COUNTRYWIDE ASSURED PLC

SOLVENCY AND FINANCIAL CONDITION REPORT
31 December 2019

TABLE OF CONTENTS

SUMMARY (CONTINUED)

BACKGROUND

This Solvency and Financial Condition Report ('SFCR') has been prepared by Countrywide Assured plc ('CA plc', the 'company'), and is for the year ended 31 December 2019. 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.

In 2018, the PRA issued PS25/18 "Solvency II: External audit of the public disclosure requirement". This policy statement permits companies to no longer require an external audit of the SFCR should the company's financial position be below certain thresholds that are correlated to the size of the company. CA's financial metrics fall below these thresholds and as a consequence this document has not been subject to an independent external audit.

A summary of this report has been provided below. It focuses on key messages and highlights key changes during 2019 that have been reported in the main body of this report. To aid the reader the summary follows 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 has come from four separate companies which were combined within CA plc as part of Chesnara's acquisition strategy. The business of CA plc has not changed significantly over the year. Highlights from the business and performance section of this report include:

- The company has reported an underwriting performance of £47.9m (2018: £28.2m).
- Solvency ratio of 160% pre-dividend (31 December 2018: 191%). After recognising a foreseeable dividend of £32.0m (2018: £59.0m) the closing solvency ratio is 131% (31 December 2018: 130%).
- £9.7m of capital was transferred from the company's with-profit funds during the year. Prior to the transfer of surplus from the with-profit funds, regulatory approval was sought from and subsequently granted by the FCA, once it was satisfied that the transfer was not to the detriment of policyholders.

Since the end of 2019, Covid-19 has emerged as a pandemic. This has had a significant impact on investment markets and society in general, and we have been closely assessing the impact on Countrywide Assured and our stakeholders. Whilst the market impacts have been extreme, the scale of impact remains within the ranges we test as a matter of course within our established governance procedures. It is also useful to note that the Solvency II regime is designed specifically to ensure that we hold sufficient capital to withstand the adverse conditions we are currently experiencing. The company remains well capitalised subsequent to the Covid-19 outbreak, even after allowing for payment of our proposed final dividend. In addition, Countrywide Assured has assessed its liquidity position and is comfortable that Covid-19 does not give rise to any liquidity concerns. We remain focused on supporting our customers and colleagues while maintaining our financial and operational resilience. To date, our operations have undertaken a fairly smooth transition to remote working conditions, with no significant or prolonged disruption to key business services anticipated.

B. SYSTEMS OF GOVERNANCE

This section of the report provides information on the overall governance structure of the business, 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.

During the year Rob Goodwin was appointed as Chief Actuary.

There have been no significant changes in the company's systems of governance during the year. The board and committee structures have remained consistent throughout the financial year.

C. RISK PROFILE

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 manage the financial impact of any of the risks materialising. 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, continues to give an appropriate outcome. The information provided includes analysis of the sensitivity of the solvency position of the company to key variables.

There have been no fundamental changes in the overall risk profile of the company over the year. On a forward looking basis, the external environment continues to bring a level of uncertainty, particularly with the potential impact of post-Brexit negotiations and ongoing volatility in investment markets, coupled with the short and long term impacts of the

SUMMARY (CONTINUED)

C. RISK PROFILE (CONTINUED)

Covid-19 pandemic outbreak post year end. The threat from other external factors, such as cyber risk, continues to be monitored closely by the business in order to protect the delivery of our core business services. The company plans to continue to test its operational resilience to such threats in the future.

D. VALUATION FOR SOLVENCY PURPOSES

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

The practices used for valuing assets and liabilities for solvency purposes have remained consistent with last year. 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 2019 and 31 December 2018 has been provided below:

	31 December 2019 £'000	31 December 2018 £'000
Assets	2,464,648	2,437,015
Net technical provisions	(2,192,988)	(2,157,985)
Other liabilities	(88,384)	(88,623)
Assets less liabilities	**183,276**	**190,407**

E. CAPITAL MANAGEMENT

The final section of this report 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 year.

The company's capital position at 31 December 2019 can be summarised in the following table:

	31 December 2019 £'000	31 December 2018 £'000
Assets less liabilities	183,276	190,407
Foreseeable dividends	(32,000)	(59,000)
Restricted Own Funds in ring fenced funds	(10,788)	(5,672)
Own Funds	**140,488**	**125,735**
Solvency Capital Requirement (SCR)	**107,551**	**96,591**
Surplus Own Funds over SCR	**32,937**	**29,144**
Ratio of eligible Own Funds to SCR	**130.6%**	**130.2%**

- 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 £32.9m (2018: £29.1m).
- This gives rise to a solvency ratio of 130.6% at 31 December 2019 (2018 130.2%) and is stated after a proposed dividend of £32.0m (2018: £59.0m). This is expected to be paid during the first half of 2020, and after the production of the full actuarial valuation at 31 March 2020. This payment is slightly later than is customary and reflects the need for prudence in light of the Covid-19 pandemic that emerged post year end.
- This section also includes movement analysis of the position at 31 December 2018 to 31 December 2019 for both the excess of assets over liabilities and the SCR.

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

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
14 April 2020

Andrew Richards
Finance Director
14 April 2020

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 both PRA and the Financial Conduct Authority ('FCA'). 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

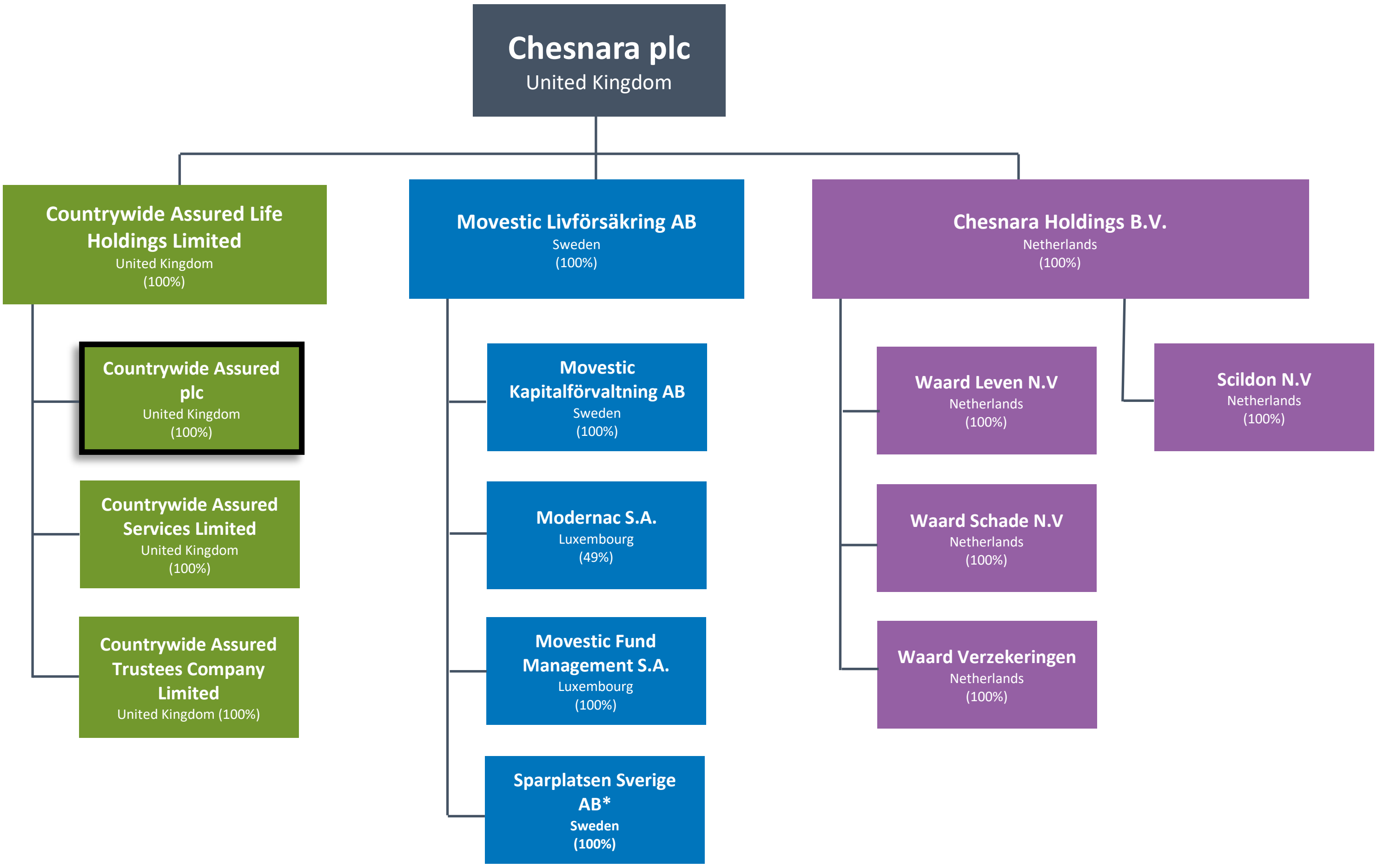
A.1.3 Name and contact details of external auditor

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

Deloitte LLP is the company's appointed external auditor, responsible for the audit of the company's IFRS financial statements. Previously, Deloitte were also responsible for the audit of this report, however this is no longer the case as the company has utilised an exemption from the requirement to have the SFCR audited, which was applied in 2018 following new rules issued by the PRA.

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 2019, with the position of CA plc highlighted.



*Since 31 December 2019, this has now been dissolved.

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 CA plc.

A.1 Business (continued)

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

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 business that was transferred into Countrywide Assured plc under Part VII of FSMA during 2011 from Save & Prosper Insurance Limited (SPI) and Save & Prosper Pensions Limited (SPP). The two companies were purchased by the Chesnara plc group in 2010; and
- 'PL': This represents the 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 historical 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 internally. 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 (ReAssure).

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

Solvency II lines of business

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 these map across to the reporting segments used by the company to manage the business. The company only has policies classified as Life Insurance Obligations and there are no Non-Life Insurance Obligations. All business is predominately within the United Kingdom.

2019	Technical provisions, net of reinsurance (SII basis)			Premiums earned, net of reinsurance (IFRS basis)		
Line of business	**Total £'000**	**CA £'000**	**S&P £'000**	**Total £'000**	**CA £'000**	**S&P £'000**
Life insurance						
With-Profits insurance business	277,608	–	277,608	1,327	2	1,325
Index-linked and unit-linked insurance	1,556,794	844,998	711,796	10,800	9,482	1,318
Other life insurance	141,352	141,352	–	8,863	8,796	67
Total life insurance	**1,975,754**	**986,350**	**989,404**	**20,990**	**18,280**	**2,710**
Health insurance						
Health insurance (direct business)	217,234	217,234	–	10,955	10,955	–
Total health insurance	**217,234**	**217,234**	**–**	**10,955**	**10,955**	**–**
Total	**2,192,988**	**1,203,584**	**989,404**	**31,945**	**29,235**	**2,710**

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 (continued)

Solvency II lines of business (continued)

2018	Net technical provisions (SII basis)			Net premiums earned (IFRS basis)		
Line of business	**Total £'000**	**CA £'000**	**S&P £'000**	**Total £'000**	**CA £'000**	**S&P £'000**
Life insurance						
With-Profits insurance business	286,083	–	286,083	1,514	2	1,512
Index-linked and unit-linked insurance	1,520,257	835,742	684,515	13,495	11,625	1,870
Other life insurance	140,654	140,654	–	9,841	9,757	84
Total life insurance	**1,946,994**	**976,396**	**970,598**	**24,850**	**21,384**	**3,466**
Health insurance						
Health insurance (direct business)	210,991	210,991	–	12,384	12,384	–
Total health insurance	**210,991**	**210,991**	**–**	**12,384**	**12,384**	–
Total	**2,157,985**	**1,187,387**	**970,598**	**37,234**	**33,768**	**3,466**

Net premiums earned as reported in the above table reflect premiums received on all policies in force during the year. This includes premiums on certain unit-linked savings and pensions policies that are categorised as "investment contracts" for IFRS reporting purposes in the company's Annual Report & Financial Statements. Where products are classified as "investment contracts" for IFRS reporting purposes the premiums received on such products are "deposit accounted" for, which means the premiums are not reported in the income statement. Consequently the premiums reported above do not agree to those reported in the company's 2019 IFRS financial statements.

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

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, either guaranteed minimum pensions or guaranteed minimum fund values. There is also some with-profits business in CA, which is 100% re-insured with ReAssure.

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 mostly consists of whole life assurance contracts and single premium bonds with a smaller number of endowment contracts.

Other life insurance: This primarily relates to the CA, CWA and PL books of business and mainly includes a mixture of term assurance, a nnuity, 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. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

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 objectives and associated areas of management focus. This can be summarised in the diagram below:

<table>
<tr><th>Strategy</th><th colspan="5">Efficient run-off of the existing life and pensions portfolios</th></tr>
<tr><td rowspan="3">Management focus:</td><td colspan="2">Capital and value management</td><td colspan="2">Customer outcomes</td><td>Governance</td></tr>
<tr><td colspan="5">Culture & values</td></tr>
<tr><td>Responsible risk-based management</td><td>Fair treatment of customers</td><td>Competitive return to shareholder</td><td>Robust regulatory compliance</td><td>Maintain adequate financial resources</td></tr>
</table>

In addition to considering its solvency position, the company also adopts performance measures to assess its financial position and performance. The measures, as detailed below, have at their heart the Solvency II valuation known as Own Funds.

Economic Value

Economic Value (EcV) is deemed to be a meaningful measure of the long-term value of the company and it generally approximates to Embedded Value reporting, which was used before the introduction of SII. EcV is derived from Solvency II Own Funds and recognises the impact of future profit expectations from existing business.

Cash generation

Cash generation is a measure of how much distributable surplus has been generated in the period, which supports the ability of the company to pay dividends. It is driven by the change in solvency surplus on a SII basis, taking into account board-approved capital management policies.

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

Strategic focus

<table>
<tr><th>Area of focus</th><th>Summary for 2019</th></tr>
<tr><td>Capital and value management</td><td>– The company has continued to generate value in the year, driven by a combination of market-driven factors and operational deliverables.
– One of the key value initiatives that has progressed in the year is the consolidation of our fund manager arrangements from the current four to one. A selection process has taken place and the preferred supplier has been chosen. The company has plans in place to deliver the required operational change during 2020, and the work is progressing to plan. The 2019 results reflect the benefit of the expected future cost savings arising from the revised arrangements, amounting to £12.4m pre-tax.
– Proposed final dividend of £32.0m.
– The company has benefited from positive lapse experience during the year, which has continued to support the emergence of value.</td></tr>
<tr><td>Customer outcomes</td><td>– Further improvements to the company’s website were made during the year. This included a new fund centre, coupled with additional content to support the customer in understanding their products. Subsequent customer research in relation to these changes has been positive.
– As part of the customer strategy programme the following was also delivered during the year:
o Completed our initial programme for contacting customers that have “gone away”. This has involved a full screening of our policy base.
o Revised some key written communications to our customers in order to meet good practice, including annual statements and retirement communications across all our books.
– Maintained good levels of customer satisfaction during the year.</td></tr>
<tr><td>Governance</td><td>– Strong delivery of the company’s business as usual governance responsibilities, including open and constructive dialogue with our regulators.
– The operational resilience programme has progressed well. This programme has been established in order to ensure that we comply with the high standards expected by our regulators, who have issued further guidance during the year to support their objective of maintaining operational resilience in the financial services sector as a whole.
– Good progress made on the company’s IFRS 17 programme.
– Further to the introduction of the Master Trust Authorisation & Supervision Regime, a decision was taken to wind-up five Master Trust Schemes and assign members’ benefits into their own individual arrangement. We engaged with the Pensions Regulator (tPR) and obtained legal advice to complete this with limited customer impact. Mailing to confirm the wind up will complete in 2020.</td></tr>
</table>

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)

Culture and values:

Area of focus	Summary for 2019
Responsible risk-based management	– Continued to enhance our Own Risk and Solvency Assessments (ORSAs), further supporting the business in making informed risk-based decisions. – Delivered our continuous improvement regime regarding how we manage risk, supported by our annual systems of governance review.
Fair treatment of customers	– We have continued to deliver a good standard of customer service. – We are finalising the implementation of our customer strategy in support of regulatory guidelines. – The administrative outsource service partners have generally delivered within stringent service level requirements. – Unit-linked policy returns remain competitive based on both fund benchmarks and external unit-linked policy performance surveys. – Where complaints do arise, we continue to manage them in accordance with best regulatory practice. – We closely monitor any regulatory developments to ensure we continue to treat our customers fairly in accordance with regulatory requirements.
Competitive return to shareholder	– Delivered against our objectives in the year of making sound risk-based decisions across all aspects of the business, which supported the emergence of solvency surplus broadly in line with plans.
Robust regulatory compliance	– Maintenance of robust levels of solvency throughout the year. – Continued to place a high priority on compliance and maintaining an open dialogue with our regulators.
Maintain adequate financial resources	– The company has maintained strong financial resources over the year, and had a post-dividend solvency ratio of 131% at 31 December 2019. The dividend paying 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 2019 can be found in Section E “Capital management”, which starts on page 53.

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, the business is managed by business segment rather than line of business, and the information below is based on this analysis.

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 business segment. All business was written in the United Kingdom.

2019	Total £'000	CA £'000	S&P £'000
Premiums earned	31,944	29,234	2,710
Claims incurred	(238,600)	(149,894)	(88,706)
Changes in other technical provisions	(71,758)	(31,687)	(40,071)
Expenses incurred	(21,502)	(13,537)	(7,965)
Other expenses	2	2	-
Investment performance (section A.3 for detail)	310,710	164,690	146,020
Other operating income	11,690	1,904	9,786
Fee & commission income	25,376	22,517	2,859
Underwriting performance (IFRS profit before tax)	**47,862**	**23,229**	**24,633**

2018	Total £'000	CA £'000	S&P £'000
Premiums earned	37,234	33,768	3,466
Claims incurred	(241,800)	(150,393)	(91,407)
Changes in other technical provisions	328,863	174,114	154,749
Expenses incurred	(24,101)	(14,548)	(9,553)
Other expenses	1	1	–
Investment performance (section A.3 for detail)	(112,959)	(48,999)	(63,960)
Other operating income	12,792	2,333	10,459
Fee & commission income	28,142	25,573	2,569
Underwriting performance (IFRS profit before tax)	**28,172**	**21,849**	**6,323**

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. The reduction compared to prior year is largely due to market volatility.

Expenses incurred: This represents all technical expenses incurred by the company 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.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 £47.9m (2018: £28.2m) comprises £23.2m (2018: £21.8m) from the combined CA, CWA & PL portfolios, and £24.6m (2018: £6.2m) from the S&P book.

The company's result has outperformed 2018, with a particularly strong year on year movement emerging within the more variable S&P book. This is mainly reflective of the positive equity market growth in 2019 which recovered from the falls recorded in late 2018.

A.3 Investment performance

A.3.1 Investment performance

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

2019	**Total £'000**	**CA £'000**	**S&P £'000**
Dividend income	23,532	20,702	2,830
Interest income	16,281	8,638	7,643
Rental income from investment properties	5	5	-
Net fair value gains and losses:			
Equity securities designated as at fair value through income on initial recognition	229,824	106,231	123,593
Debt securities designated as at fair value through income on initial recognition	45,360	29,099	16,261
Derivative financial instruments	(4,307)	-	(4,307)
Investment properties	15	15	-
Total	**310,710**	**164,690**	**146,020**

2018	**Total £'000**	**CA £'000**	**S&P £'000**
Dividend income	29,969	21,591	8,378
Interest income	16,486	8,554	7,932
Rental income from investment properties	7	7	–
Net fair value gains and losses:			
Equity securities designated as at fair value through income on initial recognition	(129,509)	(69,274)	(60,235)
Debt securities designated as at fair value through income on initial recognition	(26,692)	(9,877)	(16,815)
Derivative financial instruments	(3,220)	–	(3,220)
Total	**(112,959)**	**(48,999)**	**(63,960)**

The investment performance is predominantly driven by the growth in equity markets during 2019. The movement in the FTSE 100 and FTSE All Share is shown below. This does not show the fluctuations between these dates but gives an indication of the movement year on year:

	31 December 2019	**31 December 2018**
FTSE 100	7,542	6,728
FTSE All Share	4,196	3,675

A.3 Investment performance (continued)

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 2019, out of a total CA plc investment portfolio of £2,419m (31 December 2018: £2,421m), £4.1m (31 December 2018: £1.5m) 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

Since the end of 2019, Covid-19 has emerged as a pandemic. This has had a significant impact on investment markets and society in general, and we have been closely assessing the impact on Countrywide Assured and our stakeholders. Whilst the market impacts have been extreme, the scale of impact remains within the ranges we test as a matter of course within our established governance procedures. It is also useful to note that the Solvency II regime is designed specifically to ensure that we hold sufficient capital to withstand the adverse conditions we are currently experiencing. The company remains well capitalised subsequent to the Covid-19 outbreak, even after allowing for payment of our proposed final dividend. In addition Countrywide Assured has assessed its liquidity position and is comfortable that Covid-19 does not give rise to any liquidity concerns.

It remains too early to quantify the potential long-term impact on CA's financial performance arising from Covid-19 due to movements in the financial markets, although we continue to have a strong and viable business. At this point, we remain focused on supporting our customers and colleagues while maintaining our financial and operational resilience. To date, our operations have undertaken a fairly smooth transition to remote working conditions, with no significant or prolonged disruption to key business services anticipated.

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

B. SYSTEM OF GOVERNANCE

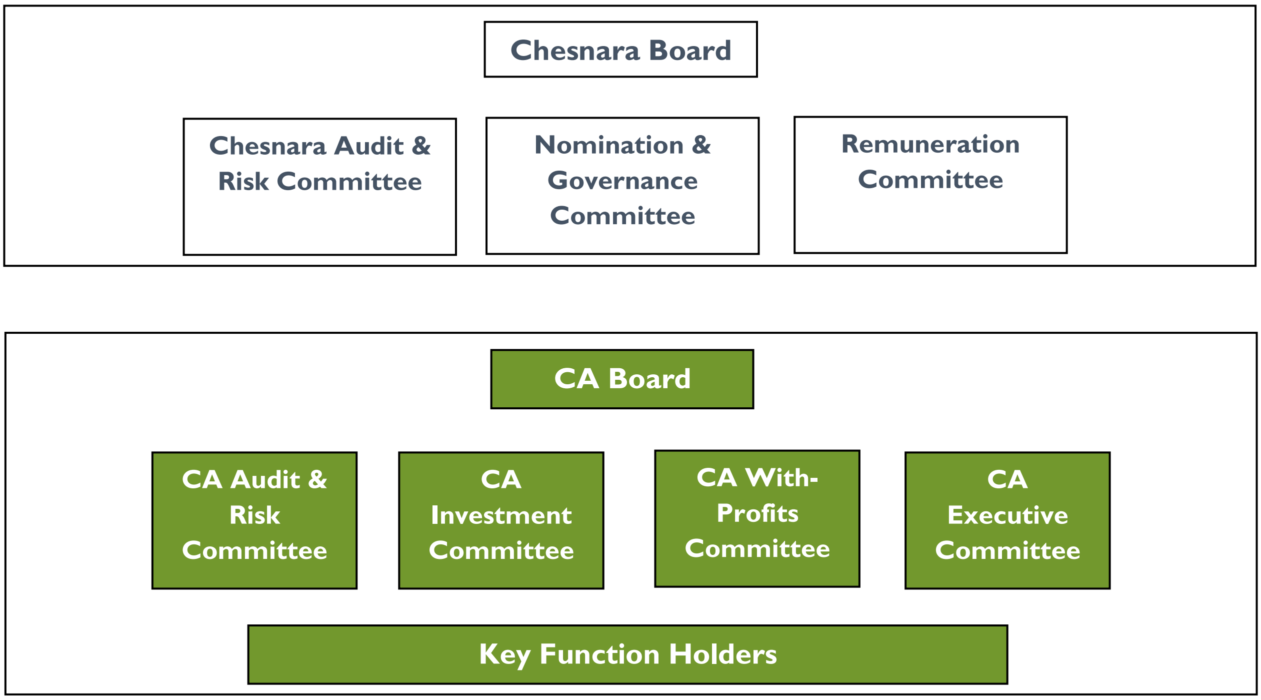
B.1 General information on the system of governance

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 Responsibilities 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 company'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.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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

B.1.1 Governance structure (continued)

- **Executive Committee:** This is the principal body to assist the Chief Executive Officer ('CEO') in carrying out the responsibilities assigned by the board. The responsibilities include: recommending strategy and objectives for the company having regard to the interests of policyholders, its ultimate shareholder Chesnara and other stakeholders; 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.

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 principles and practices 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 B.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 B.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. 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; and
- 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 Responsibilities 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 function holders, together with the responsibilities of the CEO and With Profits Actuary are summarised below.

- The CEO 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 and; 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 CEOs, the CA and group Executive Committees, 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.

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 Chief Risk Officer (CRO) attends the Audit & Risk Committee, is a member of the Executive Committee and is a regular attendee at the board. The CRO also has responsibility for the development and review of the risk management, governance and internal control systems; implementation of risk management processes and systems and; 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; reports on the reliability and adequacy of the calculation of technical provision; advises of any concerns regarding the sufficiency of financial assets to meet liabilities to policies; models of risk capital for the ORSA, including advising on suitable stress and scenario testing; reinsurance arrangements; and provide oversight of investment strategy and asset-liability matching.
- The Head of Internal Audit reports functionally to the Audit & Risk Committee and administratively to the CEO. The Head of Internal Audit 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.
- The Head of Compliance, Legal and Governmental Affairs 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 Head of Compliance is also the Data Protection Officer and the Money Laundering Reporting 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 advising on key aspects of discretion affecting the with profit funds, advising the board whether assumptions used to calculate the future discretionary benefits within the technical provisions are consistent with the relevant principles and practices from the financial management and reporting, at least annually to the board key aspects of the discretion exercised in respect of the with profits funds. The With-Profits Actuary is employed by Willis Towers Watson and the 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 General information on the system of governance (continued)

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.

The remuneration package for Chesnara plc employees who are engaged in CA work ('CA employees') employees ., including members of the Executive Committee is composed of fixed and variable elements. Fixed remuneration refers to remuneration, the amount and size of which is determined in advance and consists of (a) basic salary; (b) taxable benefits; and (c) pension benefits. Variable remuneration refers to remuneration, the amount or size of which is not determined in advance and consists of an annual bonus scheme for all employees.

The annual bonus schemes in place for employees have the following features:

	Senior management scheme		Staff scheme	
	On target	**Maximum**	**On target**	**Maximum**
Personal performance	6.0% - 18.0%	8.8% - 26.25%	7.5%	11.25%
Company performance	14.0% - 42.0%	20.4% - 61.25%	7.5%	11.25%
Total	**20.0% - 60.0%**	**29.2% - 87.5%**	**15.0%**	**22.5%**

Percentages in the table above represent the proportion of the basic salary that could be paid as variable remuneration.

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 chairs of the board committees and to other NEDs to reflect additional time commitments and responsibilities required by their role.

CA plc 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 regulations require 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, subject to ongoing review.

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 that its 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; and
- 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 plc's variable remuneration is closely aligned to the performance of the individual and the company.

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

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.

	2019 £'000	2018 £'000
Recharged group expenses	3,533	3,926

Transactions with immediate parent company

Countrywide 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 2019 and 2018 are summarised in the table below.

	2019 £'000	2018 £'000
Dividends paid to CA Life Holdings Limited	59,000	32,000

Further to the dividend payments made in the year of £59.0m, CA plc has declared a dividend of £32.0m in relation to the year ended 31 December 2019. This is expected to be paid during the first half of 2020, and after the production of the full actuarial valuation at 31 March 2020. This payment is slightly later than is customary and reflects the need for prudence in light of the Covid-19 pandemic that emerged post year end..

Transactions with fellow subsidiary companies

Countrywide 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.

	2019 £'000	2018 £'000
Recharge of expenses from CA Services Limited	2,612	2,930

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. Members of the board are remunerated by Chesnara plc, and recharged on an appropriate basis.

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

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

The company does not have a premium listing of equity shares and is not therefore required to comply with the UK Corporate Governance Code (the Code); however, the board endeavours to follow the principles laid out in the Code where practically possible and appropriate in order to promote high standards of corporate governance. In line with this, the board is responsible for monitoring the Risk Management and Internal Control System and carrying out a review of its effectiveness on an annual basis. In addition, SII regulations require the System of Governance to be subject to regular internal review.

On an annual basis CA plc undertakes a review of the effectiveness of the System of Governance, including the Risk Management and Internal Control System. This activity includes: (a) the board's perspective on the adequacy of the System of Governance including the Risk Management and Internal Control Systems; and (b) an objective 'bottom up' assessment of the adequacy of each of the individual components. The board has discretion over the scope and terms of the Systems of Governance review each year. For example, the board may choose to use Internal Audit, or external review.

The assessment considers the extent to which the risk management system is embedded, risks are reported to the Audit & Risk Committee, and the assessment also helps inform its future development.

As a result of the review undertaken in 2019, the board concluded that the company had adequate systems of governance in place over the year.

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 is 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 2019, 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.

Each year personal performance assessments include a review of fitness and propriety of all employees, senior managers and directors. CA has continued to comply with the requirements of the Senior Manager & Certification Regime (SMCR), effective from 10 December 2018. The company notifies the Financial Conduct Authority and Prudential Regulation Authority of any changes to the identity of the persons responsible for the Senior Manager 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.

During 2019 Internal Audit assessed the extent to which the Senior Managers & Certification regime controls had been embedded and whether there was continued compliance with requirements as Satisfactory. More specifically, the audit aimed to ensure roles and responsibilities have been clearly defined and that staff were encouraged to take personal responsibility for their actions whilst improving conduct across all levels.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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

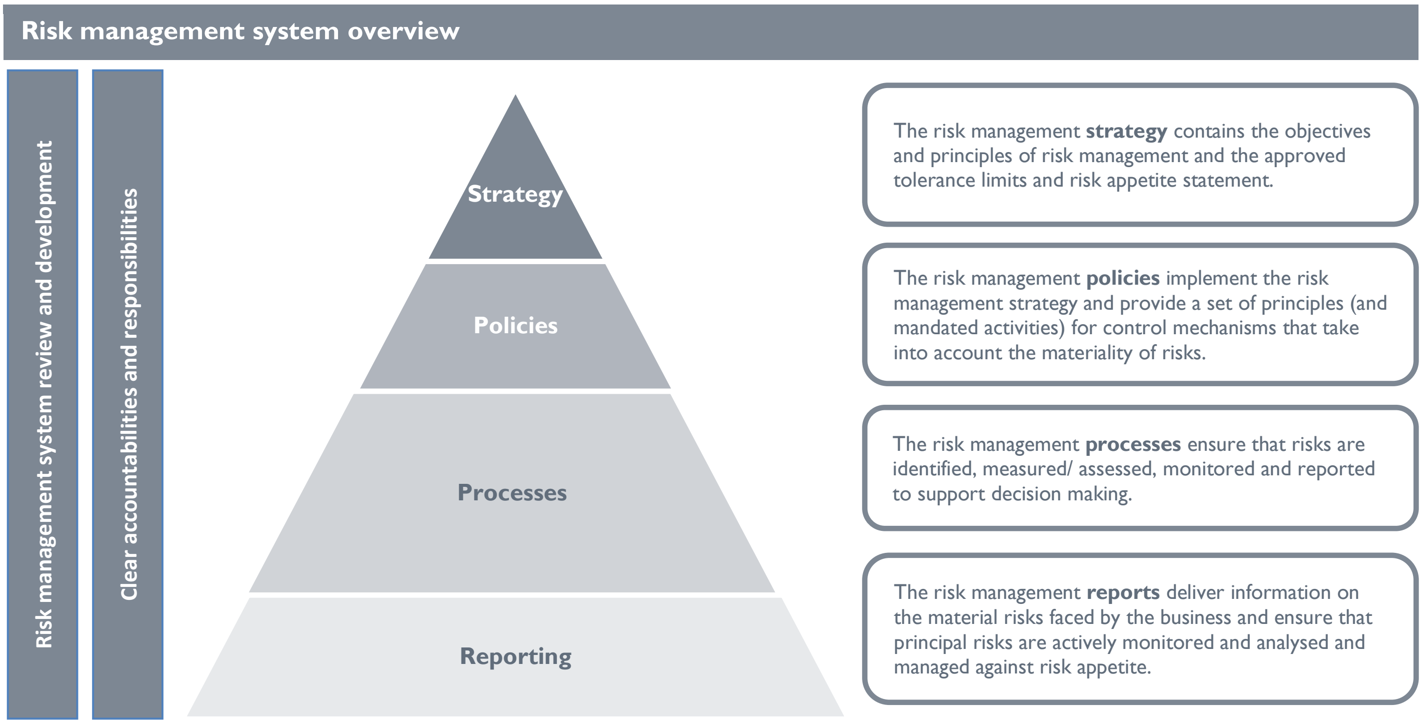
B.3.1 Risk management system

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

B.3.1 Risk management system (continued)

Risk universe

CA plc 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.

Insurance	Market & liquidity risk	Counterparty default risk	Strategy	Strategic - acquisitions	Operational	Information security
Expense	Interest Rates	Reinsurer	Design	Capability	Conduct	Infrastructure failure
Mortality	Equity	Outsourcer	Execution	Execution	Regulatory breach	Cyber attack
Morbidity	Property	Supplier	External change	Benefit realisation	People	Policyholder data security
Longevity	Credit spread	Bank deposit	Internal change		Execution / process	Corporate data security
Income protection	Market concentration	Corporate			Financial crime	
Disability	Currency	Government (domestic)			Physical resources	
Lapse	Liquidity	Government (non-domestic)			Industry standards breach	
Unemployment	Inter-dependency	Derivative			Business continuity plan failure	
Revision	Reinvestment	Counterparty concentration				
Catastrophe						

Risk management strategy

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

"Maintain solvency and liquidity of CA plc 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 plc has a board-approved risk appetite statement and risk tolerance limit for each of the categories of risk. This is fully consistent with and aligned to the Chesnara group's risk appetite statements. The aim of the risk appetite statement and risk tolerances is to enable the board to articulate the amount of risk CA plc 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 plc 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 at board meetings to consider whether any of the matters discussed, or decisions taken, may have a material impact on the ORSA, or to establish whether further analysis is needed.

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

B.3.1 Risk management system (continued)

Risk management policies

CA plc has risk management policies that are annually reviewed and approved by the board, that cover all the key risks that CA plc is exposed to. These are the:

(a) Capital management policy;
(b) Insurance risk policy;
(c) Asset and liability management policy;
(d) Investment policy;
(e) Reinsurance and risk mitigations policy;
(f) Outsourcing policy;
(g) Concentration risk policy;
(h) Liquidity risk policy;
(i) Operational risk policy;
(j) Conduct risk policy; and
(k) Business continuity.

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.

In addition to the policies listed above, CA plc also has other governance and internal control policies including:

- Dividend policy;
- Remuneration policy;
- Fit and proper policy;
- Conflict of interest policy;
- Reserving policy;
- Data quality policy;
- ORSA policy;
- Assets and liabilities valuation policy;
- Reporting and disclosure policy;
- Information security policy;
- Whistleblowing policy;
- Anti fraud policy;
- Anti bribery and corruption policy; and
- Anti-money laundering policy.

CA plc also has policies covering the activities of the control functions as follows:

- Risk management system policy;
- Actuarial function policy;
- Compliance policy; and
- Internal audit policy.

Risk management processes

CA plc maintains a risk register, which is a comprehensive list of risks and the key controls in place to manage them. The continuous maintenance and updating 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 plc considers:

- those risks that management are aware of and understand; and
- 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; distributable surplus; reputation and regulatory relationship.

On an ongoing basis, CA plc scans the horizon and identifies potential risk events (including political; economic; sociocultural; technological; environmental and legislative) and assesses their proximity and their potential impact. Emerging risks are reviewed on a monthly basis by the Executive team and recorded centrally on an emerging risk log with assigned ownership.

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

B.3.1 Risk management system (continued)

Risk management information and communication

CA has established processes and procedures for the management of crystallised risks, with defined criteria for the escalation of material incidents to the executive and the board. Outsourced service providers report all significant incidents to the applicable first line function. These are escalated to the executive and board according to the agreed criteria.

CA plc 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 plc, information on any emerging risks, tracking of the risk profile versus risk appetite, information on crystallised risk events and continuous solvency monitoring. The quarterly risk report is reported to the Audit & Risk Committee.
- On an annual basis, or more frequently if required, CA plc 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 plc produces a report providing information on the adequacy and effectiveness of the systems of governance including 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 Audit & Risk Committee.

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 company. 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 plc. 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 referred to in section B.3.1, as part of its risk management framework, CA plc conduct an ORSA. This assessment considers the operating environment and wider risks to which CA plc is exposed and provides a forward-looking assessment of the potential risks and capital impacts, within the wider context of the CA plc 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 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.

At each meeting the board assesses whether any events have arisen or decisions have been made that would require the ORSA Report to be updated.

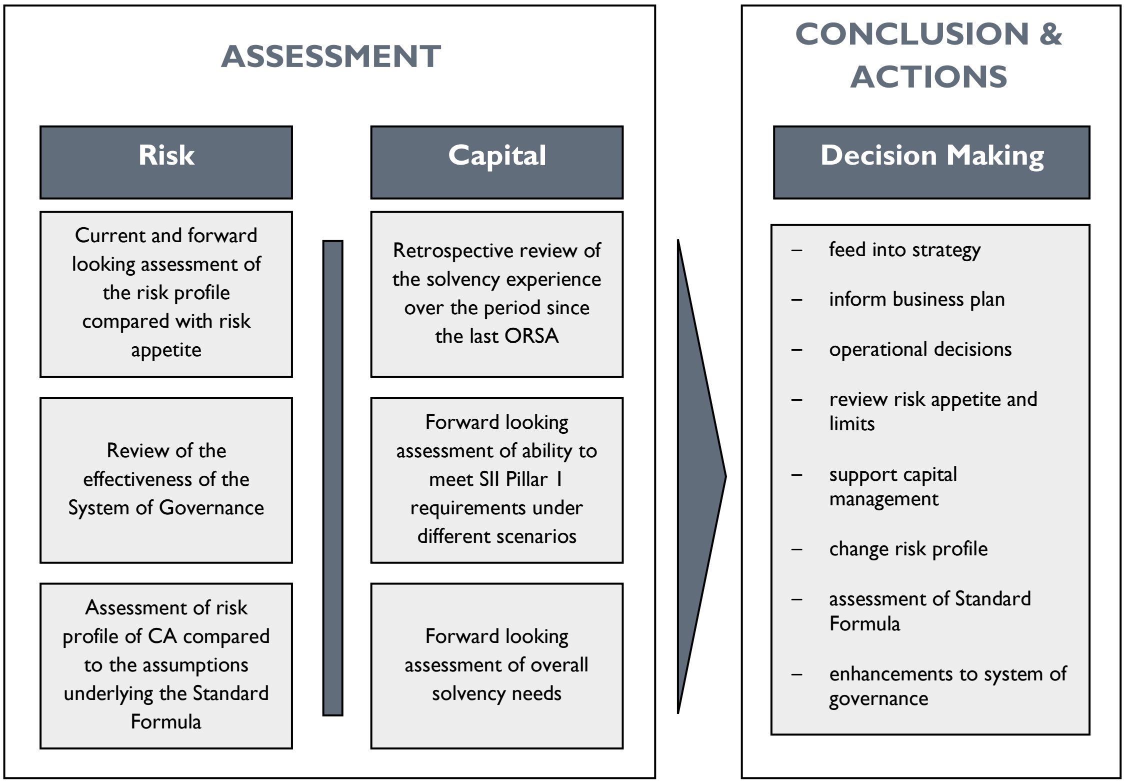
B. SYSTEM OF GOVERNANCE (CONTINUED)

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)

ORSA process overview

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



The above diagram shows how CA plc'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 plc 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 plc has an established internal control system to support the achievement of CA plc's objectives, in terms of operational effectiveness, reliable financial reporting, and compliance with laws, regulations and policies. CA plc 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 plc 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.

2nd line procedures

Compliance monitoring

CA plc 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 plc'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 plc 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.

B.4 Internal control system (continued)

B.4.1 Description of internal control system (continued)

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; and
(e) Description of any significant changes to the control environment over the reporting period.

B.4.2 Implementation of compliance function

Overview

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

The Head of Compliance, Legal and Government Affairs 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 Head of Compliance, Legal and Government Affairs 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 plc 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.

Reporting lines

The Head of Compliance, Legal and Government Affairs reports directly to the CEO for management purposes, and directly to the board in delivering their role.

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 meetings and Periodic Summary Meetings	Ensure update meetings take place with the PRA and records are maintained of those meetings.
Conduct Risk review	Oversee the annual review of Conduct Risk measures to ensure fair customer outcomes.
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 Senior Manager Functions, Certified Functions, 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.
Anti-money laundering (AML) oversight	Ensure all AML procedures and policies are reviewed on an annual basis and a Money Laundering Reporting Officer report is presented to the board.
Compliance plan	Prepare a compliance plan and gain board approval.

B. SYSTEMS OF GOVERNANCE

B.4 Internal control system (continued)

B.4.2 Implementation of compliance function (continued)

Reporting

As part of delivering its obligations, the compliance function produces or contributes to the following key reports:

- **Monthly compliance report:** Covers regulatory changes, regulatory engagement, compliance monitoring and relevant financial crime and data protection updates.
- **Quarterly compliance board report:** Provides the board with a detailed compliance function update, covering regulatory changes, regulatory interaction and compliance monitoring.
- **Conduct Risk MI:** Monthly report to the Customer Committee, including OSP data metrics and a Quarterly Board pack with commentary on action taken on amber or red measures and an "In focus" report on a relevant key topic.
- **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 outsourced service providers' compliance functions and the compliance function.
- **Outsourced service provider report:** A summary report covering breaches, compliance service level agreements, 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 structure 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 through the function not having 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.

The Internal Audit function does not delegate its day to day work to any of our outsourcers' Internal Audit teams but will be cognisant of any reports it receives from these functions.

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 they have been implemented in an appropriate timescale.

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 are:

- 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. SYSTEMS OF GOVERNANCE

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 to the board for a number of the regulated tasks. 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 CEO and 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 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), if required, 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 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 is a member of the Investment Committee and advises the committee in respect of asset-liability matching in conjunction with the Head of Investments. The latter is responsible for (a) the investment policy; (b) the asset-liability matching policy and (c) the concentration risk 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. SYSTEMS OF GOVERNANCE

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 plc'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 plc executive management of their responsibility or accountability for carrying out an activity.

B.7.2 Responsibilities

CA plc recognises its accountability for services outsourced and has a defined governance model for outsourcers that provide critical services. The company defines critical services as *"services that are vital for the ongoing operation of CA plc'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; and
- Provision of cloud services, data storage and information security.

Of the above, the company outsources part or all of the operation for each of the above activities, barring internal auditing. Overall accountability is still retained within CA plc 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 for 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; and*
- *The implementation of suitable reporting and monitoring routines, to ensure effective control of the outsourced activities and manage the associated risks.*

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

- Strategy;
- Selection;
- Negotiation;
- Migrate and integrate services;
- Performance and quality management; and
- 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 plc 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 plc. The risks have been considered in light of the emergence of Covid-19 as a pandemic post year end, and it is our view that this has not introduced any new principal risks over and above those identified below.

Section C.7.1 shows the risk profile of CA plc using the risk capital requirements calculated by the Standard Formula as at 31 December 2019, together with the equivalent results from 31 December 2018. This shows how the risk profile, and any concentrations of risk, have changed over the year.

C.1 Underwriting risk

C.1.1 Qualitative review of risk profile

Underwriting risk

As a life insurer, CA plc carries mortality and morbidity risk although much of this is controlled through the use of reinsurance. This risk can arise due to mortality 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 plc is less exposed to anti-selection risk arising from writing new policies, given that CA is closed to new business and existing business has been in-force for a significant period. Mortality risk can be further mitigated to some extent as CA plc is able to increase mortality charges on some in-force contracts.

CA plc 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 plc uses industry models to estimate future mortality improvements.

Underwriting risk - expense

CA plc 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 as CA plc is able to increase expense charges on some in-force contracts.

As CA plc 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 lower in-force policy base. The CA plc 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 in-force business runs off. By securing long-term contracts to support these activities, CA plc aims to better 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 charge income if lapses are higher than expected. In capital terms, lapse risk is a material risk for CA plc and can be driven by external events such as economic recession 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 plc book has a large proportion of pensions business, where policies 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. For the two with-profits funds, it arises from a combination of the mismatch between assets and liabilities caused by the guaranteed benefits provided and the way in which funds are invested. For the main fund, the principal cause of market risk results from the indirect impact on unit linked funds where future charge income is dependent on the investment performance of the underlying assets. Other minor causes of market risk in the main fund result from small asset/liability mismatches on the non-linked business and the investment policy adopted for surplus assets.

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 limits exist.

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 also 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 linked policyholders. With the exception of a small number of personal funds, property exposure is mainly carried out through investment in authorised unit trusts.

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

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 2019, was £141.5m (31 December 2018: £153.9m).

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, information security and/or data breaches or from external events. CA plc typically carries the same operational risks as most insurers. However, the CA plc 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 plc 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 plc. Operational and expense risks may also arise if the outsource service providers do not have adequate business continuity plans, information security controls or if the outsource provider defaults on the contract (e.g. due to financial difficulties) requiring the service to be transferred to another provider. The liability for the cost of operational errors for many operational risks resides with the outsource service provider according to the terms of the contract.

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 plc is 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 in-force business if CA plc 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.

Climate change risk

There are two types of risk relating to climate change:

- Physical risks – these are the direct impact of events such as heatwaves, flood, wildfire, storms, increased weather variability, rising mean temperature and sea level rises.
- Transition risks – these come from the process of change towards a low carbon economy. A range of factors may influence this, including: climate related developments in policy and regulation, technological change, shifting sentiment and social attitudes, climate related litigation against firms that fail to mitigate, adapt or disclose climate related financial risks.

As CA plc business is life insurance and not general insurance, it is generally not exposed to the underwriting risks associated with climate change. However, CA could be exposed to market and credit risks associated with Transition Risk, or to a lesser degree Physical Risks. Risk capital is not explicitly held to cover climate change risk, as this is already covered by market and credit risks.

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.

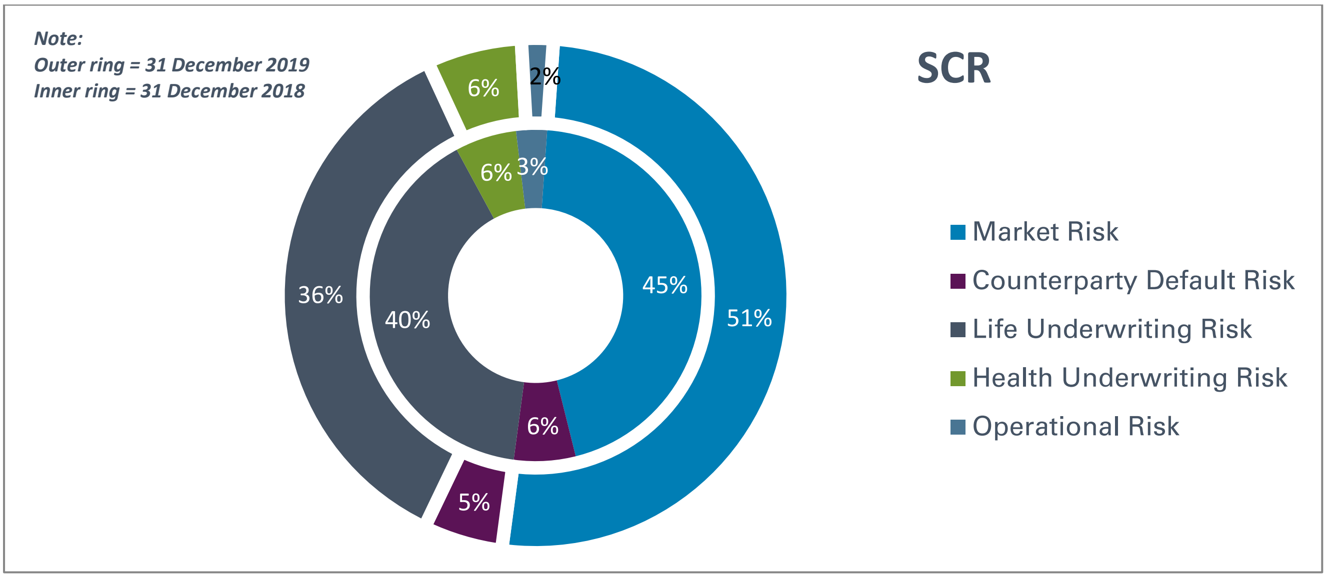
C.7 Any other information

C.7.1 Risk profile (quantitative)

This section considers the risk profile of CA plc using the risk capital requirements calculated using the Standard Formula under Pillar 1 regulatory requirement as at 31 December 2019, together with the equivalent results from 31 December 2018. This therefore shows how the risk profile, and any concentrations of risk, have changed over the year.

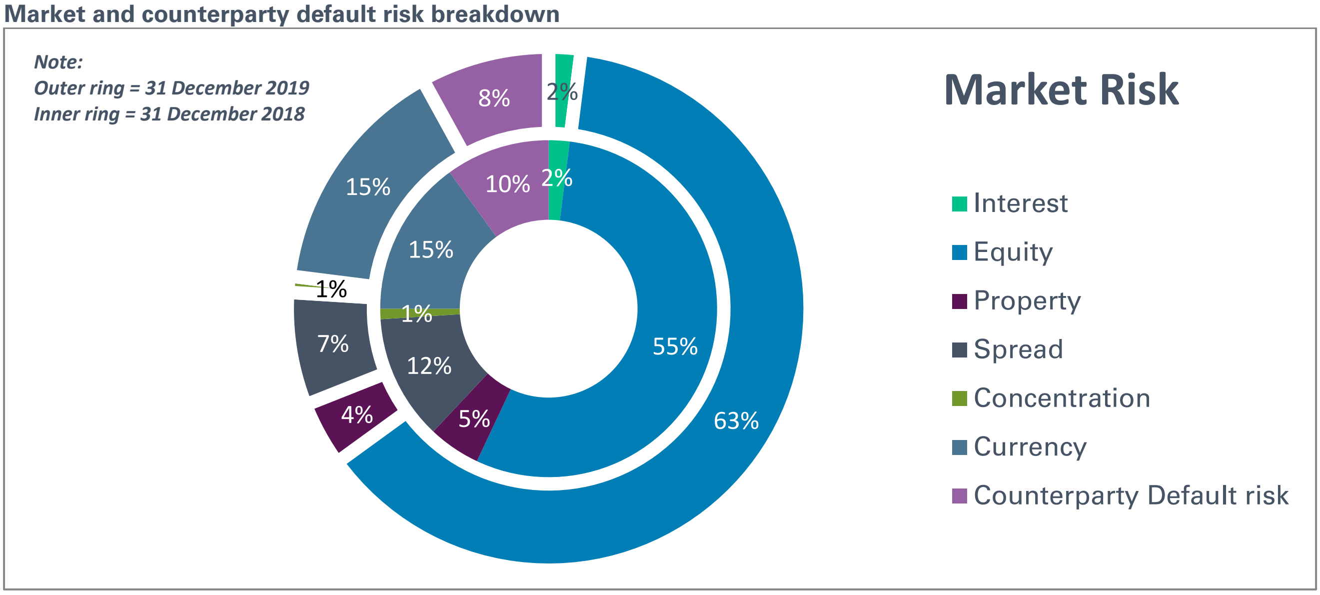
Risk profile by risk category

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 December 2019 and the inner circle shows the position at 31 December 2018. The charts 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 charts do not capture any benefits arising from the Loss Absorbing Capacity of Deferred Tax.



The risk profile, at a high level, is dominated by Market and Life underwriting risk, as would be expected for an insurance business. The risk profile is well diversified and has remained relatively stable during the reporting period. The proportional reduction in life underwriting risk and increase in market risk are mainly caused by the run-off of the in force book and market movements over 2019. 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.

Market and counterparty default risk breakdown

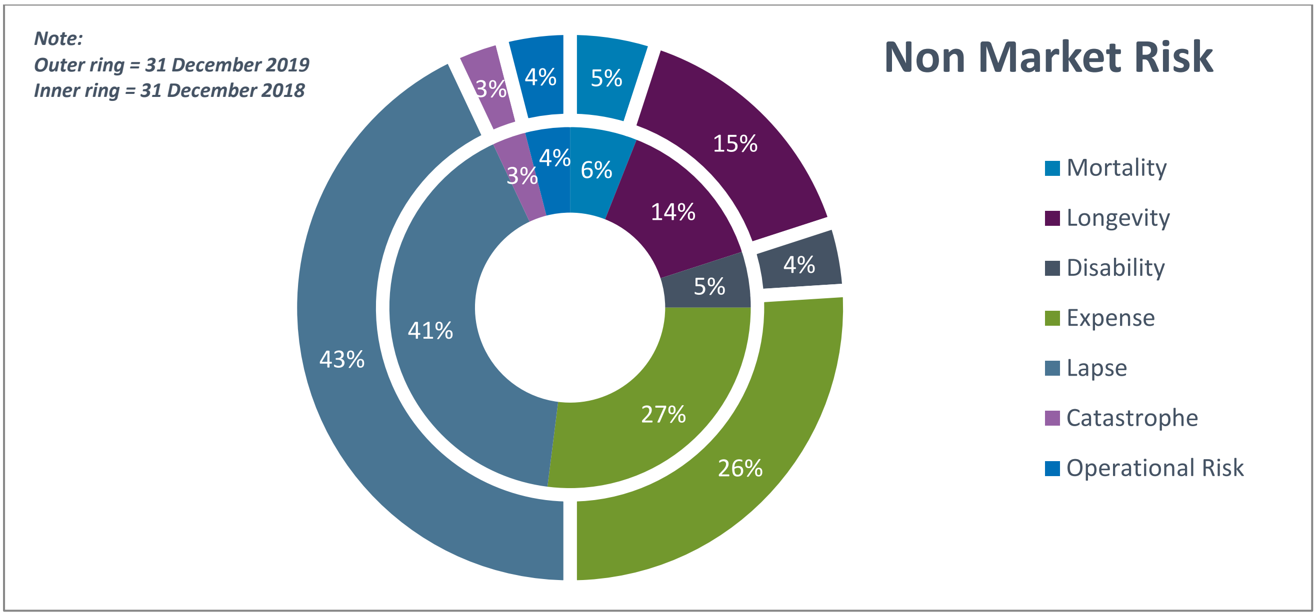


The chart illustrates a diversified portfolio of market risks, with the changes over the year mainly driven by market movements and changes in the underlying asset portfolio.. The proportion of equity risk has increased during 2019, mainly due to a rise in equity markets.

C.7 Any other information (continued)

C.7.1 Risk profile (quantitative) (continued)

Non-market risk



The chart shows that the risk profile of non-market risks has remained relatively stable over the year, with expense and lapse risk continuing to make up the majority of the risk profile. Mortality risk is well mitigated 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 plc and section B.3.2 explains how CA plc carries out its ORSA. This provides the framework by which individual risks are identified, assessed, monitored and managed. As part of this framework, CA plc 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; and
- 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 plc. This assessment is approved by the board, with the most recent assessment concluding that the standard formula remains appropriate.

Risk mitigation

CA plc 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 plc is closed to new business, these are not anticipated to change materially over future periods.

C.7 Any other information (continued)

C.7.2 Risk mitigation techniques and monitoring (continued)

Risk category	Key Controls and Risk Mitigation Techniques
Underwriting	
– 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 and/or charges in the light of adverse experience.
– Expense	– 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	– 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	– 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. – For the most significant reinsurance exposure, there is a charge over the reinsurer's assets, which ranks CA plc equally with other policyholders.
Liquidity	– 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. – Regular treasury reporting showing the liquid assets held and how this compares to the minimum threshold set by the Board Investment Committee.
Operational risk	– Monitoring of key performance indicators and comprehensive management information flows under its contractual arrangements; – Effective governance of outsourced service providers including a regular financial assessment; – Under the terms of the contractual arrangements the company may impose penalties and/or exercise step-in rights in the event of specified adverse circumstances; – Regular development and testing of business continuity plans; and – Promoting the sharing of knowledge and expertise.
Conduct risk	– Close oversight of the performance and risk management of all outsourced service providers. – Implementation of a comprehensive Customer Strategy programme to address the regulatory standards set out regarding the fair treatment of customers. – Regular review of conduct risk management information. – Regular product reviews to ensure products continue to deliver fair outcomes for customers. – 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 Any other information (continued)

C.7.3 Stress and scenario testing

Overview

CA plc uses the Standard Formula to determine its regulatory capital requirements and these are calculated and reported on a quarterly basis. As part of the ORSA CA plc 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 Regulation Authority. The stresses and scenarios selected for the 2019 ORSA were based on the outcomes of an executive team workshop, and follow the principles set out in the Chesnara 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 scenario tests approved by the board and included in the ORSA are summarised below.

- Stresses to market events including:
  - A fall in the value of equities;
  - A rise in the value of sterling against other currencies;
  - A fall in interest rates;
  - The impact of widening credit spreads;
  - A change in swap rates relative to gilt yields; and
  - Combined scenarios where different events occur in combination.
- Stresses to insurance risks including:
  - A one off sudden increase in lapse rates;
  - An increase in mortality rates; and
  - An increase in expenses and in particular the impact of fixed expenses as the in-force book runs off.
- Events which may cause a significant strain on liquidity
- Default of CA plc's largest counterparties
- Other risks including:
  - Climate Change Risk;
  - Operational Resilience; and
  - Material events affecting the performance of an outsource service provider.

Methodology

The ORSA has a base date of 30 June 2019. The base capital position uses the same methodology and assumptions as the 30 June 2019 Solvency II financial reporting, but updated to take account of the updated expenses projections, as included in the 2020 to 2022 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 cost of holding capital to support the SCR.

In quantifying the financial impact of each stress, the balance sheet is projected forward and it is assumed that each stress will occur immediately after 31 December 2019 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 Any other information (continued)

C.7.3 Stress and scenario testing (continued)

Outcomes from the stress and scenario testing

The detailed results from the stresses and scenarios outlined above are included in the ORSA report, which is subsequently approved by the board and privately submitted to the Prudential Regulation Authority.

As part of the financial year end process undertaken at 31 December 2019, a range of sensitivities are also performed to show the impact on CA's key financial metrics, with summary results disclosed in the Chesnara group Annual Report & Accounts. The table below summaries the main results from this exercise and shows the impact from a range of stresses and scenarios on the solvency position

Impacts		Key	
•	£0m to £5m	■	Positive impact
●	£5m to £10m	■	Negative impact
⬤	£10m+		

£m	Capital impact of stress
20% sterling appreciation	•
25% equity fall	•
25% equity rise	•
10% equity fall	•
10% equity rise	•
1% interest rate rise	•
50bps credit spread rise	•
25bps swap rate fall	●
10% mass lapse	•
10% expense rise + 1% inflation rise	⬤

Whilst the sensitivities above provide a useful guide, in practice, how the position reacts to changing conditions is complex and the exact level of impact can vary due to the interactions of events and the starting position.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

Introduction

This section of the 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 assets less liabilities, as measured on both a solvency and IFRS basis, and provides a reference where further information has been provided:

		31 December 2019		31 December 2018	
	Section reference	Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Assets	*Section D1*	2,464,648	2,466,339	2,437,015	2,439,068
Net technical provisions	*Section D2*	(2,192,988)	(2,253,694)	(2,157,985)	(2,203,868)
Other liabilities	*Section D3*	(88,384)	(81,236)	(88,623)	(84,526)
Assets less liabilities		**183,276**	**131,409**	**190,407**	**150,674**

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

		31 December 2019		31 December 2018	
	Note	Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Assets					
Deferred acquisition costs	*1.01*	–	1,691	–	2,053
Investments (other than assets held for index-linked and unit-linked contracts)		610,474	610,474	636,643	636,643
Bonds		*324,828*	*324,828*	*315,129*	*315,129*
Government Bonds	*1.02*	*303,160*	*303,160*	*276,170*	*276,170*
Corporate Bonds	*1.02*	*221,251*	*221,251*	*38,488*	*38,488*
Collateralised securities	*1.02*	*417*	*417*	*471*	*471*
Collective Investments Undertakings	*1.02*	*266,291*	*266,291*	*294,107*	*294,107*
Derivatives	*1.04*	*1,953*	*1,953*	*104*	*104*
Deposits other than cash equivalents	*1.02*	*17,402*	*17,402*	*27,303*	*27,303*
Assets held for index-linked and unit-linked contracts	*1.03*	1,808,251	1,808,251	1,740,747	1,740,747
Insurance and intermediaries receivables	*1.05*	1,716	1,716	1,871	1,871
Reinsurance receivables	*1.06*	24,694	24,694	20,841	20,841
Receivables (trade, not insurance)	*1.07*	7,251	7,251	11,052	11,052
Cash and cash equivalents	*1.08*	11,425	11,425	24,756	24,756
Any other assets, not elsewhere shown	*1.09*	837	837	1,105	1,105
Total assets		**2,464,648**	**2,466,339**	**2,437,015**	**2,439,068**

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 by 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 Assets (continued)

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; and
- 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, is 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.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 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.

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 of derivatives.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 Assets (continued)

D.1.05 Insurance & intermediaries receivables

Basis and methods for IFRS valuation

Insurance and intermediaries receivables are measured at amortised cost, as a reasonable approximation of fair value. This 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.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, representing amounts due from reinsurers, 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

Assumptions are made regarding the extent to which a reinsurance receivable has a risk of not being fully recoverable. At each balance sheet date an assessment is performed regarding whether there should be any provisions raised against reinsurance receivables.

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.

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 amortised cost, as a reasonable approximation of fair value. This 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 Assets (continued)

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.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

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.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 2019		31 December 2018	
	Solvency II value £'000	IFRS value £'000	Solvency II value £'000	IFRS value £'000
Net technical provisions:				
Health (similar to life):				
Technical provisions calculated as a whole	216,740	–	212,061	–
Best estimate / statutory accounts value	(3,532)	232,438	(7,328)	220,071
Risk margin	3,794		3,853	
Reinsurance recoverables	232	(1,854)	2,405	1,738
Total	**217,234**	**230,584**	**210,991**	**221,809**
Life (ex-health and index-linked and unit-linked):				
Technical provisions calculated as a whole	–	–	–	–
Best estimate / statutory accounts value	513,420	599,413	513,265	604,387
Risk margin	10,747		12,411	
Reinsurance recoverables	(105,207)	(118,664)	(98,939)	(122,045)
Total	**418,960**	**480,749**	**426,737**	**482,342**
Index-linked and unit-linked:				
Technical provisions calculated as a whole	1,621,125	–	1,569,826	–
Best estimate / statutory accounts value	(27,942)	1,619,515	(15,304)	1,570,070
Risk margin	14,054		12,784	
Reinsurance recoverables	(50,443)	(77,154)	(47,049)	(70,353)
Total	**1,556,794**	**1,542,361**	**1,520,257**	**1,499,717**
Total net technical provision	**2,192,988**	**2,253,694**	**2,157,985**	**2,203,868**

The technical provisions for CA plc consist of technical provisions (TP) calculated as a whole, best estimate liabilities ('BEL') and the risk margin. This section considers the TP calculated as a whole, 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.

TP calculated as a whole

The technical provisions calculated as a whole are used to represent the policyholder value of unit-linked contracts and are set with reference to the unit fund as at the valuation date.

BEL basis and methodology

The BEL corresponds to the probability-weighted average of future policyholder cash-flows in excess of any TP calculated as a whole, 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 plc and investment firms; and
- taxation payments.

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

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 plc 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.

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 vary by time for each currency and are derived with reference to interest rate swaps, with an adjustment to remove the credit risk. For CA plc no matching adjustment or volatility adjustment has 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:

- Analysis 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 plc'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 plc outsources certain services as identified in section B.7.2. The full expected cost associated with these arrangements is included in the BEL. CA plc 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 are also incurred by CA plc, or recharged from CA plc's parent, Chesnara plc. Allowance is made within the BEL for these costs, based on the latest expense budget and assessment of one-off project costs. The evaluation of future outsourcing and direct expenses also allows for a best estimate of future inflation.

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 ceasing the payment of premiums but with the policy continuing for the remainder of the term with a reduced level of benefits; and
- Early retirement or transfer under a pension policy.

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

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 plc. Instead, it represents the subsequent SCR of the 'reference undertaking'. The following covers the way in which the reference undertaking's SCR is calculated compared to that of CA plc.

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 plc SCR.

Counterparty default risk SCR

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

Operational risk SCR

The operational risk SCR of the reference undertaking follows the same calculation approach as for CA plc but excludes market risks.

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 of each sub-module being run-off using a suitable risk driver.

Counterparty default risk

It is assumed that the most material driver of the counterparty default risk SCR is reinsurance recoverables. The projection of these is used as the risk driver for this SCR, except for the ring-fenced with-profits funds where there are no reinsurance recoverables. For these ring-fenced funds the BEL is used as a risk driver instead.

Operational risk

All aspects of the operational risk SCR (i.e. premiums, provisions, BSCR and unit-linked expenses) are projected forward and an 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 plc SCR.

Aggregate risk margin

The risk margin is calculated separately for each ring-fenced fund with the total being the sum of the individual calculations.

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

Allocation by line of business ('LoB')

The allocation of the total risk margin to the LoBs reflects each 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 and health underwriting risks are calculated separately from life underwriting risks. 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.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.

31 December 2019	*Note*	**SPI With-Profit Fund £'000**	**SPP With-Profit Fund £'000**	**Remaining Part £'000**	**Total £'000**
IFRS technical provisions	*1*	16,265	263,528	1,973,901	2,253,694
Allow negative provisions	*2*	–	–	(74,090)	(74,090)
Changes to assumptions	*3*	(30)	(1,319)	(8,408)	(9,757)
Contract boundary restrictions	*4*	–	–	12,620	12,620
Other adjustments for SII	*5*	(425)	(2,791)	(14,858)	(18,074)
SII BEL + TP as a whole		**15,810**	**259,418**	**1,889,165**	**2,164,393**
SII risk margin	*6*	773	1,385	26,437	28,595
SII technical provisions		**16,583**	**260,803**	**1,915,602**	**2,192,988**

31 December 2018	*Note*	**SPI With-Profit Fund £'000**	**SPP With-Profit Fund £'000**	**Remaining Part £'000**	**Total £'000**
IFRS technical provisions	*1*	17,500	265,296	1,921,072	2,203,868
Allow negative provisions	*2*	–	–	(71,093)	(71,093)
Changes to assumptions	*3*	(51)	(1,164)	(12,385)	(13,600)
Contract boundary restrictions	*4*	–	–	13,224	13,224
Other adjustments for SII	*5*	(1,591)	2,623	(4,494)	(3,462)
SII BEL+ TP as a whole		**15,858**	**266,755**	**1,846,324**	**2,128,937**
SII risk margin	*6*	1,149	2,104	25,795	29,048
SII technical provisions		**17,007**	**268,859**	**1,872,119**	**2,157,985**

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 aims to better model the guarantees to which the funds are exposed.
- **Note 2** Negative provisions are not allowed under IFRS, but are permitted under SII. This restriction under IFRS also extends to the non-unit reserves held in respect of unit-linked insurance contracts. So, for insurance contracts where it is expected that the future charges will outweigh the future expenditure, the SII BEL can be less than the policyholder value of units whereas the IFRS provisions cannot be.

D.2 Technical provisions (continued)

D.2.3 Comparison of technical provisions valuation methods, bases, assumptions and values for solvency purposes and IFRS (continued)

- **Note 3** Many demographic assumptions are modelled under IFRS with a margin of prudence above the corresponding SII assumption. Despite this some assumptions are more prudent under SII, such as the unit growth rates which are prescribed by EIOPA.
- **Note 4** 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 5** This represents the impact of other changes in methodology that have been introduced under Solvency II. For example, 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 6** 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.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.

Methodology

The adjustment to take account of expected losses due to default of a reinsurance 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. The calculation 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%.

Assumptions

In the above methodology, the recoverables and discount factors used are as defined previously. Additional assumptions required are the probability of default, and the percentage 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 plc uses a rate lower than 50% where its assessment identifies reason to believe that 50% recovery on default would not be reliable.

D.2 Technical provisions (continued)

D.2.6 Changes in assumptions

The methodology for setting the assumptions for the Solvency II calculations as at 31 December 2019 is generally unchanged from the valuation as at 31 December 2018.

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 applied in 2019 include:

Economic	Updated EIOPA yield curves utilised plus updates to inflation parameters.
Mortality	Mortality assumptions have been reviewed to take account of recent investigations and the assumptions for assurance mortality were slightly strengthened, albeit only for a subset of whole of life and protection business, and the basis for annuitant mortality has been updated to move to the CMI2017 model.
Persistency	Persistency assumptions have been reviewed to take account of recent investigations. The key changes made include grouping of some product lines with similar characteristics in order to improve the credibility of the analysis where data volumes are low. Assumptions were slightly weakened overall.
Expenses	Expense assumptions have been reviewed to reflect the latest management assessment of projected costs.

D.3 Other liabilities

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

		31 December 2019		31 December 2018	
	Note	Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Other liabilities					
Provisions other than technical provisions	*3.1*	34	34	32	32
Deferred tax liabilities	*3.2*	10,947	343	8,761	506
Derivatives	*3.3*	365	365	1,239	1,239
Debts owed to credit institutions	*3.4*	1,191	1,191	975	975
Insurance & intermediaries payables	*3.5*	59,981	59,981	58,713	58,713
Reinsurance payables	*3.6*	527	527	463	463
Payables (trade, not insurance)	*3.7*	15,339	15,339	18,440	18,440
Any other liabilities, not elsewhere shown	*3.8*	–	3,456	–	4,158
Total liabilities		**88,384**	**81,236**	**88,623**	**84,526**

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 by 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.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; and
– 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.

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 of derivatives.

D.3 Other liabilities (continued)

D.3.4 Debts owed to credit institutions

Basis and methods for IFRS valuation
Debt owed to credit institutions includes bank overdraft and unpaid cheques.

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.3.5 Insurance and intermediaries payables

Basis and methods for IFRS valuation
Insurance and 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.3.6 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.

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 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.3.8 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; and
- 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; and
- The key controls and processes in place to ensure adherence to the policy.

The company's capital management policy includes the following qualitative and quantitative statements regarding managing the company's Own Funds:

- ***Board risk appetite:*** CA aims to minimise the risk of being unable to meet its regulatory capital requirements by maintaining a capital buffer above the regulatory capital requirements. The adequacy of the capital buffer is reviewed and tested as part of the ORSA each year by running a range of stresses and scenarios.
- ***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 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 with-profit 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 estimate 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.
- **Forecasts:** Year end forecasts are prepared during the latter half of the year. They are designed to provide management with insight as to how the year end solvency position could turn out under a range of scenarios.

Business planning

The company produces a three 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 five year projection period.

The most recent business plan, being the 2020 to 2022 plan, does not anticipate any material changes to the structure of Own Funds over the planning horizon.

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 2019 and 2018, including an analysis of any significant changes in each tier over the year:

	31 December 2018 £'000	Movement in year £'000	Transfers £'000	31 December 2019 £'000
Tier 1				
Ordinary share capital	40,000	–	–	40,000
Total ordinary share capital	**40,000**	**–**	**–**	**40,000**
Reconciliation reserve before deductions	150,407	51,869	(59,000)	143,276
Assets less liabilities	**190,407**	**51,869**	**(59,000)**	**183,276**
Foreseeable dividends	(59,000)	(32,000)	59,000	(32,000)
Restricted Own Funds in ring fenced funds	(5,672)	(14,816)	9,700	(10,788)
Total tier 1 Own Funds	**125,735**	**5,053**	**68,700**	**140,488**
SCR	**96,591**	**10,960**	**–**	**107,551**
Ratio of eligible Own Funds to SCR	**130.2%**			**130.6%**
MCR	**25,750**	**1,138**	**–**	**26,888**
Ratio of eligible Own Funds to MCR	**488.3%**			**522.5%**

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 2019, Own Funds increased by £51.9m before dividends, driven largely by a strong equity market performance over the year.
  - *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 2019, a capital transfer of £9.7m from with profit ring fenced funds (SPI £0.9m and SPP £8.8m) to the non-profit fund took place. This improved the capital position in the year. After the capital transfer, a further £10.8m of surplus arose in the ring fenced funds.
  - *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 2019 a £32.0m (2018: £59.0m) year-end dividend was approved. This is expected to be paid during the first half of 2020, and after the production of the full actuarial valuation at 31 March 2020. This payment is slightly later than is customary and reflects the need for prudence in light of the Covid-19 pandemic that emerged post year end.

Own Funds to cover SCR:

- The above table shows that the company, which only has tier 1 capital, has £140.5m (2018: £125.7m) of available Own Funds to be able to meet the company's SCR of £107.6m (2018: £96.6m), resulting in an SCR coverage ratio of 130.6% (2018: 130.2%).

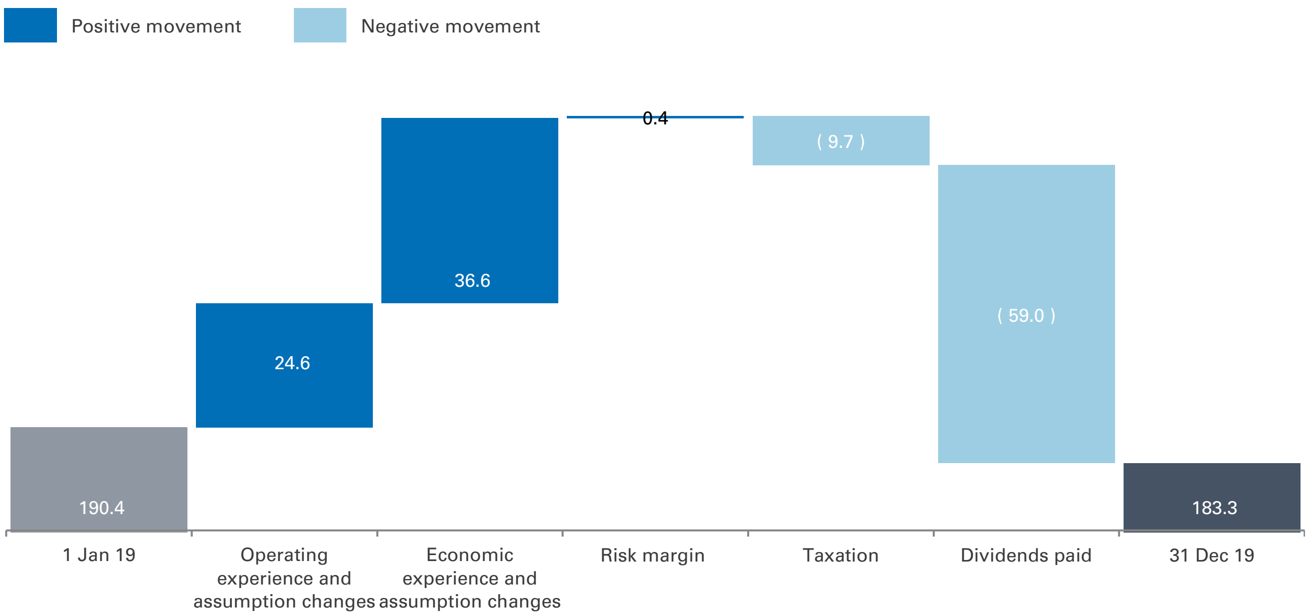
Own Funds to cover MCR:

- The above table shows that the company, which only has tier 1 capital, has £140.5m (2018: £125.7m) of available Own Funds to be able to meet the company's MCR of £26.9m (2018: £25.8m), resulting in a MCR coverage ratio of 522.5% (2018: 488.3%).

E.1 Own Funds (continued)

E.1.2 Analysis of Own Funds (continued)

The chart below analyses the movement in assets less liabilities during the year (in £m).



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

- **Operating experience and assumption changes:** This relates to how the underlying performance of the company differs to the expectations of that performance. The positive performance is driven from various sources including a reduction in assumed future costs (largely driven by reduced expected future investment management fees following a planned rationalisation of the investment managers that are currently used), a weakening in assumed annuitant mortality and a small change in lapse assumptions, and a review of other assumptions underpinning certain reserves. This has led to an overall reduction in technical provisions. Operating variances have been positive overall, with the release of contract boundaries contributing to the operating surplus in the year.
- **Economic experience and assumption changes:** This relates to the performance of assets and liabilities as a result of market factors, such as investment return on the assets that are held by the company. The positive performance is driven from various sources including a rise in equity markets over 2019 which increases the expected future value of fund-based charges, actual investment-income received over 2019 and the variation in value of non-linked and shareholder assets due to the fall in government and corporate bond yields. This was offset by the fall in the swap-based discount rates used in the calculation of technical provisions; as this causes the technical provisions to increase.
- **Risk margin:** This reflects the release of risk margin, which is partly driven by a reduction in capital requirements during the year and partly driven by improvements to the projection of capital requirements in the risk margin calculation. The fall in the swap-based discount rates used in the calculation also causes the Risk Margin itself to decrease.
- **Taxation:** This reflects the corporation tax as per the balance sheet.
- **Dividends paid:** This reflects the dividend that was paid during the year.

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 2018 and 31 December 2019:

	31 December 2019 £'000		31 December 2018 £'000	
Equity per the IFRS financial statements:				
Share capital	40,000		40,000	
Retained earnings	91,407		110,674	
Total equity as reported in the CA plc IFRS financial statements		**131,407**		**150,674**
Adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes:				
Adj 1: Net valuation difference between IFRS and SII for net technical provisions	61,013		46,328	
Adj 2: Removal of intangible assets included in IFRS valuation	(1,495)		(1,831)	
Adj 3: Adjustments to deferred tax	(10,603)		(8,254)	
Adj 4: Other adjustments	2,954		3,490	
Total adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes		**51,869**		**39,733**
Excess of assets over liabilities for solvency purposes (reconciliation reserve before deductions plus ordinary share capital):		**183,276**		**190,407**

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 2019 £'000	31 December 2018 £'000
Assets less liabilities	**183,276**	**190,407**
Adjustments for:		
Surplus in ring-fenced funds	(10,788)	(5,672)
Foreseeable dividends	(32,000)	(59,000)
Own Funds	**140,488**	**125,735**

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 2019, the surplus in each of these funds was: SPI - £0.1m (2018: £nil) and SPP – £10.7m (2018: £5.7m).

Foreseeable dividends

Solvency II requires dividends to be recognised as a deduction to Own Funds when they are "foreseeable". At 31 December 2019, a foreseeable dividend, representing the dividend which is planned to be paid during 2020, was recognised within the Solvency II valuation.

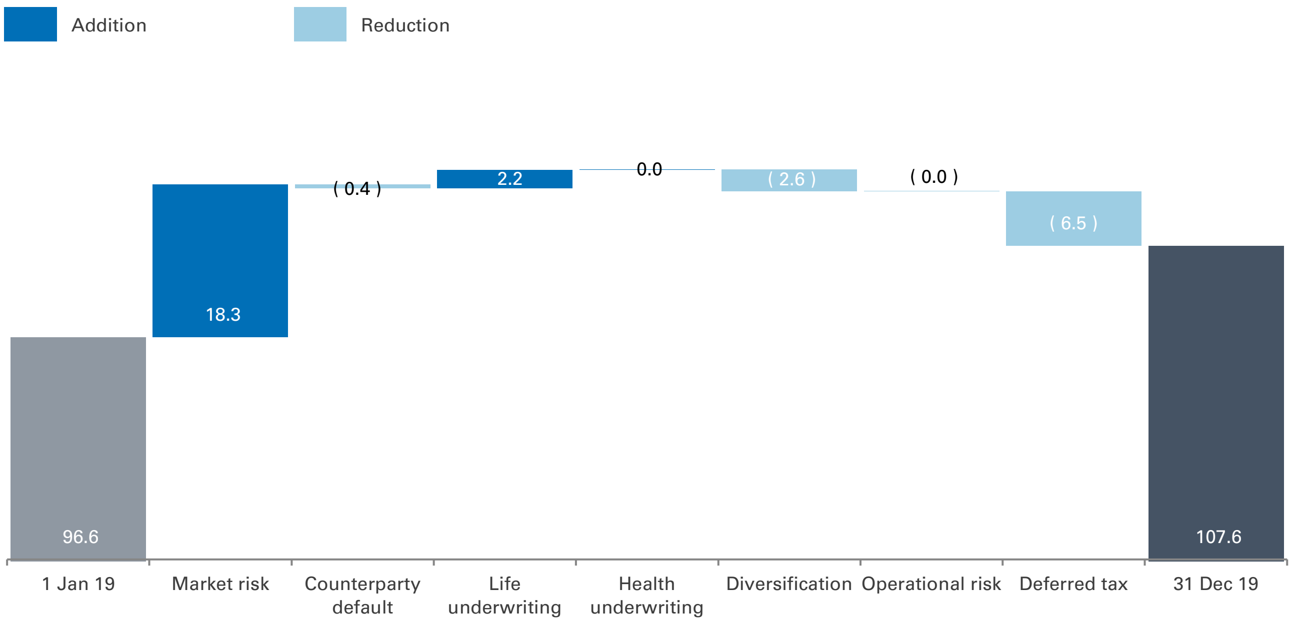
E.2 Solvency Capital Requirement and Minimum Capital Requirement

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 plc by the PRA.

The movement of SCR during the year (in £m)



SCR

	Note	31 December 2019 £'000	31 December 2018 £'000	Changes in the year £'000
Market risk	*1*	81,983	63,697	18,286
Counterparty default risk	*2*	8,094	8,514	(420)
Life underwriting risk	*3*	58,075	55,911	2,164
Health underwriting risk	*4*	9,160	9,127	33
Diversification	*5*	(34,648)	(32,058)	(2,590)
Basic Solvency Capital Requirement		**122,664**	**105,191**	**17,473**
Operational risk	*6*	3,775	3,798	(23)
Loss-absorbing capacity of deferred taxes	*7*	(18,888)	(12,398)	(6,490)
Solvency Capital Requirement excluding capital add-on		**107,551**	**96,591**	**10,960**
Solvency capital requirement		**107,551**	**96,591**	**10,960**
Notional SCR for remaining part:	*8*	**77,851**	**73,887**	**3,964**
Notional SCR for ring fenced funds	*9*	**29,700**	**22,704**	**6,996**

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

- **Note 1:** The rise in market risk is mainly due to a significant increase in equity risk, driven by a rise in equity markets over 2019, but also due to the impact of rationalising our fund management arrangements; future investment management fees are now expected to be lower and so there are more future profits to lose under stress. The rise in equity markets also has a knock-on impact on currency risk, owing to exposures in overseas equities; but 2019 has also seen an increase in Type 2 equity holdings, in particular within the SPP WP fund. The spread risk reduced mainly due to the sale of the SPNP holding in the Global Corporate Bond Fund.
- **Note 2:** The moderate reduction in the counterparty default risk is partly due to a reduction in cash and liquidity holdings and partly due to a small improvement in overall creditworthiness of those holdings.

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

E.2.1 SCR and MCR analysis (continued)

- **Note 3:** The rise in life underwriting risk capital is primarily due to a rise in mass lapse risk. This mainly stems from the rise in equity markets, which reduces the future profitability of unit-linked contracts, thereby reducing the future profits that are lost under a mass lapse shock; this dynamic was exacerbated by the recognition of the benefits expected to arise from rationalising our fund management arrangements (this reduces expected future investment management fees and so increases the future profits that are lost under stress.)
- **Note 4:** There has been a trivial rise in health underwriting risk capital, reflecting slight changes in the underlying component risks.
- **Note 5:** The absolute amount of the diversification benefit has increased as a consequence of the increase in the total risk capital for market risk, counterparty default risk, life underwriting risk & health underwriting risk.
- **Note 6:** The change in this metric is immaterial.
- **Note 7:** The loss-absorbing capacity of deferred taxes has increased since last year due to an increase in both the value of the deferred tax liability on the Solvency II balance sheet and the full-year taxable profits versus last year.
- **Note 8:** The increase in the notional SCR for the remaining part is attributable to the rise in market risk and underwriting risk.
- **Note 9:** The increase in the notional SCR for ring fenced funds is attributable to the rise in market risk.

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 2019 £'000	31 December 2018 £'000	Change in the year £'000
Linear MCR	*1*	25,759	25,750	9
SCR	*2*	107,551	96,591	10,960
MCR cap (45% of SCR)	*3*	48,398	43,466	4,932
MCR floor (25% of SCR)	*4*	26,888	24,148	2,740
Combined MCR	*5*	26,888	25,750	1,138
Absolute floor of the MCR (€3.7m)	*6*	3,187	3,288	(101)
Minimum Capital Requirement		**26,888**	**25,750**	**1,138**

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 slight increase shown above is the impact of a decrease in the BEL and the increase in 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 just below the MCR floor and so an adjustment to the linear MCR is required; Combined MCR is set equal to the MCR Floor as opposed to the linear MCR.
- **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 a slight weakening of GBP over 2019, the value of the absolute floor has decreased over the year.
- **Note 7:** The Minimum Capital Requirement is calculated as the higher of the Combined MCR and the Absolute Floor.

E.2.2 Loss absorbing capacity of deferred tax (LACDT)

The LACDT is 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. It is made up of three principal components:

- An allowance for the loss carryback from which CA plc would theoretically benefit by offsetting any tax losses arising from a significant loss event against taxable profits arising in the prior year;
- An allowance for any deferred tax liability held on the balance sheet, which could theoretically be offset against tax losses arising from a significant loss event; and
- An allowance for the tax offset on any other future expected profits not already captured in the deferred tax liability.

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'.
Cash generation	Cash generation is a measure of how much distributable surplus has been generated in the period, which supports the ability of the company to pay its dividends. It is driven by the change in solvency surplus, taking into account board-approved capital management policies.
CWA	City of Westminster Assurance Company Limited
Delegated Acts	Delegated Act: Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.
EcV	Economic Value (EcV) is deemed to be a more meaningful measure of the long term value of the company and it generally approximates to Embedded Value reporting, which was used before the introduction of SII. In essence, the IFRS balance sheet is not generally deemed to represent a fair commercial value of our business as it does not fully recognise the impact of future profit expectations of long term policies. EcV is derived from Solvency II Own Funds and recognises the impact of future profit expectations from existing business.
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.
LGD	Loss given default.
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.
NED	Non-Executive Director
nSCR	Notional Solvency Capital Requirement
ORSA	Own Risk and Solvency Assessment
OSP	Outsource Service Provider

F. GLOSSARY OF TERMS

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.
QRT	Quantitative Reporting Template
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
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
SLT	Similar to Life insurance Techniques
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)	610,473,757
R0080	Property (other than for own use)	
R0090	Holdings in related undertakings, including participations	
R0100	Equities	
R0110	Equities - listed	
R0120	Equities - unlisted	
R0130	Bonds	324,827,086
R0140	Government Bonds	303,159,131
R0150	Corporate Bonds	21,250,526
R0160	Structured notes	
R0170	Collateralised securities	417,429
R0180	Collective Investments Undertakings	266,291,132
R0190	Derivatives	1,953,215
R0200	Deposits other than cash equivalents	17,402,324
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	1,808,250,791
R0230	Loans and mortgages	
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	
R0270	Reinsurance recoverables from:	155,418,293
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	104,975,255
R0320	Health similar to life	(232,189)
R0330	Life excluding health and index-linked and unit-linked	105,207,444
R0340	Life index-linked and unit-linked	50,443,038
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	1,716,474
R0370	Reinsurance receivables	24,694,049
R0380	Receivables (trade, not insurance)	7,251,034
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	11,425,063
R0420	Any other assets, not elsewhere shown	837,053
R0500	**Total assets**	**2,620,066,515**

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)	741,168,484
R0610	Technical provisions - health (similar to life)	217,002,328
R0620	TP calculated as a whole	216,740,491
R0630	Best Estimate	(3,532,365)
R0640	Risk margin	3,794,202
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	524,166,156
R0660	TP calculated as a whole	
R0670	Best Estimate	513,419,676
R0680	Risk margin	10,746,480
R0690	Technical provisions - index-linked and unit-linked	1,607,237,371
R0700	TP calculated as a whole	1,621,124,698
R0710	Best Estimate	(27,941,538)
R0720	Risk margin	14,054,211
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	34,097
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	10,947,450
R0790	Derivatives	365,229
R0800	Debts owed to credit institutions	1,191,148
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	59,980,720
R0830	Reinsurance payables	527,268
R0840	Payables (trade, not insurance)	15,339,173
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**2,436,790,940**
R1000	**Excess of assets over liabilities**	**183,275,575**

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

Life		Line of Business for: life insurance obligations				Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0270	C0280	C0300
	Premiums written							
R1410	Gross	12,309,337	1,435,108	12,740,446	23,590,497			50,075,388
R1420	Reinsurers' share	1,354,079	108,471	1,940,565	14,727,886			18,131,001
R1500	Net	10,955,258	1,326,637	10,799,881	8,862,611			31,944,387
	Premiums earned							
R1510	Gross	12,309,337	1,435,108	12,740,446	23,590,497			50,075,388
R1520	Reinsurers' share	1,354,079	108,471	1,940,565	14,727,886			18,131,001
R1600	Net	10,955,258	1,326,637	10,799,881	8,862,611			31,944,387
	Claims incurred							
R1610	Gross	32,748,198	16,794,140	187,942,158	27,924,155			265,408,651
R1620	Reinsurers' share	1,036,132	29,289	7,730,055	18,013,074			26,808,550
R1700	Net	31,712,066	16,764,851	180,212,103	9,911,081			238,600,101
	Changes in other technical provisions							
R1710	Gross	(24,680,208)	(17,720,356)	(12,528,827)	109,083,505			54,154,114
R1720	Reinsurers' share	2,465,334	1,573,203	(19,237,207)	(2,403,605)			(17,602,275)
R1800	Net	(27,145,542)	(19,293,559)	6,708,380	111,487,110			71,756,389
R1900	**Expenses incurred**	2,024,576	2,127,564	7,647,852	9,702,039			21,502,031
R2500	**Other expenses**							2,047
R2600	**Total expenses**							21,504,078

S.05.02.01 - Premiums, claims and expenses by country

		Home Country	Total Top 5 and home country
		C0220	C0280
	Premiums written		
R1410	Gross	50,075,388	50,075,388
R1420	Reinsurers' share	18,131,001	18,131,001
R1500	Net	31,944,387	31,944,387
	Premiums earned		
R1510	Gross	50,075,388	50,075,388
R1520	Reinsurers' share	18,131,001	18,131,001
R1600	Net	31,944,387	31,944,387
	Claims incurred		
R1610	Gross	265,408,651	265,408,651
R1620	Reinsurers' share	26,808,550	26,808,550
R1700	Net	238,600,101	238,600,101
	Changes in other technical provisions		
R1710	Gross	54,154,114	54,154,114
R1720	Reinsurers' share	(17,602,275)	(17,602,275)
R1800	Net	71,756,389	71,756,389
R1900	**Expenses incurred**	21,502,031	21,502,031
R2500	**Other expenses**		2,047
R2600	**Total expenses**		21,504,078

S.12.01.02 - Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other Life insurance			Accepted reinsurance	Total (Life other than health insurance, including unit-linked)	Health insurance (direct business)			Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
				Contracts without options and guarantees	Contracts with options and guarantees		Contracts without options and guarantees	Contracts with options and guarantees				Contracts without options and guarantees	Contracts with options and guarantees		
		C0020	C0030	C0040	C0050	C0060	C0070	C0080		C0150	C0160	C0170	C0180		C0210
R0010	**Technical provisions calculated as a whole**		1,621,124,698							**1,621,124,698**	216,740,491				**216,740,491**
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		53,603,427							**53,603,427**					
	Technical provisions calculated as a sum of BE and RM														
	Best estimate														
R0030	**Gross Best Estimate**	312,745,882			(27,941,538)		64,909,731	135,764,063		**485,478,138**		450,945	(3,983,310)		**(3,532,365)**
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	37,297,289			(3,160,389)			67,910,156		**102,047,055**		113,080	(345,269)		**(232,189)**
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	275,448,593			(24,781,149)		64,909,731	67,853,907		**383,431,083**		367,787	(3,638,041)		**3,300,176**
R0100	**Risk margin**	2,158,633	14,054,211			8,587,848				**24,800,691**	3,794,202				**3,794,202**
	Amount of the transitional on Technical Provisions														
R0110	Technical Provisions calculated as a whole														
R0120	Best estimate														
R0130	Risk margin														
R0200	**Technical provisions - total**	**314,905,514**	**1,607,237,370**			**209,261,642**				**2,131,403,527**	**217,002,328**				**217,002,328**

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	100,487,114	100,487,114			
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve					
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above					
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	140,487,114	140,487,114			
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	140,487,114	140,487,114			
R0510	Total available own funds to meet the MCR	140,487,114	140,487,114			
R0540	Total eligible own funds to meet the SCR	140,487,114	140,487,114			
R0580	**SCR**	107,551,737				
R0600	**MCR**	26,887,684				
R0620	**Ratio of Eligible own funds to SCR**	130.6%				
R0640	**Ratio of Eligible own funds to MCR**	522.5%				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	183,275,573				
R0710	Own shares (held directly and indirectly)					
R0720	Foreseeable dividends, distributions and charges	32,000,000				
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	10,788,460				
R0760	Reconciliation reserve	100,487,114				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	141,501,068				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	Total Expected profits included in future premiums (EPIFP)	141,501,068				

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

		Gross solvency capital requirement	USP	Simplifications
		C0030	C0080	C0090
R0010	Market risk	81,982,739		
R0020	Counterparty default risk	8,093,715		
R0030	Life underwriting risk	58,075,130		
R0040	Health underwriting risk	9,160,036		
R0050	Non-life underwriting risk			
R0060	Diversification	(34,648,120)		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	117,767,631		
	Calculation of Solvency Capital Requirement			
R0130	Operational risk	3,775,475		
R0140	Loss-absorbing capacity of technical provisions			
R0150	Loss-absorbing capacity of deferred taxes	(18,888,238)		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200	**Solvency Capital Requirement excluding capital add-on**	107,550,737		
R0210	Capital add-ons already set			
R0220	**Solvency capital requirement**	107,550,737		
	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	77,850,799		
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	29,699,938		
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
R0440	Diversification effects due to RFF nSCR aggregation for article 304			

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	MCRNL 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	25,759,435

		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	232,505,290	
R0220	Obligations with profit participation - future discretionary benefits	42,943,303	
R0230	Index-linked and unit-linked insurance obligations	1,542,740,122	
R0240	Other life (re)insurance and health (re)insurance obligations	346,203,953	
R0250	Total capital at risk for all life (re)insurance obligations		1,886,182,369

	Overall MCR calculation	
R0300	Linear MCR	25,759,435
R0310	SCR	107,550,737
R0320	MCR cap	48,397,832
R0330	MCR floor	26,887,684
R0340	Combined MCR	26,887,684
R0350	Absolute floor of the MCR	3,186,921
R0400	**Minimum Capital Requirement**	26,887,684