For example, under IFRS future liability cash flows are discounted using a valuation rate of interest based on the risk-adjusted yield on held assets, whereas under Solvency II a swaps-based risk-free discount curve is prescribed by EIOPA. Also, under IFRS the unit-linked reserves are calculated as the sum of a unit reserve and a sterling reserve and the non-linked reserves are calculated using a net premium approach, whereas in both cases the Solvency II BEL is calculated using a discounted cash flow approach.
- Note 5: The risk margin does not exist under IFRS and so is an additional technical provision under Solvency II.

D.2.4 Use of long term guarantee package

The implementation of Solvency II permitted the use of a number of adjustments, referred to as the "long term guarantee package". The company's use of the individual components within the long term guarantee package has been outlined below:

- **Matching adjustment**: This has not been applied by the company.
- **Volatility adjustment**: This has not been applied by the company.
- **Transition risk-free interest rate-term structure**: This transitional measure has not been applied by the company.
- **Transitional deduction to technical provisions**: This transitional measure has not been applied by the company.

D. Valuation for solvency purposes (continued)

D.2 Technical provisions (continued)

D.2.5 Reinsurance recoverables

This section provides a description of the recoverables from the reinsurance contracts. All reinsurance agreements are denominated in GBP.

Value of reinsurance recoverables

A breakdown of the value of reinsurance recoverables, by line of business, has been provided in section D.2.1 above.

Methodology and assumptions

The methodology and assumptions used for calculating the value of reinsurance recoverables is identical to that used for the calculation of the BEL with the cash-flow items being the reinsurer's share of all cash in-flows and out-flows.

Adjustment for expected default

The gross reinsurance recoverables are adjusted to take account of expected losses due to default of the reinsurance counterparty.

<u>Methodology</u>

The adjustment to take account of expected losses due to default of a counterparty is calculated as the present value of the lost reinsurance recoverables due to reinsurer default. It therefore relates to the stream of future reinsurance recoverables and to the probability of default in each future time period. It is carried out separately for each reinsurer. The loss on default is limited to a percentage of the recoverables from the time of default onwards (loss given default or LGD%), based on the collateral arrangements of the specific reinsurance arrangement. The LGD% is a subject to a minimum of 50%.

<u>Assumptions</u>

In the above methodology, the recoverables and discount factor used are as defined previously. Additional assumptions required are the probability of default, and the % recovery rate. The probability of default is derived with reference to the credit rating of the reinsurer. Tables of default probabilities corresponding to credit ratings are obtained from a credit ratings agency.

The maximum 50% recovery rate upon default is defined in regulation. Whilst a recovery rate of greater than 50% is not permitted, CA uses a rate lower than 50% where its assessment identifies reason to believe that 50% recovery on default would not be reliable.

D.2.6 Changes in Assumptions

The methodology for setting the assumptions for the Solvency II calculations as at 31 December 2016 is unchanged from the valuation as at 31 December 2015.

Solvency II regulations require a probability-weighted basis for the experience assumptions. To achieve this, we have taken account of:

– experience in recent years,
– trends observed in recent years, and
– any other known or likely factors that may affect future behaviour.

As a rule we have assumed recent experience (over the last few years) represents the central position for the probability weighted assumption, unless there are reasons why this is considered not immediately appropriate. To do this, actual experience is reviewed in comparison with expected experience, with a trigger for serious consideration to be given to amending an assumption when it deviates materially.

Key assumption changes over 2016 include:

Economic: Updated EIOPA yield curves utilised plus updates to inflation parameters.

Mortality: Mortality assumptions have been reviewed to take account of recent investigations, resulting in a weakening of some assurance mortality assumptions and of the base mortality assumptions for annuities in payment.

Persistency: Persistency assumptions have been reviewed to take account of recent investigations. Generally, the changes include:

- a weakening of assumptions on some life products that have experienced a trend for lapse rates to reduce over recent years, and
- a careful consideration for assumptions on pension products with greater weight generally given to experience in 2015 to 2016, reflecting the introduction of pension freedoms.

Expenses: Expense assumptions have been reviewed to reflect the latest management assessment of projected costs.

D. Valuation for solvency purposes (continued)

D.3 Other liabilities

The table below shows separately each class of liabilities under Solvency II values and the Statutory Accounts value.

	Note	31 December 2016 Solvency II value £'000	Statutory accounts value £'000
Other liabilities			
Provisions other than technical provisions	*3.1*	25	25
Deferred tax liabilities	*3.2*	13,557	828
Derivatives	*3.3*	62,893	62,893
Insurance & intermediaries payables	*3.4*	55,562	55,562
Reinsurance payables	*3.5*	661	661
Payables (trade, not insurance)	*3.6*	17,130	17,130
Any other liabilities, not elsewhere shown	*3.7*	-	5,719
Total liabilities		**149,828**	**142,818**

Bases, methods, assumptions and inputs used in liability valuation for Solvency purposes, and difference between the amounts recorded in the financial statements:
In general liabilities are recognised and valued for solvency purposes in line with IFRS accounting principles and consequently valued at fair value. For liabilities valued using market value, CA plc relies on quoted prices in active markets to value its investments. Quoted market prices in an active market provide the most reliable evidence of fair value and are used without adjustment to measure fair value whenever available. The company assesses whether markets are active my considering both the frequency and volume of trades and whether these are sufficient to provide appropriate pricing information.

Further detail by material liability class has been provided below:

D.3.1 Provisions other than technical provisions:

Basis and methods for IFRS valuation:
Provisions other than technical provisions represent small residual balances held in respect of historical complaint redress provisions and are measured at fair value. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
An estimation of future costs required to settle the obligation is required, together with an estimate of the future economic benefits to be derived from the contracts under-pinning the need for a provision.

Inputs for IFRS valuation:
Net present value of future cash flows calculation.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D. Valuation for solvency purposes (continued)

D.3 Other liabilities (continued)

D.3.2 Deferred tax liabilities:

Basis and methods for IFRS valuation:
Deferred tax liabilities are recognised in the IFRS balance sheet in accordance with IAS12. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The IFRS deferred tax liability is comprised of the tax on the profit arising on the transition to the new tax regime in 2012, which is expected to run-off over a ten year period, together with temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, namely deferred acquisition costs (DAC) and deferred income (DIL). The deferred tax in respect deferred acquisition costs is amortised over the expected lifetime of the underlying investment management service contract. Deferred tax in respect of deferred income is amortised over the expected period over which it is earned.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Inputs for IFRS valuation:
- Enacted or substantively enacted tax rates at the balance sheet date.
- Identified temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Solvency II valuation:
The valuation of deferred tax liabilities under Solvency II follows the same recognition criteria applied under IAS12 for statutory reporting purposes.

Valuation differences arising from the application of Solvency II recognition principles will be taxed at the prevailing deferred tax rate. These include the deferred tax arising on the valuation difference in the technical provisions between IFRS and Solvency II and the removal of deferred tax balances in respect of DAC and DIL, which are not recognised under Solvency II valuation principles.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3.3 Derivatives:

Basis and Methods:
Derivative financial instruments are measured at fair value and comprise forward exchange contracts. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs:
Observable market prices.

Solvency II valuation:
There are no differences between IFRS and SII for valuation purposes.

D.3 Other liabilities (continued)

D.3.4 Insurance and intermediaries payables:

Basis and methods for IFRS valuation:
Insurance & intermediaries payables represent outstanding accrued policyholder claims and are measured on initial recognition at the fair value of the liability to be paid. Given the short term nature of these liabilities no discounting is required to arrive at the initial fair value.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
The actual amount of the outstanding liability or the best estimate of the liability to be settled.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3.5 Reinsurance payables:

Basis and methods for IFRS valuation:
Reinsurance payables represent amounts due to reinsurers arising from the application of reinsurance treaty obligations and are measured at fair value, taken as the carrying value at the balance sheet date, which is based upon reinsurance account statements. Reinsurance balances are settled in line with the underlying treaty settlement arrangements.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
Reinsurance accounts prepared in accordance with the provisions contained within the underlying reinsurance treaties.

Solvency II valuation:
Reinsurance payables are valued in SII on the same basis as for IFRS except the reassured deferred acquisition cost liability is valued at zero for Solvency II purposes, due to its intangible nature.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3.6 Payables (trade, not insurance):

Basis and methods for IFRS valuation:
Trade payables consist of accrued expenses and other trade related outstanding balances and are measured at fair value, taken as the carrying value at the balance sheet date based upon invoiced amounts due for settlement. Trade payables are settled in line with trade payment terms, usually within 30 days.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
The actual amount payable based upon invoices or statements received or a best estimate of the amount payable as at the balance sheet date.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3 Other liabilities (continued)

D.3.7 Any other liabilities, not elsewhere shown:

Basis and methods for IFRS valuation:
Other liabilities, not elsewhere shown are measured at fair value, taken as the carrying value at the balance sheet date. For IFRS reporting purposes, this balance represents "Reinsurers' share of deferred acquisitions costs" and "Deferred income".

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
Invoices, statements or valuations of the liability as at the balance sheet date.

Solvency II valuation:
These items have a nil value for SII reporting purposes as they are linked to intangible assets that are not recognised on the SII balance sheet.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.4 Alternative methods for valuation

The company does not hold any assets for which alternative methods of valuation are required.

D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities that is deemed necessary to report.

E. Capital management

E.1 Own funds

E.1.1 Objectives, policies and processes used for managing own funds

Background

Own funds represents the type and level of capital that is held by the company to be able to meet its solvency capital requirement. The company is required to hold own funds of sufficient quantity and quality in accordance with the Solvency II, Pillar 1 rules which sets out the characteristics and conditions for own funds. Further information on the objectives, policies and processes for managing own funds has been provided below.

Objectives

The objectives of the company in managing its own funds are as follows:

Business strategy consistency:

The management of own funds needs to align with the strategy of the company. The company's core strategic objective is to efficiently run off the existing life and pensions portfolios. In doing this management's focus is to:

- Manage the capital and value position of the company effectively
- Focus on customer outcomes
- Deliver strong governance
- Adhere to the core culture and values of the company.

In this regard, the objectives of managing own funds are:

- to hold sufficient levels of capital to safeguard the interests of policyholders, which is core to **delivering fair customer outcomes;**
- to hold appropriate levels of capital as a foundation for making sound business decisions, which is central to delivering our **good governance** objective;
- to have a policy in place that describes the parameters that are considered in the context of dividend distributions, which supports the **delivery of returns to the company's shareholder**;
- to strike a balance between holding too much capital and too little capital when **optimising the balance sheet;** and
- to provide a good foundation for further **UK acquisitions.**

Risk appetite:

- to establish a policy that reflects the board's risk appetite with regards to the level of own funds held.

Risk tolerances:

- to set tolerance levels associated with the board's risk appetite regarding own funds and ensure that these are monitored.

Policies

Central to managing the own funds of the company is the application of the company's capital management policy. The policy is built around the objectives outlined above, and is reviewed and approved at least once per year by the board. The policy also incorporates:

- The roles and responsibilities of the board and different levels of management in adhering to the policy
- The reporting procedures in place with regards to adhering to the policy
- The key controls and processes in place to ensure adherence to the policy

The company's capital management policy includes the following quantitative limits for managing own funds:

- ***Board risk appetite:*** Overall the board is averse to the own funds of the company to fall below 100% of the SCR. As a result, the board has established additional buffers, which have been set having regard for the company's risk profile and the board's risk appetite, and are in place to manage the board's overall aversion for own funds to be below 100% of SCR.
- ***Dividend paying limit:*** Stated as own funds as a percentage of SCR, the company's dividend paying limit is 120%. This is the point at which a dividend would cease to be paid, until at such time the solvency position was restored above this point.
- ***Management actions limit:*** Stated as own funds as a percentage of SCR, the company's management actions limit is 110%. This is the point at which, should own funds fall below this level, additional management actions would be taken to restore own funds back above this level. In essence this represents an internal 'ladder of intervention limit' that is set by the board.

To put these definitions in context, this means that, in the normal course of events, the company will not pay a dividend should the payment of the dividend take the company own funds to below 120% of its SCR. Should own funds fall below 110% of SCR additional management actions will be taken. It should be noted though that in extremis, subject to continuing to cover 100% of SCR, the above limits could be waived if it became necessary to support another insurance company in the Chesnara group, if it was unable to cover its SCR, and no other funds within the group were available to provide this support. In line with documented management action protocols, in this situation management actions to improve the solvency position would be considered.

E. Capital management (continued)

E.1 Own funds (continued)

E.1.1 Objectives, policies and processes used for managing own funds (continued)

Processes and controls

The following key process and controls are in place regarding how the company manages its own funds:

Internal reporting:

A number of reports are produced internally for both the executive committee and/or board that include reporting on the own funds position of the company. These reports support the board, which has ultimate responsibility for the company's capital management and capital allocation, in managing the company's own funds.

- **Quarterly finance director's report:** This report provides various financial information, including solvency position and movement analysis. Numerical analysis supported by commentary is provided for both the own funds and SCR movements that contribute to the overall movement in the solvency position of the company.
- **Quarterly actuarial report:** This report provides further detailed analysis and insight into the quarterly solvency valuation, covering assumptions and key reasons for any movements in solvency compared with previous periods.
- **CA business plan:** A three year business plan is prepared annually and presented to the board. The business plan includes solvency projections over the planning horizon that are prepared on the basis of applying the company's capital management policy.
- **ORSA:** An ORSA report is produced annually. Amongst other things the ORSA includes solvency capital projections over the business planning horizon, which are based on applying the company's capital management policy. The ORSA also includes supporting justification for the dividend paying buffer that is included within the company's capital management policy and also shows the triggers that are assessed for the purpose of intra-quarter solvency monitoring.
- **Annual dividend assessment paper:** Dividends are typically paid and approved once per year. A paper is sent to the board supporting the recommendation, which includes specific application of the company's capital management policy.
- **Assessment of surplus transfer from With-Profit funds.** As and when it is assessed that there is surplus within a with profit fund that may be potentially transferred out of the fund, an assessment paper is prepared. The paper includes, amongst other things; a quantitative assessment of the level of transfer proposed in the context of the board's risk appetite with regards to the level of capital to be retained in the fund post transfer; how the PPFM has been followed and a confirmation that the transfer has been approved by the with profit actuary and with profit committee approval.
- **Quarterly risk report:** A risk report is produced quarterly that, amongst other things, includes reporting on the solvency position of the company as a whole and the SPI and SPP ring-fenced funds within the company, and how their solvency position accords with the stated risk appetite. It also evidences to the Audit & Risk Committee that the solvency monitoring protocol and triggers have been monitored frequently and the continuous solvency monitoring protocol has been followed.
- **With-Profit Actuary report:** A report that shows that the company has complied with the PPFM in respect of how the WP funds have been managed from a capital perspective.
- **Risk indicator / trigger assessments:** For the purpose of intra-quarter solvency monitoring a list of risk indicators has been identified, which are monitored. The frequency by which the risk indicators are tracked depends on the solvency position of the company.
- **Monthly solvency estimates:** Full solvency calculations are performed on a quarterly basis. For intra quarter periods a monthly solvency estimates may be produced if the circumstances arise. For example, if the capital position was close to the minimum capital buffer, if there were exceptional market movements or if the continuous solvency monitoring measures indicated the need.
- **Recovery management protocol and management actions:** On an annual basis a recovery protocol document is signed off by the board. The protocol, in effect, represents an internally set "ladder of intervention", which sets out protocols for items such as solvency monitoring frequency, what escalations need to be performed and what potential actions need to be considered and when.

Business planning

The company produces a 3 year business plan once per year. The business plan incorporates financial projections of the company's own funds and solvency capital requirements over a slightly longer 5 year projection period.

The most recent business plan, being the 2017 to 2019 plan, does not anticipate any material changes to the structure of own funds over the planning horizon.

E. Capital management (continued)

E.1 Own funds (continued)

E.1.2 Analysis of own funds

The below table provides information, split by tier, on the structure, amount and quality of own funds at the end of 2015 and 2016, including an analysis of any significant changes in each tier over the year:

	31 December 2015* unaudited £'000	Movement in year £'000	Transfers £'000	31 December 2016 £'000
Tier 1:				
Ordinary share capital	40,000	-	-	40,000
Total ordinary share capital	**40,000**	**-**	**-**	**40,000**
Reconciliation reserve before deductions	164,619	32,811	(30,500)	166,930
Foreseeable dividends	(30,500)	(30,000)	30,500	(30,000)
Restricted own funds in ring fenced funds	(5,286)	(5,831)	515	(10,602)
Total reconciliation reserve	**128,833**	**(3,020)**	**515**	**126,328**
Total tier 1 own funds	**168,833**	**(3,020)**	**515**	**166,328**
SCR	**122,310**	**(7,502)**	**-**	**129,812**
Ratio of eligible own funds to SCR	**138.0%**			**128.1%**
MCR	**30,578**	**1,875**	**-**	**32,453**
Ratio of eligible own funds to MCR	**552.1%**			**512.5%**

Own funds analysis:

- Own funds of the company comprises tier 1 share capital and the reconciliation reserve.
- Share capital and the reconciliation reserve have been classified as tier 1 as they are fully available to be able to absorb losses. Dividends payable to shareholders are fully cancellable or deferrable up to the point of payment.
- There were no changes in classification of own funds during the year.
- The company does not have any non-tier 1 own funds items, either at the start or the end of the year.
- Movements in eligible own funds during the year have arisen from:
  - *Own funds surplus emergence:* Over time surpluses or deficits can emerge as the substantially closed book runs off, and arise from experience differing to what was assumed in the opening valuation. During 2016 the reconciliation reserve increased by £32.8m, largely driven by a combination of positive equity market performance, positive mortality and lapse experience and positive assumption changes.
  - *Movements in ring fenced funds restrictions:* The company has two ring fenced funds. Surpluses in these funds are restricted and therefore as the surpluses move this affects the amount of own funds available to meet the SCR and MCR. During 2016 a further £5.3m of surplus arose in the two ring fenced funds. Consequently this surplus is restricted until such time as the surplus is transferred out.
  - *Foreseeable dividends and dividend distributions:* As dividends are foreseen and subsequently paid, this reduces the own funds of the company. For the year ended 31 December 2016 a £30.0m year-end dividend has been proposed. This was paid on 17 May 2017.

Own funds to cover SCR:

- The above table shows that the company, which only has tier 1 capital, has £166.3m of available own funds to be able to meet the company's SCR of £129.8m at 31 December 2016, resulting in an SCR coverage ratio of 128.1%.

Own funds to cover MCR:

- The above table shows that the company, which only has tier 1 capital, has £166.3m of available own funds to be able to meet the company's MCR of £32.5m at 31 December 2016, resulting in a MCR coverage ratio of 512.5%.

E. Capital management (continued)

E.1 Own funds (continued)

E.1.3 Differences between equity in the financial statements and excess of assets over liabilities as calculated for solvency purposes

The below table analyses the difference between the equity in the financial statements and the excess of assets over liabilities as calculated for solvency purposes at 31 December 2016:

	31 December 2016 £'000	
Equity per the IFRS financial statements:		
Share capital	40,000	
Retained earnings	106,113	
Total equity as reported in the CA plc IFRS financial statements		**146,113**
Adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes:		
Adj 1: Net valuation difference between IFRS and SII for technical provisions	71,281	
Adj 2: Removal of intangible assets included in IFRS valuation	(2,609)	
Adj 3: Adjustments to deferred tax	(12,729)	
Adj 4: Other adjustments	4,874	
Total adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes		**60,817**
Excess of assets over liabilities for solvency purposes (reconciliation reserve before deductions plus ordinary share capital):		**206,930**

Explanations of adjustments:

- *Adjustment 1:* This adjustment relates to the differences between IFRS and Solvency II in the way the liabilities for insurance contracts are calculated. This difference is primarily due to two key factors: (1) Solvency II permits the calculation of technical provisions to include an estimate of the future profits expected to emerge from the contracts in force at the valuation date, which is not permitted under IFRS reserving; and (2) IFRS reserves are calculated using a prudent estimate, whereas Solvency II requires technical provisions to be determined on a "best estimate" basis. This has resulted in the technical provisions under Solvency II being lower than under IFRS These differences are offset by the existence of the risk margin, which the company must hold as a liability in the balance sheet under Solvency II, whereas it was not required under IFRS.
- *Adjustment 2:* Intangible assets within the company comprises deferred acquisition costs and acquired value of in-force business. These intangible assets are valued at zero in line with Solvency II rules.
- *Adjustment 3:* The valuation of deferred tax assets under Solvency II follows the same recognition criteria applied under IFRS. However, because of differences arising due to adjustments 1, 2 and 4, an additional deferred tax liability is required to be recognised.
- *Adjustment 4:* Other adjustments comprise of deferred income and reinsurer shares of deferred acquisitions cost. These items under the Solvency II reporting valuation have a nil value.

E.1.4 Items deducted from own funds

The table below illustrates the deductions that are applied to own funds

	31 December 2016 £'000
Assets less liabilities	**206,930**
Adjustments for:	
Surplus in ring-fenced funds	(10,602)
Foreseeable dividends	(30,000)
Own funds	**166,328**

There are two items deducted from own funds. These are

- Surplus in ring-fenced funds
- Foreseeable dividends

Surplus in ring-fenced funds in accordance with Article 81 of delegated acts

The company has two ring-fenced funds: Save & Prosper Insurance (SPI) and Save & Prosper Pensions (SPP). Under Solvency II rules the surpluses within these funds cannot contribute to the overall solvency assessment. At 31 December 2016 the surplus in each of these funds was: SPI - £4,323,000 and SPP - £6,279,000.

Foreseeable dividends

Solvency II requires dividends to be recognised as a deduction to own funds when they are "foreseeable". At 31 December 2016 a foreseeable dividend, representing the dividend that was paid on 17 May 2017, was recognised within the Solvency II valuation.

E. Capital management (continued)

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 SCR and MCR analysis

The information below provides some further detail of the solvency capital requirement and minimum capital requirement for the company at both the start and the end of the year. Explanations have been provided in narrative below the table regarding any significant changes in the year. In addition:

- The company has applied the standard formula in calculating its capital requirement, both at the start and the end of the year;
- The company does not use any simplified calculations in any risk modules or sub-modules and the company does not use any undertaking-specific parameters.
- No capital add-ons have been imposed on CA by the PRA.

SCR:

	Note	31 December 2016 £'000	31 December 2015* unaudited £'000	Changes in the year £'000
Market risk	*1*	85,724	79,468	6,255
Counterparty default risk	*2*	21,696	22,859	(1,164)
Life underwriting risk	*3*	71,090	70,273	816
Health underwriting risk	*4*	13,487	14,226	(739)
Diversification	*5*	(44,025)	(45,143)	1,118
Basic Solvency Capital Requirement		**147,971**	**141,684**	**6,287**
Operational risk	*6*	3,953	3,958	(5)
Loss-absorbing capacity of technical provisions		-	-	-
Loss-absorbing capacity of deferred taxes	*7*	(22,112)	(23,331)	1,219
Solvency Capital Requirement excluding capital add-on		**129,812**	**122,310**	**7,502**
Capital add-ons already set		-	-	-
Solvency capital requirement		**129,812**	**122,310**	**7,502**
Notional SCR for remaining part:	***8***	**89,091**	**88,063**	**1,028**
Notional SCR for ring fenced funds	***9***	**40,722**	**34,248**	**6,474**

The reasons for the changes in SCR over the reporting period are analysed in more detail below:

- Note 1: The increase in market risk is primarily driven by a £7.2m increase in spread risk capital, driven by an increased exposure to securitisation positions during the year, which carry a more onerous risk capital requirement. As stated in A.3.2, we do not directly invest in securitisation, but we have exposure to them via the funds investment in certain in certain collective investment schemes. There has also been a £4.8m increase in equity risk capital due to an increased equity exposure, driven by the strong equity market performance during the year. These increases have been offset by a £3.6m fall in interest risk capital due to a reduction in the stress parameters prescribed under the standard formula, and a £3.2m reduction in currency risk capital after a reduction in currency mismatching.
- Note 2: Counterparty default risk has fallen primarily due to a reduction in the value of reinsurance recoverables in line with the run off of the business.
- Note 3: The increase in life underwriting risk is mainly caused by a reduction in the yield curve, which has driven small increases of £1.9m and £1.2m in risk capital for longevity and expenses, respectively. The capital requirements for other sub-modules have come down slightly with the run off of the business.
- Note 4: The reduction in health underwriting risk capital is immaterial and primarily represents the run off of the business.
- Note 5: Despite an increase in the undiversified basic solvency capital requirement, the absolute value of diversification has fallen. This is because the change in market risk has resulted in a composition of more positively-correlated risks according to the assumptions underlying the standard formula.
- Note 6: The change in this metric is immaterial.
- Note 7: The absolute value of the loss-absorbing capacity of deferred taxes has fallen, due to a £1.7m reduction in the value of the deferred tax liability in the base balance sheet.
- Note 8: The increase in the notional SCR for the remaining part is attributable to the reduction in the loss-absorbing capacity of deferred taxes, caused by the reduction in the deferred tax liability.
- Note 9: The increase in the notional SCR for ring fenced funds is attributable to the increase in market risk, in particular the increase in credit risk capital.

E. Capital management (continued)

E.2 Solvency Capital Requirement and Minimum Capital Requirement (continued)

E.2.1 SCR and MCR analysis (continued)

MCR:

The MCR is calculated in line with the Solvency II Delegated Acts whose inputs include the technical provisions, net capital at risk and SCRs. The table below provides information on the inputs to the MCR calculation and present the opening and closing MCR, along with analysis of movement in the year.

	Note	31 December 2016 £'000	31 December 2015* unaudited £'000	Change in the year £'000
Linear MCR	*1*	29,782	29,634	148
SCR	*2*	129,812	122,310	7,502
MCR cap (45% of SCR)	*3*	58,416	55,040	3,376
MCR floor (25% of SCR)	*4*	32,453	30,578	1,875
Combined MCR	*5*	32,453	30,578	1,875
Absolute floor of the MCR (€3.7m)	*6*	3,332	2,657	-
Minimum Capital Requirement		**32,453**	**30,578**	**1,875**

The reasons for the changes in MCR over the reporting period are analysed in more detail below:

- Note 1: The Linear MCR is calculated as prescribed in the Solvency II Delegated Acts taking into account the prescribed formula and split of technical provisions. The small increase shown above is the net impact of an increase in the BEL and a reduction in the total capital at risk, both of which contribute to the prescribed calculation.
- Note 2: The increase in the SCR is described in more detail in the commentary above.
- Note 3: The MCR cap is calculated as 45% of the SCR, thus its movement is explained by the movement in the SCR.
- Note 4: The MCR floor is calculated as 25% of the SCR, thus its movement is explained by the movement in the SCR.
- Note 5: The Combined MCR is calculated as the value of the linear MCR after applying the MCR cap and MCR floor. In this case the linear MCR is below the value of the MCR floor and so the MCR floor kicks in.
- Note 6: The Absolute Floor is prescribed by EIOPA in Euros (€3.7m for CA plc) and any movement over the year is driven by the GBP:EUR exchange rate which is prescribed by the PRA. In this case, due to the weakening of GBP over 2016, the value of the absolute floor has increased over the year.
- Note 7: The Minimum Capital Requirement is calculated as the higher of the Combined MCR and the Absolute Floor. For CA it is normally expected that the Combined MCR will be higher and this is the case here.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The duration-based equity risk sub-module is not used by CA plc.

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

The company uses the standard formula for calculating its capital requirements, and therefore this section does not apply to the company.

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

CA plc has met its SCR and MCR at all times during the year.

E.6 Any other information

There is no other information regarding the capital management of the company that is deemed material to report.

F. Glossary of terms

AML	Anti-Money Laundering
Basic Own Funds	Basic Own Funds – in accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the company in those capital resources.
Best Estimate Liability (BEL)	Best Estimate Liability - The expected value of all future cash flows generated from current insurance contracts discounted to allow for the time value of money using the Risk-Free Rate. The cash flows include premium income, expense outgo, tax, benefit payments and all cash flows relating to the policyholders' unit-linked investment portfolios. The assumptions used in the calculation are realistic - neither prudent nor optimistic.
CA / CA plc	Countrywide Assured plc – 'The Company'.
CF	Controlled Function
CIU	Collective Investment Undertaking
CWA	City of Westminster Assurance Company Limited
Delegated Acts	Delegated Act: Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.
EIOPA	European Insurance and Occupational Pensions Authority - An independent An independent advisory body to the European Parliament, the Council of the European Union and the European Commission. EIOPA was established in January 2011 and replaced CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors).
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
IFRS	International Financial Reporting Standards
Key Function	The Solvency II Directive has defined four functions of the system of governance as key functions – Risk Management, Internal Audit, Actuarial and Compliance. Each key function is required to have a designated key function holder who will be subject to notification requirements to the regulator.
KFH	Key Function Holder
LACDT	Loss Absorbing Capacity of Deferred Taxes - An adjustment to the Basic SCR to reflect the change in deferred taxes that would arise following an instantaneous loss broadly equal to the sum of the Basic SCR and Operational Risk amount.
MCR	Minimum Capital Requirement - An absolute minimum level of required capital below which supervisory intervention will automatically be triggered. The MCR is defined by a formula with a lower/upper bound of 25%/45% of the SCR respectively.
MLRO	Money Laundering Reporting Officer
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
OSP	Outsource Service Provider
PL	Protection Life
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
Prudent Person Principle	The rules governing how investments are to be made in line with the Solvency II requirements – Article 132 of the Solvency II Directive and associated regulations and guidance.
PSM	Periodic Summary Meeting
QRT	Quantitative Reporting Template
RCA	Root Cause Analysis
Reconciliation Reserve	a reconciliation reserve, being an amount representing the total excess of assets and liabilities reduced by the basic own-fund items included in Tier 2, Tier 3 and elsewhere in Tier 1.
Risk Margin	The measure added to the Best Estimate Liability to reflect the cost of holding capital over a period of run-off of the liabilities to ensure that the value of Technical provisions meets the amount that an independent organisation would require to take over and meet all the obligations a rising from the existing business
S&P	Save & Prosper, made of two companies; Save & Prosper Insurance Limited and Save & Prosper Pensions Limited
SCR	Solvency Capital Requirement - In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings
SFCR	Solvency and Financial Condition Report
SIMF	Senior Insurance Managers Functions
Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements.
SLAs	Service Level Agreements
Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used. The high level structure of the Standard Formula is set out in the Solvency II Directive – further details of the formula are set out in the associated regulations.
Surplus Capital	The excess of Own Funds over the SCR
TCF	Treating customers fairly
Technical Provisions	The sum of the Best Estimate Liability and Risk Margin for existing business. The Technical Provisions are set at a level that an organisation would need to pay to another insurance organisation in order for them to fully accept the transfer of the related insurance obligations.

G. Annex – Quantitative Reporting Templates

S.02.01.02 - Balance Sheet

	Assets	Solvency II Value
		C0010
R0010	Goodwill	-
R0020	Deferred acquisition costs	-
R0030	Intangible assets	-
R0040	Deferred tax assets	-
R0050	Pension benefit surplus	-
R0060	Property, plant & equipment held for own use	-
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	741,688,732
R0080	Property (other than for own use)	-
R0090	Holdings in related undertakings, including participations	-
R0100	Equities	-
R0110	Equities - listed	-
R0120	Equities - unlisted	-
R0130	Bonds	297,836,293
R0140	Government Bonds	259,876,098
R0150	Corporate Bonds	36,877,477
R0160	Structured notes	-
R0170	Collateralised securities	1,082,718
R0180	Collective Investments Undertakings	350,832,500
R0190	Derivatives	61,644,161
R0200	Deposits other than cash equivalents	31,375,778
R0210	Other investments	-
R0220	Assets held for index-linked and unit-linked contracts	2,053,431,006
R0230	Loans and mortgages	30,825
R0240	Loans on policies	30,825
R0250	Loans and mortgages to individuals	-
R0260	Other loans and mortgages	-
R0270	Reinsurance recoverables from:	188,379,875
R0280	Non-life and health similar to non-life	-
R0290	Non-life excluding health	-
R0300	Health similar to non-life	-
R0310	Life and health similar to life, excluding index-linked and unit-linked	95,834,231
R0320	Health similar to life	(3,473,522)
R0330	Life excluding health and index-linked and unit-linked	99,307,753
R0340	Life index-linked and unit-linked	92,545,644
R0350	Deposits to cedants	-
R0360	Insurance and intermediaries receivables	1,876,441
R0370	Reinsurance receivables	28,086,042
R0380	Receivables (trade, not insurance)	7,390,032
R0390	Own shares (held directly)	-
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	-
R0410	Cash and cash equivalents	20,083,957
R0420	Any other assets, not elsewhere shown	1,573,189
R0500	**Total assets**	**3,042,540,098**

G. Annex – Quantitative Reporting Templates (continued)

S.02.01.02 - Balance Sheet (continued)

	Liabilities	Solvency II Value
		C0010
R0510	Technical provisions - non-life	-
R0520	Technical provisions - non-life (excluding health)	-
R0530	TP calculated as a whole	-
R0540	Best Estimate	-
R0550	Risk margin	-
R0560	Technical provisions - health (similar to non-life)	-
R0570	TP calculated as a whole	-
R0580	Best Estimate	-
R0590	Risk margin	-
R0600	Technical provisions - life (excluding index-linked and unit-linked)	807,253,433
R0610	Technical provisions - health (similar to life)	239,735,912
R0620	TP calculated as a whole	-
R0630	Best Estimate	233,637,370
R0640	Risk margin	6,098,542
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	567,517,520
R0660	TP calculated as a whole	-
R0670	Best Estimate	553,168,944
R0680	Risk margin	14,348,576
R0690	Technical provisions - index-linked and unit-linked	1,878,528,119
R0700	TP calculated as a whole	-
R0710	Best Estimate	1,861,116,119
R0720	Risk margin	17,411,999
R0730	Other technical provisions	-
R0740	Contingent liabilities	-
R0750	Provisions other than technical provisions	25,019
R0760	Pension benefit obligations	-
R0770	Deposits from reinsurers	-
R0780	Deferred tax liabilities	13,556,693
R0790	Derivatives	62,893,168
R0800	Debts owed to credit institutions	-
R0810	Financial liabilities other than debts owed to credit institutions	-
R0820	Insurance & intermediaries payables	55,562,317
R0830	Reinsurance payables	660,679
R0840	Payables (trade, not insurance)	17,130,183
R0850	Subordinated liabilities	-
R0860	Subordinated liabilities not in BOF	-
R0870	Subordinated liabilities in BOF	-
R0880	Any other liabilities, not elsewhere shown	-
R0900	**Total liabilities**	**2,835,609,615**
R1000	**Excess of assets over liabilities**	**206,930,482**

G. Annex – Quantitative Reporting Templates (continued)

S.05.01.02 - Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations				Life reinsurance obligations		
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Health reinsurance	Life reinsurance	Total
		C0210	C0220	C0230	C0240	C0270	C0280	C0300
	Premiums written							
R1410	Gross	17,489,115	2,395,488	23,522,561	32,278,766			75,685,929
R1420	Reinsurers' share	1,899,553	388,956	4,021,405	18,563,420			24,873,334
R1500	Net	15,589,561	2,006,532	19,501,155	13,715,346			50,812,595
	Premiums earned							
R1510	Gross	17,489,115	2,395,488	23,522,561	32,278,766			75,685,929
R1520	Reinsurers' share	1,899,553	388,956	4,021,405	18,563,420			24,873,334
R1600	Net	15,589,561	2,006,532	19,501,155	13,715,346			50,812,595
	Claims incurred							
R1610	Gross	30,789,063	52,635,872	236,397,763	26,195,227			346,017,925
R1620	Reinsurers' share	775,889	30,690,156	41,786,029	15,672,595			88,924,670
R1700	Net	30,013,174	21,945,716	194,611,734	10,522,632			257,093,255
	Changes in other technical provisions							
R1710	Gross	13,223,780	(7,895,798)	55,296,654	16,066,013			76,690,649
R1720	Reinsurers' share	(144,008)	(16,426,184)	(28,384,423)	11,112,732			(33,841,883)
R1800	Net	13,367,787	8,530,387	83,681,077	4,953,282			110,532,532
R1900	**Expenses incurred**	1,000,744	3,566,912	6,965,352	11,361,773			22,894,781
R2500	**Other expenses**							504,052
R2600	**Total expenses**							23,398,833

G. Annex – Quantitative Reporting Templates (continued)

S.05.02.02 - Premiums, claims and expenses by country

		Home Country	Total Top 5 and home country
		C0220	C0280
	Premiums written		
R1410	Gross	75,685,929	75,685,929
R1420	Reinsurers' share	24,873,334	24,873,334
R1500	Net	50,812,595	50,812,595
	Premiums earned		
R1510	Gross	75,685,929	75,685,929
R1520	Reinsurers' share	24,873,334	24,873,334
R1600	Net	50,812,595	50,812,595
	Claims incurred		
R1610	Gross	346,017,925	346,017,925
R1620	Reinsurers' share	88,924,670	88,924,670
R1700	Net	257,093,255	257,093,255
	Changes in other technical provisions		
R1710	Gross	76,690,649	76,690,649
R1720	Reinsurers' share	(33,841,883)	(33,841,883)
R1800	Net	110,532,532	110,532,532
R1900	**Expenses incurred**	22,894,781	22,894,781
R2500	**Other expenses**		504,052
R2600	**Total expenses**		23,398,833

G. Annex – Quantitative Reporting Templates (continued)

S.12.01.02 - Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance	Index-linked and unit-linked insurance: Contracts without options and guarantees	Index-linked and unit-linked insurance: Contracts with options and guarantees	Other Life insurance	Other Life insurance: Contracts without options and guarantees	Other Life insurance: Contracts with options and guarantees	Accepted reinsurance	Total (Life other than health insurance, including unit-linked)	Health insurance (direct business)	Health insurance (direct business): Contracts without options and guarantees	Health insurance (direct business): Contracts with options and guarantees	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080		C0150	C0160	C0170	C0180		C0210
R0010	**Technical provisions calculated as a whole**														
R0020	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														
	Technical provisions calculated as a sum of BE and RM														
	Best estimate														
R0030	**Gross Best Estimate**	348,565,496			1,861,116,120		73,149,143	131,454,305		2,414,285,064		487,905	233,149,466		233,637,371
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	38,006,945			92,545,644			61,300,809		191,853,397		124,423	(3,597,946)		(3,473,522)
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	310,558,551			1,768,570,476		73,149,143	70,153,497		2,222,431,667		363,482	236,747,412		237,110,893
R0100	**Risk margin**	3,171,548	17,412,000			11,177,029				31,760,576	6,098,542				6,098,542
	Amount of the transitional on Technical Provisions														
R0110	Technical Provisions calculated as a whole														
R0120	Best estimate														
R0130	Risk margin														
R0200	**Technical provisions - total**	351,737,043	1,878,528,119			215,780,477				2,446,045,640	239,735,913				239,735,913

G. Annex – Quantitative Reporting Templates (continued)

S.23.01.01 - Own funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	40,000,000	40,000,000			
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	126,328,054	126,328,054			
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					
R0160	An amount equal to the value of net deferred tax assets					
	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					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	Total basic own funds after deductions	166,328,054	166,328,054			
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	166,328,054	166,328,054			
R0510	Total available own funds to meet the MCR	166,328,054	166,328,054			
R0540	Total eligible own funds to meet the SCR	166,328,054	166,328,054			
R0580	**SCR**	129,812,494				
R0600	**MCR**	32,453,124				
R0620	**Ratio of Eligible own funds to SCR**	128 %				
R0640	**Ratio of Eligible own funds to MCR**	513%				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	206,930,482				
R0710	Own shares (held directly and indirectly)					
R0720	Foreseeable dividends, distributions and charges	30,000,000				
R0730	Other basic own fund items	40,000,000				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	10,602,428				
R0760	Reconciliation reserve	126,328,054				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	195,995,391				
R0780	Expected profits included in future premiums (EPIFP) - Non-life business	-				
R0790	Total Expected profits included in future premiums (EPIFP)	195,995,391				

G. Annex – Quantitative Reporting Templates (continued)

S.25.01.21 - Solvency Capital Requirement – for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0030	C0080	C0090
R0010	Market risk	85,723,625		
R0020	Counterparty default risk	21,695,577		
R0030	Life underwriting risk	71,089,591		
R0040	Health underwriting risk	13,487,349		
R0050	Non-life underwriting risk	-		
R0060	Diversification	(44,024,701)		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	**147,971,442**		

	Calculation of Solvency Capital Requirement	C0010
R0120	Adjustment due to RFF/MAP nSCR aggregation	
R0130	Operational risk	3,953,374
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	(22,112,322)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	129,812,494
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	129,812,494
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	90,762,111
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	40,721,525
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	

G. Annex – Quantitative Reporting Templates (continued)

S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

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

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
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		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	29,782,433

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	265,545,883	
R0220	Obligations with profit participation - future discretionary benefits	45,012,668	
R0230	Index-linked and unit-linked insurance obligations	1,768,570,476	
R0240	Other life (re)insurance and health (re)insurance obligations	380,413,533	
R0250	Total capital at risk for all life (re)insurance obligations		2,756,023,033

	Overall MCR calculation	
R0300	Linear MCR	29,782,433
R0310	SCR	129,812,494
R0320	MCR cap	58,415,622
R0330	MCR floor	32,453,124
R0340	Combined MCR	32,453,124
R0350	Absolute floor of the MCR	3,331,850
R0400	**Minimum Capital Requirement**	32,453,124