

# Sovereign Health Care

## Solvency and Financial Condition Report (SFCR)

Version: 2017

Date: 19 April 2018

Any communication concerning this document should be addressed to:

Finance Director  
Sovereign Health Care  
Royal Standard House  
26 Manningham Lane  
Bradford  
West Yorkshire  
BD1 3DN

**Key Document Summary**

|                        |                                    |
|------------------------|------------------------------------|
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| <b>Approved by</b>     | Board                              |
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## 1. COMPANY DETAILS

|                         |  |
|-------------------------|--|
| Company Number :        | 00085588   |
| Firm Reference Number : | 202818   |
| Registered Office :     | Royal Standard House<br>26 Manningham Lane<br>Bradford<br>West Yorkshire<br>BD1 3DN  |
| Registered Auditors :   | KPMG LLP<br>1 Sovereign Square<br>Sovereign Street<br>Leeds<br>West Yorkshire<br>LS1 4DA   |
| Bankers :               | Svenska Handelsbanken, AB<br>1 <sup>st</sup> Floor<br>Centre of Excellence<br>Hope Park<br>Bradford<br>BD5 8HH   |
| Solicitors :            | Gordons LLP<br>Piccadilly House<br>8 Duke Street<br>Bradford<br>BD1 3QX  |
| Investment Managers :   | Dewhurst Torevell & Co Limited<br>5 Oxford Court<br>Manchester<br>M2 3WQ   |
| Internal Audit :        | Naylor Wintersgill<br>Carlton House<br>Grammar School Street<br>Bradford<br>BD1 4NS  |
| Regulators :            | Prudential Regulation Authority<br>20 Moorgate<br>London<br>EC2R 6DA<br><br>Financial Conduct Authority<br>25 The North Colonnade<br>London<br>E14 5HS |



## 2. INTRODUCTION

Sovereign Health Care's SFCR is both a forward and backward looking document which demonstrates how Sovereign's Board of Directors has identified and assessed the Company's risks and capital requirements. It summarises the Board's agreed understanding of Sovereign's risk profile and the processes and measures taken to ensure that we have in place the necessary controls, which are proportionate, to the nature, scale and complexity of the risks inherent to the business.

The document details the Company's risk appetite, i.e. the level of risk that the Board has agreed is appropriate, how the identified risks are viewed and managed and the regulatory requirements related to ensure the Company has sufficient financial strength to meet its obligations and the controls in place to safeguard the retained capital within the business.

This document gives a clear insight into the regulatory requirement for the holding of capital and the position of the business in relation to these requirements.

The SFCR is an integral part of understanding the business from an external perspective, and will be updated in accordance with the regulatory requirements to reflect any significant change in our risk profile, capital position, capital management or systems of governance.

The document covers the legal group as a whole, comprising :

Sovereign Health Care – a company limited by guarantee, and its subsidiaries (directly owned and UK based)

- Sovereign Health and Insurance Services Limited – Third party product sales
- Sovereign Assured Partners Limited – Introducer Appointed Representative
- Brentserve Limited – Property owner and management company

## 3. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulation Authority (PRA) rules and SII regulations.

The PRA Rulebook for SII firms in Rule 6.1(2) and Rule 6.2(1) of the Reporting Part requires that the Company must have in place a written policy ensuring ongoing appropriateness of any information disclosed and that the Company must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Report and Accounts, confirm that, to the best of their knowledge :

1. Throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable; and
2. It is reasonable to believe that, as at the date of the publication of the SFCR, the Company continues to comply, and will continue so to comply in future.

By Order of the Board on 2<sup>nd</sup> May 2018.



Russ Piper  
Chief Executive

## 4. AUDITORS' REPORT AND OPINION

**Report of the external independent auditor to the Directors of Sovereign Health Care ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms**

### **Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report**

#### **Opinion**

Except as stated below, we have audited the following documents prepared by Sovereign Health Care as at 31 December 2017:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of Sovereign Health Care as at 31 December 2017 ('the **Narrative Disclosures subject to audit**'); and
- Company templates S02.01.02, S17.01.02, S23.01.01, S25.01.21 and S28.01.01 ('the **Templates subject to audit**').

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;
- Company templates S05.01.02, S05.02.01, S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('the **Responsibility Statement**').

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of Sovereign Health Care as at 31 December 2017 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), including ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Emphasis of Matter – special purpose basis of accounting**

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



### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you if:

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

### **Other Information**

The Directors are responsible for the Other Information.

Our opinion on the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Directors for the Solvency and Financial Condition Report**

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report**

It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## Report on Other Legal and Regulatory Requirements

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

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

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

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



*Andrew Jones for and on behalf of KPMG LLP*

*1 Sovereign Square, Sovereign Street, Leeds, LS1 4DA*

*2 May 2018*

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

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

### Solo standard formula

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

- The following elements of template S.17.01.02
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions

## 5. OBJECTIVES OF THE SFCR

The SFCR is a public document and a requirement of the Solvency II EU directive and formalises the performance of the business for the year under review, combined with explaining the practical and prudent way in which risk and capital are managed within Sovereign Health Care (Sovereign) as part of the business strategy and risk management system. Whilst Sovereign enjoys a significant excess of capital compared to the required solvency level, the SFCR shows the key business risks are understood by the Board, monitored regularly within the context of the Company's risk appetite, and that sufficient capital is allocated against those risks identified and how the value of capital is determined for Solvency purposes.

The SFCR is both a forwards and backwards looking document. The SFCR is designed to allow interested parties to understand Sovereign's historical performance, the specific risks the business faces, how it views and manages these risks and the value of the business as measured under the Solvency requirements.

We have designed Sovereign's SFCR process to ensure that it is tailored to reflect the Company's business model, organisational structure and the risks faced by Sovereign in a proportionate manner.

The Minimum Capital Requirement (MCR) is the minimum level of security below which the amount of financial resources should not fall. When the amount of eligible basic own funds falls below the Minimum Capital Requirement, the authorisation of insurance and reinsurance undertakings may be withdrawn, if those undertakings are unable to re-establish the amount of eligible basic own funds at the level of the MCR within a short period of time. It is necessary that the MCR is calculated in accordance with a simple formula, on the basis of data which can be audited.

The Solvency Capital Requirement (SCR) should reflect a level of eligible own funds that enables the Company to absorb significant losses and that gives reasonable assurance to policyholders and beneficiaries that payments will be made as they fall due.

In order to promote good risk management, and align regulatory capital requirements with industry practices, the SCR should be determined as the economic capital to be held by insurance and reinsurance undertakings in order to ensure that they are able to withstand the shock from costs associated with an event once every 200 years.

That economic capital should be calculated on the basis of the true risk profile of those undertakings, taking account of the impact of possible risk mitigation techniques, as well as diversification effects.

The quantitative requirements applicable to the Company ("Pillar I" of the Solvency II framework) are laid down in six sections:

- Valuation of assets and liabilities
- Technical provisions
- Own funds
- Solvency Capital Requirement
- Minimum Capital Requirement
- Investments.

The Pillar I requirements are based on an economic total balance sheet approach. This approach relies on an appraisal of the whole balance-sheet of the Company, on an integrated basis, where assets and liabilities are valued consistently.

Such an approach implies that the amount of available financial resources of insurance and reinsurance undertakings should cover its overall financial requirements, i.e. the sum of un-subordinated liabilities and capital requirements.



## 6. BUSINESS AND PERFORMANCE

Sovereign Health Care was founded in 1873 as the Bradford and District Hospital Fund with the purpose of raising funds for local hospitals. Whilst it has evolved over the years, we remain a not for profit/not for dividend provider of health care cash plans to around 75,000 individuals. The range of health cash plans are low cost, monthly renewable policies with the purpose of financially supporting our customers when they incur everyday health care costs.

In addition to the provision of cash plans to individuals, Sovereign has signed key strategic partnerships with carefully selected third party providers of complementary products in order to expand the benefit offering to the current and future customer base.

The businesses, UK only, core operations and profitability remain firmly based in cash plans. Sovereign offer a number of products which generally fall into two types of schemes which are either funded by individuals from their own means or provided by employers.

The Health Care Cash Plan gives access to over 20 types of benefit, with cover for dental and optical treatment being the most popular. In all cases the person covered by the policy benefits is regarded as the policyholder, regardless of who pays the premium.

All our health cash plans are community and linear priced where we are providing the actual benefit. This means customers are not disadvantaged by age, health history, occupation or opaque underwriting methods. We encourage our customers to use their health cash plans and over the past 3 years we have paid out annually an average of in excess of £7.1m in benefits to our customers.

Policyholders use their plan by arranging and receiving specific types of everyday health care treatment, settling the bill and if covered by the cash plan submitting the receipt and claim form to us for reimbursement of a percentage of the costs incurred (product dependent 50%-100%) up to their relevant cover level limit.

The business employs approximately 50 people and all have the objective to provide customers with the best possible service and value for money. Because we do not have shareholders we aim to give back in benefits as much as possible, but recognise for long term sustainability the amount we return needs to reflect upon our operating expenses and overall income. As is traditional for the business, we donated just less than £500,000 to charitable causes during 2017. For future periods we intend to keep the level of charitable donations at a minimum level of £500,000.

The business is aware of the ever increasing regulatory burden and the associated costs incurred in response to ensure compliance. These costs have been of particular note in the 2017/18 operating and budget cycle.

The company acknowledges the cost pressures being placed upon it, and is actively engaged in looking at a range of solutions to mitigate this, albeit within the framework of remaining an independent entity. For example, should the opportunity arise where the company can consider options to share some common back office costs these will be considered, as long as they meet the requirements of reducing the compliance related policy servicing costs. The focus for 2017 has been to deliver a stable and cost effective operational platform that builds on the implementation of the recently launched policy administration system. Whilst building our online capability in relation to policyholder self-service. In addition we have looked to develop internal process and procedural improvements that allows the company to make a step change in growth while achieving economies of scale in the supporting back office functions, rather than a related policy servicing cost increase.

The current route to delivering a reduction in the ongoing service costs and provide a competitive advantage in the market place is through continued investment in our technological solutions. To date this investment has delivered a new policy administration system, new IT hardware platform, more robust disaster recovery and

planning and a new accounting platform. In 2017 we have further built on the historical investment in systems with transition to in-house hosting of all key systems, improvements in our claims processing methodology, insurance processing platform availability and robustness improvements, delivery of a new hosted website and joining capability. This is combined with significant steps towards the availability of our on-line self service customer portal, a corporate portal and improvements within our operations from a staff website. Our improvements and investment are all aimed to allow a customer the choice in how they wish to deal with Sovereign and for Sovereign to deal with any and all enquires in as efficient manner as possible.

The investment in systems will deliver multiple benefits to the company including improvements in costs, efficiency and customer service leading to successful customer retention activity. Additionally, better use of data will allow the company to achieve targeted marketing campaigns based upon customer behaviour and preferences. These developments whilst initially viewed as a defensive measure in retaining our existing core book of business, will also deliver the ability to meet increased demands but in a cost efficient manner and without a proportional increase in operating costs. The ability to grow through a chosen strategic direction with confidence that the back office can support without significant change or enhancement, will place the company in a position of considerable strength moving forwards.

The development of system capability and flexibility will also allow for products and services to be provided with selected partners on a white label basis. Historically this type of arrangement, whilst generating additional income, would also lead to changes of operational procedure and a likely increase in costs. When this arrangement can be absorbed into a business as usual scenario, it will allow for overall per policy servicing costs to fall and address the issues of expenses creep caused by the cost of change and increased regulation. We will also safeguard our core business operating and distribution models to ensure the provision of products on a white label basis do not naturally compete with our own offering.

When developing the infrastructure, systems and data capabilities of the business we have been careful to consider the requirements that will arise with the implementation of the General Data Protection Regulation (GDPR) on 25 May 2018 and ensure all solutions can support the requirements in relation to handling and utilisation of data combined with the appropriate data subject consent requirements.

The Board of the company are keen to remain focused on the areas where the company has expertise and not expand beyond our knowledge or capability, as such Sovereign will continue to focus on the provision of good value, simple, easy to use cash plans within the UK market.

Sovereign, as previously noted, is a company limited by guarantee and has no single controlling shareholders. The ownership of the company is split amongst the Board in equal shares, with the memorandum and articles of association of the company determining the operation of the model of control.

## Performance

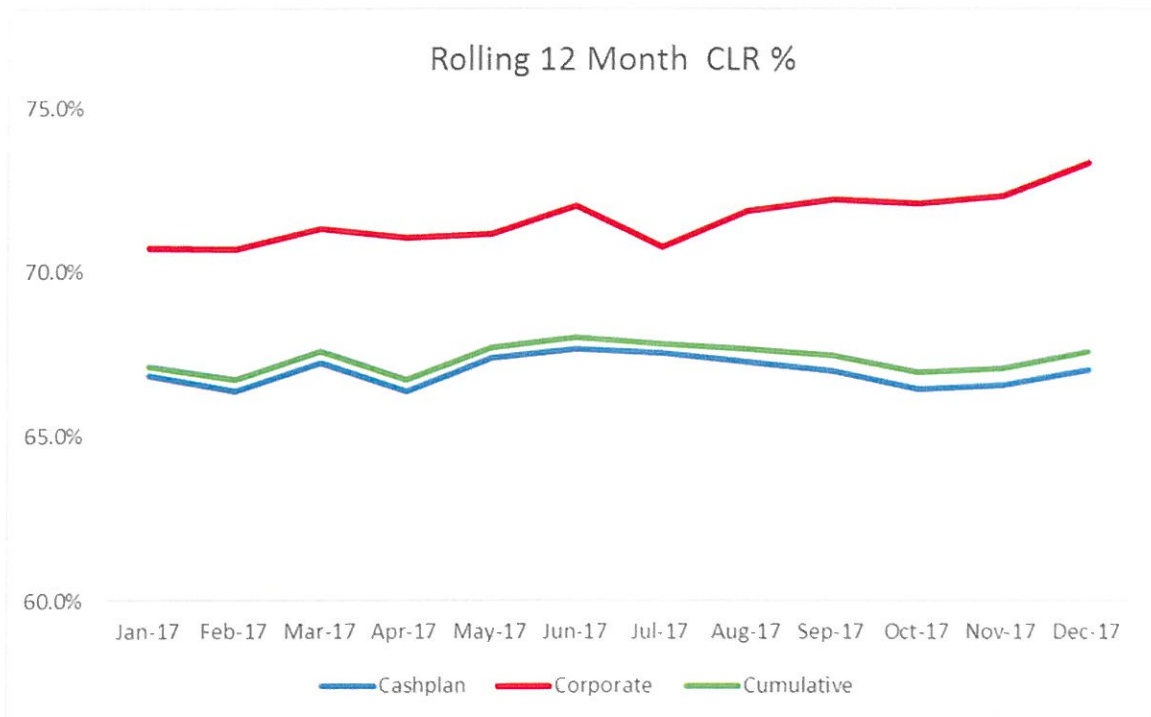
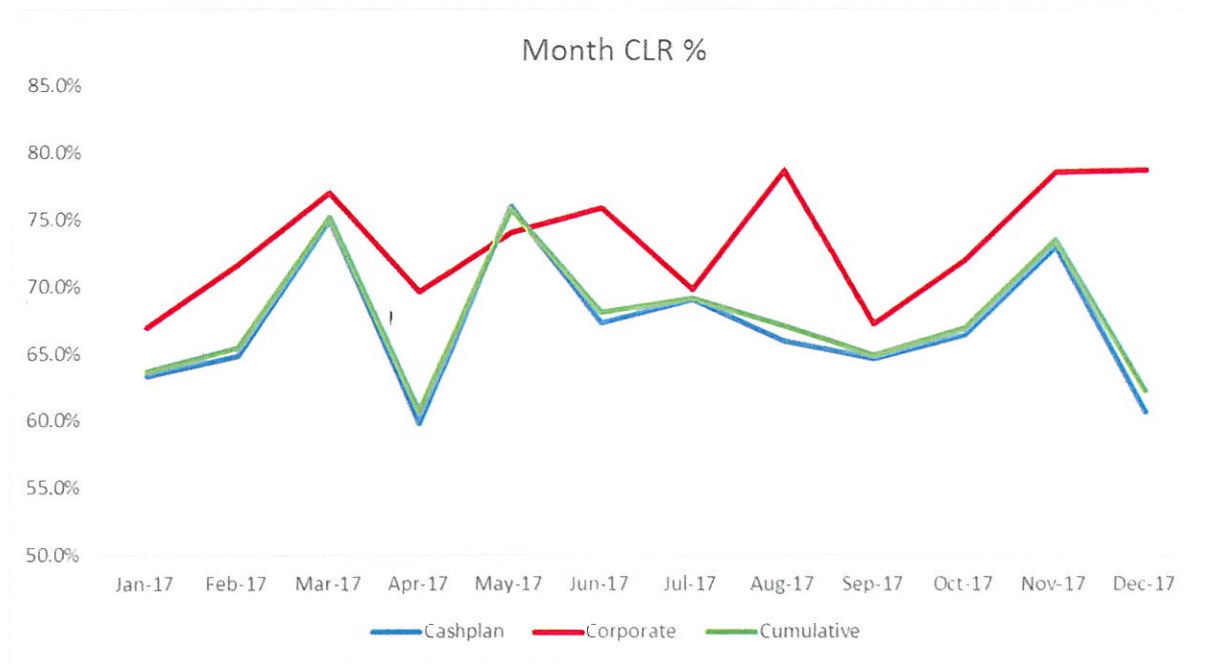
For the year ended 31 December 2017 the consolidated Sovereign Health Care statutory results show an overall pre-tax profit of just over £4.3m (2016 : £8.0m), the net underwriting result shows a loss for the year of £393k (2016 : £97k profit). This loss includes an investment of £663k (2016 : £198k) in technology improvements in the year that have been charged to the income account. The significant non-technical income for the year of £5,199k (2016 : £8,426k) related to the performance, both realised and unrealised, of the historical wealth retained by the company. The company remains mindful that market gains can quickly be lost should circumstances move against the investment stance taken by the business and as a result we look to ensure that the underlying business remains profitable and self-supporting.

The volume and value of claims remains the key factor in the overall underwriting performance of the business, with the claims loss ratio ("CLR") being the key measure identified of monitoring the both the individual books of business and the overall insurance book. The CLR is the ratio of claims paid to policyholders compared to the total value of premiums received from policyholders.

|   | <b>2017</b>   | <b>2016</b>   |
|---|---------------|---------------|
|   | <b>£000's</b> | <b>£000's</b> |
| <b>Earned Income</b>                                  |               |               |
| Net Written Premiums                                  | 10,764        | 10,605        |
| Net Commissions Received                              | 70            | 92            |
| <b>Claims incurred</b>                                |               |               |
| Net Claims Paid                                       | (7,283)       | (7,057)       |
| Net operating expenses                                | (3,944)       | (3,543)       |
| <b>Underwriting Result</b>                            | <b>(393)</b>  | <b>97</b>     |
| Investment Income - Net                               | 1,095         | 1,194         |
| Interest payable                                      | (2)           | -             |
| Realised profits on investments                       | 3,887         | 2,166         |
| Unrealised gains/(losses) on investments              | 219           | 5,066         |
| Charitable donation                                   | (485)         | (501)         |
| <b>Surplus on ordinary activities before taxation</b> | <b>4,321</b>  | <b>8,022</b>  |



The CLR by book type is detailed below. Please note that the Cumulative analysis shown below includes all books of business rather than just the two main cash plan and corporate plan books that are shown separately below.



## 7. SYSTEM OF GOVERNANCE

The Board is the governing body of the Company and establishes, monitors and controls a framework of prudential controls to advance the Company in its objectives. Generally, the Board ensures that the Company acts in accordance with prudent commercial principles, high ethical standards and otherwise strives to meet stakeholder expectations through maximising long-term value. The Board has delegated authority for the day to day operational management of the Company to the Executive team.

The responsibilities and functions of the Board include:

- Input into, and final approval of, the corporate strategy, including setting performance objectives and approving business plans and budgets
- Reviewing and guiding systems of risk management, internal control, ethical practice and legal compliance
- Monitoring both corporate performance and implementation of strategies and policies
- Approving major capital expenditure, leases, acquisitions, divestitures and monitoring capital management
- Ensuring suitability and integrity of both financial and all other reporting
- Ensuring suitability of policies and processes in important areas, including occupational safety and health, environment and legal compliance
- Enhancing and protecting the reputation of the Company

Matters which are specifically reserved for the Board include:

- Appointment and remuneration of the Chair
- Appointment and remuneration of Directors
- Establishment of Board committees and determining their membership and delegated authorities

To support Board effectiveness and efficiency, the Board has established the following committees:

- Finance and Remuneration committee
- Audit and Risk committee
- Sales and Marketing committee
- Compliance and Governance committee
- Community funding committee
- Systems and IT committee

Terms of Reference for each committee have been adopted by the Board. The Terms of Reference of each committee and their membership are reviewed annually by the Board.

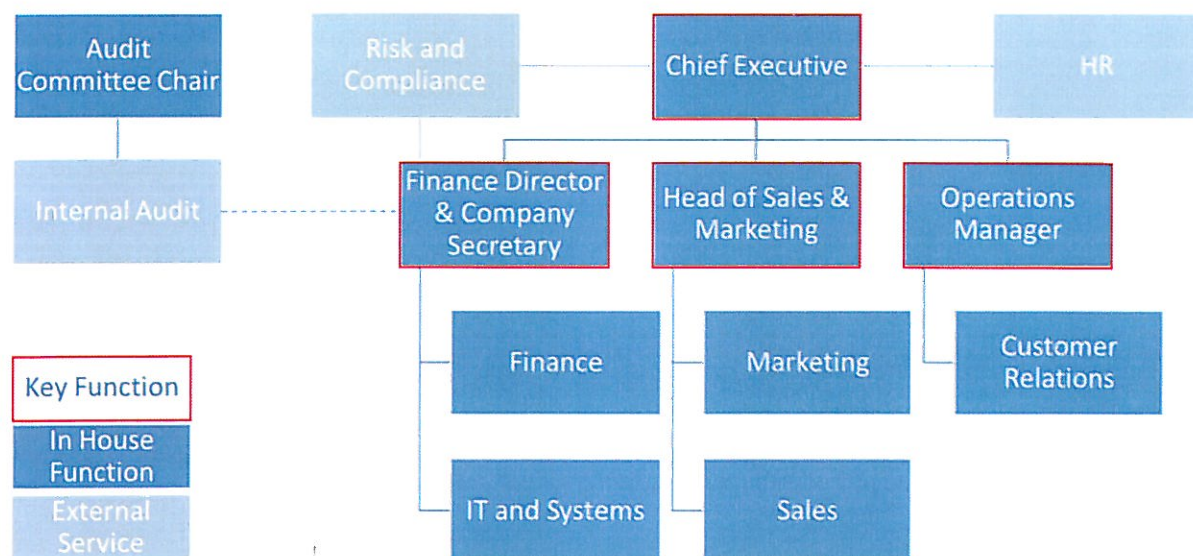
## Board Remuneration

The Company operates a flat rate of remuneration for all non-executive Board members with no variable element. Executive Board members remuneration is determined by their individual contracts of employment. In response to the issuance of guidance on the relative levels of senior individuals within the Companies relative levels of fixed and/or variable remuneration the Company has in 2017 adjusted the bonus scheme and annual salaries of the appropriate employees in order that the variable element would be in line with the appropriate guidance.

The flat rate relative to non-executive directors provides simplicity and clarity on the levels of remuneration for the business. The Standard rate of remuneration is augmented for specific duties undertaken by non-executive members of the Board and the list of these additional duties eligible for remuneration may vary from time to time. A flat rate allowance for duties outside of the scope of individual roles and responsibilities has been agreed and is operated on a per day basis. Any variation would be subject to review and agreement by the Finance and Remuneration committee for presentation to the Board as a whole. Currently the roles of Chair of the Board and Chair of the Industry body (now defunct) receive an additional remuneration allowance.

## Fit and Proper Requirements

The 'Fit and proper' requirement is the standard required by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) when appointing controlled function holders. Sovereign applies the same requirements when appointing those who effectively run the undertaking or have other key functions. The Company is satisfied that compliance with the framework is sufficient to ensure that individuals fulfilling controlled functions meet all relevant regulatory requirements. The framework is regularly reviewed to ensure that it will meet all the current requirements (as introduced by the PRA's Senior Insurance Managers Regime (SIMR)) and any subsequent changes in the regulatory requirements. The company's key functions and internal structure are shown below :



The Compliance function adopts appropriate systems and controls in the registration of individuals across the Company ensuring that identified individuals meet the regulators' fit and proper criteria at the point of registration and subsequently, including but not limited to external verification process and internal assessment. In addition, registered and notified individuals are required to complete an annual attestation confirming that the Fit and Proper Requirements have been maintained and that they continue to adhere to the Conduct Standards.

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

The ORSA document provides a key pillar to the overall control and understanding of the business from the perspective of the Board.

The ORSA is updated on an annual basis, for approval in the first half of the year following the period in to which it refers, i.e. the 31 December 2017 ORSA will be reviewed and approved by the Board prior to 30 June 2018.

The ORSA process will act as a trigger for management actions which the Board will review and authorise as required. Where risks are identified that are beyond the company's risk appetite, as detailed in the risk tolerance summary, actions should be undertaken to bring these back within the defined acceptable levels. It is recognised that additional capital will not reduce the risk, it will only provide a financial buffer while management actions are sought to deal with the risks identified. Sovereign's risk management framework continues to evolve through enhanced modelling, monitoring and feedback and provides the basis for the Board's calculation of its own capital requirements within the business.

Ongoing monitoring of the key items highlighted within the ORSA forms part of Sovereign's Board meetings. However, it should be noted that the monitoring of risk and the management of the risks is built into the operations of the Company. Any deficiencies highlighted through this continual monitoring will be brought to the attention of the Executives for action, and where required the Board will be informed and/or asked to approve any resulting action where this falls outside of the current levels of delegated authority.

## **Internal Controls**

The Board view an effective system of internal control as a key mechanism by which they discharge their fiduciary responsibilities.

Sovereign believes that a sound system of internal control helps safeguard Sovereign's assets by facilitating safe, reliable and efficient operations, by assisting us to comply with applicable laws and regulations, and by helping us ensure the reliability of our internal and external reporting.

All members of Sovereign's staff have a responsibility to ensure the effective application of internal controls in their areas of responsibility and to act in a way that safeguards our assets from loss, inappropriate use and fraud.

In addition Article 46 of the Solvency II directive requires:

“Insurance and reinsurance undertakings shall have in place an effective internal control system. This system shall at least include administrative and accounting procedures, an internal control framework, and appropriate reporting arrangements at all levels of the undertaking and a compliance function. “

The Board believes that sound internal control and corporate governance is best achieved by processes firmly embedded within Sovereign's operations. Reviewing the effectiveness of internal control is an essential part of the Board's responsibilities while management is accountable to the Board for developing, operating and monitoring the system of internal control and for providing assurance to the Board that it has done so.

The Board has agreed that aspects of its internal control review work shall be delegated to the Finance and Remuneration Committee, the Risk and Audit Committee and the Compliance and Governance Committee. Each committee shall report back to the Board who will decide on the adequacy of the committee's review. It is the Board's responsibility to establish the terms of reference of each committee.

In determining the Sovereign Policies and Procedures and thereby providing what constitutes Sovereign's system of internal control the Board considers the following factors :

- The Business Principles and related objectives

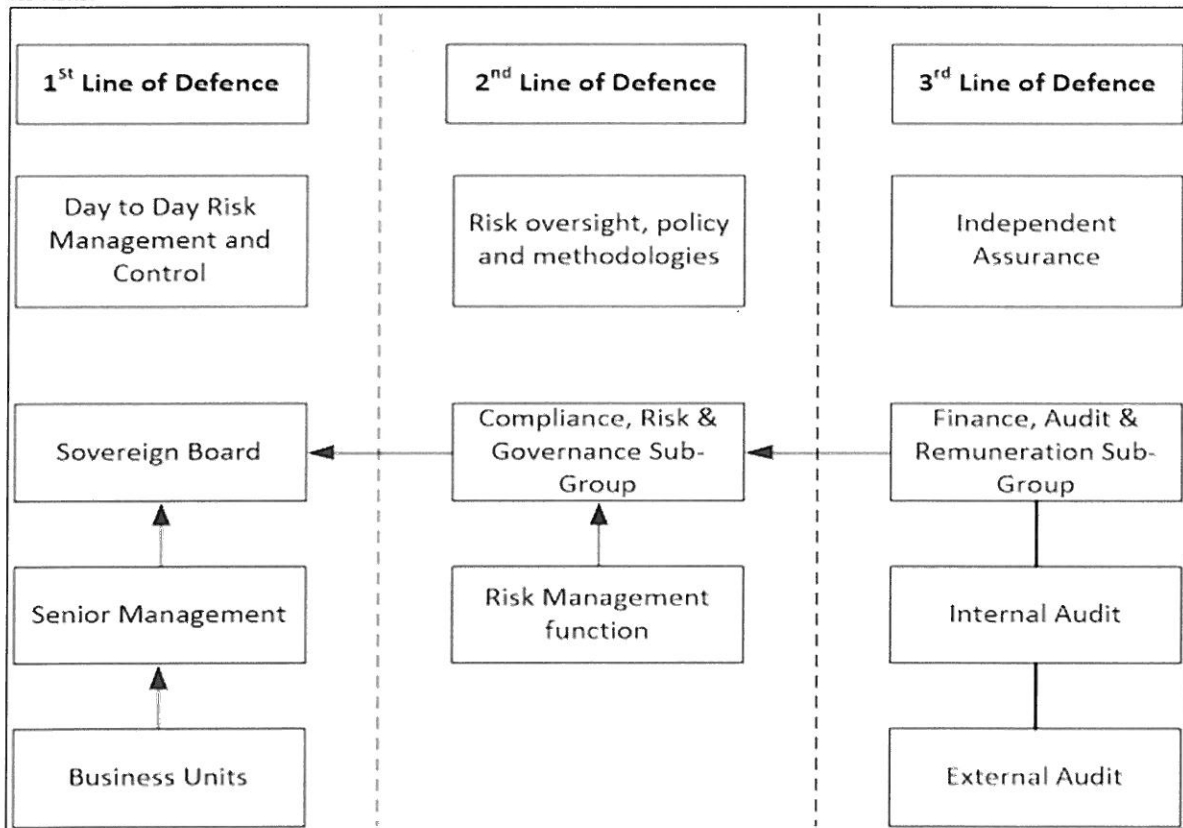


- The nature and extent of the risks facing the Company
- The extent and categories of risk which it regards as acceptable to bear
- The likelihood of the risks concerned materialising
- Sovereign's ability to reduce the incidence and impact on the business of risks that do materialise
- The costs of operating particular controls relative to the benefit thereby obtained in managing the related risks

Sovereign retain the services of an internal audit function in order that an independent third party view on the operation of key controls and the oversight of key service providers is maintained with the necessary levels of rigour. The internal audit function report on a day to day basis to the Finance Director, however they provide the formal reporting through to the Chair of the Audit and Risk committee to ensure appropriate segregation and governance is maintained.

### Risk Management

As illustrated in the diagram below, Sovereign utilises the three lines of defence model in the management of its risks.



The model comprises primary risk owners (first line), independent risk management and control functions (second line) and an independent internal audit and assurance group (third line).

**First line:** The vast majority of employees comprise the first line of defence. Examples include service manager, technology teams supporting the business platforms, client servicing teams and servicing client enquiries.

**Second line:** A smaller group of employees comprise the second line of defence. These employees have duties within the Risk & Control functions and provide independent oversight of the activities performed within the first line.

Third line: The third line of defence comprises the outsourced Internal Audit function. The reporting from this function is direct to the chairs of both the Audit and Risk and Compliance and Governance committees.

The Risk Management function reports to the Sovereign Board via the Compliance, Risk and Governance Committee.

### **Roles and Responsibilities**

The risk management framework is supported by the risk management function but is owned by the management of the business. In order to provide a structure for the continuous review, challenge and updating of the risk register, a number of key roles have been defined, which run through the entire organisation:

|               |   |
|---------------|---|
| Risk owner    | <ul style="list-style-type: none"><li>• agree assessment of the risk with the risk management function including gross and net scores</li><li>• sign off any relevant authority levels or limits</li><li>• agree all mitigating strategies identified, plus determine if new controls are required/existing ones can be modified or removed</li></ul>                           |
| Control owner | <ul style="list-style-type: none"><li>• operate and monitor controls identified within the risk register</li><li>• report regularly to risk management function and risk owner regarding operation of controls</li><li>• confirm with risk management the on-going appropriateness of control scoring</li><li>• recommend to risk owner any changes in control design</li></ul> |

All employees' job descriptions are explicit regarding risk management roles and responsibilities.

### **Committee responsibilities**

In addition to the Compliance and Governance Committee, the Board of Sovereign has delegated responsibilities to the Finance and Remuneration Committee, the Audit and Risk Committee, the Sales and Marketing Committee, the Community Funding Committee and the Systems and IT Committee. Each of these groups have terms of reference which are risk focussed and each play a part in more formal upwards risk reporting on a quarterly basis.

The formal consideration and risk reporting of the committees is coordinated by the risk management function.

### **Interaction with Internal Audit**

Sovereign is developing an audit plan to be prepared on a 3-year rolling basis. It will be derived by the Internal Auditor and the Audit and Risk Committee with input from senior management and the Risk Management function. The audit approach is cyclical, risk based and ensures that all high-risk areas are identified and prioritised. This ensures that the entire risk and audit universes are considered over time, unless there are appropriate and agreed reasons for them not being so.

In practice this is achieved by reviewing the risk universe against the current audit plan and to highlight those areas of the risk universe that are either not covered, or where additional audit may be appropriate. This will be presented annually to the Audit and Risk Committee, and more frequently if required. The internal audit leads will also have a private meeting at least annual with the Chair of the Audit and Risk committee in order that any confidential feedback applicable to the Executive and/or Senior team can be provided formally.

As either the audit plan or risk universe is updated, the Risk Management function will be responsible for highlighting any material risks which are not covered by the current audit plan.

## **Risk and Capital Assessment**

The risk management framework is designed to provide management with the information it requires to maximise up-side risk, whilst acknowledging downside risks, by identifying where capital should be held.

The Risk Management function will work closely with the actuarial function to ensure that assessment of risk is integral with the ORSA and that management are provided with clear information regarding the capital impact of the current risk profile. By doing so management will be able to determine where capital is being best deployed and will have a tool to support business decisions in relation to the utilisation of capital.

## **Emerging Risk**

As well as assessing the current risk profile of the business, the Risk Management function is also responsible for coordinating the consideration and management of any emerging risks which may be relevant to the business further down the line.

An emerging risk is defined as “an issue that is perceived to be potentially significant but which may not be fully understood or allowed for in insurance terms and conditions, pricing, reserving or capital setting”.

- Primarily the focus is on identifying emerging insurance risks and coordinating any mitigation across the business. This focus is underwriter and claims led who will ensure that emerging insurance coverage issues are regularly assessed and addressed within the underwriting teams using weekly and monthly meetings. On a quarterly basis, or more frequently if necessary, reports will be made to the Audit and Risk and/or Compliance and Governance Committees.
- At a secondary level each of the Sovereign Committees will consider on at least a six monthly basis the issue of emerging risk. Reporting will be to the Audit and Risk, and Compliance and Governance Committees.

The following represents the flow of reporting within Sovereign:

- Emerging risks will be assessed according to their likelihood of having any impact on the business given the current portfolio of business.
- It will be the responsibility of the Risk Management Function to highlight to the Compliance, Risk and Governance Committee when an emerging risk should be considered for inclusion in the risk register.

## **Business Performance**

Performance review is conducted across all functions of the company including underwriting, reserving, finance, claims, operations and compliance. Performance review takes place on a continuous and regular basis and is formalised using a committee structure.

Performance is reviewed against business plan. As the risk framework becomes integrated within the business, some existing areas of performance review and associated management information will feed into the risk management of the business.

## **Management Information**

Sovereign is working towards an operating environment where a regular cycle of management information is provided to the key internal stakeholders of the risk management framework, these being:

- Sovereign Board
- Compliance and Governance Committee
- Audit and Risk Committee
- Finance and Remuneration Committee

- Sales and Marketing Committee
- Systems and IT Committee
- Risk Owners

The information will provide an overview of the following:

- Top Risks (inherent, residual, dependencies)
- Moving Risks
- Risks by Owner
- Risks by Category
- Risk Appetite Utilisation
- Capital management

In addition, regular risk reports will be developed to focus on areas of high risk v appetite and ones requiring improvement in controls. It is expected that reporting requirements will change over time.

Management Information must be appropriate, complete and accurate and comply with the relevant Solvency II data standards.

### **People and Reward**

Sovereign has a training programme which encompasses Risk Training across all aspects of the organisation. Specific training will be provided as required to Risk Owners and Control Owners regarding individual responsibilities and to promote a general 'risk v reward' way of thinking.

Performance Appraisal objectives include specific risk management or control management objectives for the relevant personnel.

Sovereign has a remuneration policy which has been designed to assist the delivery of both its business strategy and risk management strategy. No individual is encouraged to take or is rewarded for taking excessive risk, i.e. outside of stated appetites.

### **Technology & Infrastructure**

The risk framework relies on timely and accurate information and modelling. A strong infrastructure is required to ensure that:

- Data is accurate, accessible and timely
- Modelling is robust, reliable and timely
- Management information is well organised, relevant and appropriately distributed

### **Investments and the Prudent Person Principle**

In reviewing investments for quality and reporting purposes the company utilises recognised ratings agencies as the source for each individual investment. Where ratings are unavailable (e.g. Apple and Facebook) a full charge is taken or the lowest quality of asset is assumed. Ratings for material concentration of assets or significant counterparties are taken from a number of recognised sources to ensure that the chosen partner rating is consistent and appropriate for the risk.



## **Internal Audit**

Due to the size of the business the internal audit process is outsourced to an appropriately qualified third party. For the work undertaken in 2017 this was outsourced to a local accountancy practice.

The program for internal audit to follow was proposed by Senior management with reference to the key business risks identified during the course of the ORSA process and internal risk mapping exercise. The internal audit program is then approved by the head of the Audit and Risk Committee (formerly by the Head of the Finance, Audit and Risk Committee) with timescales and prioritisation guidance being provided.

The internal audit plan is a rolling 3 year programme designed to cover all material risks to the business, its operations and reporting, whilst also allowing for any additional work highlighted as a result of business issues or regulatory requirements to be considered within the scope of the timetable.

In order to maintain the appropriate level of independence Internal audit reporting is undertaken with a direct line of responsibility to the Non-Executive chair of the Audit and Risk committee. The use of third parties in undertaking the work ensures an appropriate degree of separation from the day to day activity of the senior team within the business to ensure objectivity.

## **Actuarial Function**

Due to the nature and lack of complexity within the business, the actuarial function is outsourced to a third party actuarial consulting practice. Oversight of the requirements and deliverables, as well as holding the appropriate head of actuarial function, is shared between the Chief Executive and Finance Director as appropriate, based upon the individuals skills and experience.

## **Outsourcing**

Due to the size of the business a number of key functions have been outsourced in order that the business is able to benefit from appropriate current expertise without incurring the additional overhead that would be required to fulfil the function in house. All current outsourced service providers are located within the United Kingdom.

The outsourcing arrangements are subject to the outsourcing approach policy. Outsourcing is considered appropriate where the business :

- does not have the required knowledge, resources and/or experience to fulfil a specific function from its own staff
- requires additional short term resource
- Deems it is cost effective to outsource a specific service
- Deems it is risk effective to outsource a specific service
- Deems it is a legally or regulatory required arrangement
- Deems it is to achieve a tangible quality outcome with regards a specific project

The following checks are undertaken when appointing an outsourced partner;

- Financial health check
- Trade body
- References
- Appropriate fit and proper for purpose check

Outsourced partners are checked regularly, at a minimum annually, to ensure the arrangement continues to serve the best interests of the company and its customers. All key outsourced arrangements are subject to a formal contract, approved by the Board – where appropriate and signed by at least one executive director.

## 8. RISK PROFILE

The Board have agreed the following Risk Appetite for Sovereign Health Care.

- Operate within our area of expertise. Any diversification will only take place when we understand the risks and business models
- Growth is profitable and not loss making, although we understand by the nature of our schemes that occasionally claims may run higher than premiums on new business
- New products will be underwritten to be profitable within agreed parameters and timescales
- Quality of delivery will always have greater prominence than quantity of delivery
- Principles of insurance and correct customer morals are above the technicalities of the Terms and Conditions
- We will not carry any long term insurance risks, although we will include mediated modules within our product range
- Our investment strategy is to achieve capital growth and income over the medium to long term through our investments which are additional to our cash deposits
- Reserves will be held as a mixture of cash type deposits and investment funds as agreed by the Board of Directors

### Key Risks

#### Key Customer

The business acknowledges the risk of reliance on a small number of large volume clients and works closely with the relevant customer group to ensure that the offering available continues to meet the requirements. In addition there is an active renewal of supply contract process which serves to highlight potential issues and ensure these are addressed in a timely and appropriate manner.

As a business, the risk created due to the success of the product is not one which we would seek to move away from or limit on a single customer basis. Mitigation is sought through increasing the depth and breadth of the customer base to ensure that a single customer or small group of customers does not represent an unduly large proportion of the forecast income generation plans.

#### Investment Risk

Our investments are managed by an external specialist investment manager who are listed on the Financial Services Register and authorised and regulated by the FCA. The Board acknowledge that the value of the invested assets reflects the movement in the active recognised financial markets, which can go down as well as up.

The Board adopts a low risk appetite by holding high levels of cash or cash equivalents in order to meet any unplanned or catastrophic risks/events. Currently the Board have agreed to hold cash balances equivalent to the greater amount of : a) our Minimum Capital Requirement (MCR) (£6.2m) or b) 12 months forecast claims payments (£7.1m). Note that our MCR is reported quarterly to the PRA as part of our Enhanced Capital Requirement calculation and the current forecast of 12 months claims is £7.1m. Cash is held in a variety of instant access, term and notice accounts in order to achieve the correct balance of liquidity needs and desired investment returns.

Cash investments are also used as a hedge against insurance/operational risk and for liquidity needs or to facilitate a planned programme of investments in either or both equity and fixed income assets.

With regard to the balance of the Company's investment reserves, the Board have set investment objectives that aim to ensure the long term sustainability of the business by achieving capital growth and strong income returns over the medium to long term through the careful management of our investments.

The Board recognises that the allocation of portfolio assets across broadly defined financial asset and sub-asset categories (a mixture of cash and fixed interest investments and investment funds) with varying degrees of risk and return is the most significant determinant of long-term investment returns and portfolio asset value

stability. Diversification across and within asset classes is the primary means by which the Board expects the portfolio to avoid undue risk of large losses over long time periods.

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying returns earned on its investments in different asset classes. In the view of the Board, Sovereign is an investor with a long term investment horizon and can tolerate the attached short term investment risk to the Portfolio.

The Board accepts the risk that actual returns may vary from objective across short periods of time. The investment manager shall act within a reasonable period of time to evaluate any variations and make recommendations to rebalance the portfolio.

On a periodic basis, independent investment management professionals are approached for current market trends, views on holdings and to act as a sense check and benchmark of the current advisers.

### Capital Position Summary

The Board believes that Sovereign Health Care holds sufficient capital to ensure solvency resilience and compliance with regulatory requirements whilst allowing the Company to operate within its agreed risk appetite in order to deliver the agreed strategy and business plan.

The SCR of £25.0m (2016 : £21.8m) reflects a significant increase from the requirements under the previous Individual Capital Assessment (ICA) regime which delivered a capital requirement in relation to the underwriting risk. The change in capital requirement is entirely due to the requirement within Solvency II to hold regulatory capital in respect of those assets held that are surplus to the holdings for the underwriting of the business. Essentially, Sovereign are required to hold capital to back the capital we have as a result of past success but not considered under the ICA regime.

When the Health underwriting position is considered vs the ICA regime the requirement of £2.5m (2016 : £2.5m) under the Solvency II regime is directly comparable to the £2.9m ICA requirement less the £585k held for the key customer risk identified. The balance of the SCR of £22.5m reflects the costs of having the additional reserves of c£63m in excess of the £2.5m underwriting requirement.

### Risk Profile

The key risks identified by the company are listed below by major category and briefly described below.

| <b>Risk Category</b> | <b>Reference No</b> | <b>Description</b>  |
|----------------------|---------------------|---|
| Insurance            | 1.1                 | High rate of claims leading to significant trading loss creating pressure on Solvency margin.           |
| Insurance            | 1.2                 | Design of new product leads to claims significantly higher than expected. Flaw in underwriting process. |
| Insurance            | 1.3                 | Government change rate of Insurance Premium Tax (IPT)   |
| Insurance            | 1.4                 | Bespoke product's pricing leads to underwriting loss.   |
| Insurance            | 1.5                 | Shrinking cash plan market.   |
| Strategy             | 2.1                 | Incorrect strategy followed leading to customer losses.   |

| <b>Risk Category</b> | <b>Reference No</b> | <b>Description</b>  |
|----------------------|---------------------|---|
| Strategy             | 2.2                 | Loss of key customer. Loss of key customer would slow growth and increase costs.  |
| Operational          | 3.1                 | Undesired loss of IT system or specialist personnel. New system implementation completed.   |
| Operational          | 3.2                 | Loss of key personnel.  |
| Operational          | 3.3                 | Solvency II. Cost of ongoing compliance and/or regulator of the view that Sovereign not in compliance.                            |
| Operational          | 3.4                 | Regulation changes or regulator does not believe Sovereign can comply with requirements. Board loses the confidence of Regulator. |
| Governance           | 4.1                 | Inappropriate Board structure with inadequate mix of skills/knowledge or Board numbers fall below minimum quorate.                |
| Group                | 5.1                 | Unable to provide third party products.   |
| Fraud                | 6.1                 | Technology problems cause data to become corrupt.   |
| Fraud                | 6.2                 | Customers attempt to defraud through inappropriate/deliberately misleading/falsified claims.                                      |
| Credit Risk          | 7.1                 | Existing companies unable to pay Sovereign premiums, or large number of customers cancel policy.                                  |
| Liquidity            | 8.1                 | Cash flow from investments falls dramatically or unexpected corporation tax bill/increase in IPT.                                 |
| Market               | 9.1                 | Significant fall in value of reserves.  |

## **Liquidity Risk**

### **Counterparty Liquidity Risk**

Debt instruments held with credit institutions, including term cash deposits are managed internally. Balances are placed on deposit for periods of up to 12 months in such a manner to ensure that sufficient funds are always available to meet the short term operational expenditure, investment decisions and any other liabilities as they fall due. Total cash deposits of £11.8m (2016: £10.8m) are held with a number of counterparties and different terms. The balance of £6.2m identified as less than 1 month includes cash immediately available on call of £3.0m. The company is therefore exposed to risk in relation to the counterparties availability of funds to meet the terms of the deposits as they fall due. This risk is managed through the careful selection of counterparties and the use of credit rating agency view of potential partners and the operation of the counterparty risk policy within the business, limiting the exposure to any specific party and the overall risk at each level of credit rating

## Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company is exposed to liquidity risk in meeting operating costs as represented by the creditors other than technical provisions within the Solvency II balance sheet totalling £2.0m (2016: £2.9m), and in meeting policyholder claims, represented on the year-end statement of financial position by the technical provision balances totalling £2.7m (2016: £2.5m). Both of these exposures are due within 12 months of the statement of financial position date, and in particular the large majority of claims represented by the technical provisions are generally settled within 3 months. The creditors other than technical provisions includes a contingent liability of £949k representing the net liabilities of a wholly owned subsidiary company.

The Company seeks to mitigate liquidity risk by holding cash reserves which at any one time enable financial liabilities to be met for at least a month.

## Credit Risk

The company's exposure to credit risk is not limited to the balances identified in the liquidity risk section, but also covers the carrying value of certain other financial assets, namely contributors' premiums due not received (included within debtors) of £603k (2016 : £698k).

The company is exposed to credit risk through the potential for default on any of the balances due. To mitigate the risk, the company performs appropriate levels of investigation over potential partners, with credit institution deposits in particular being subject to the requirements laid out in the appropriate risk policies.

## Risk Sensitivity and Solvency II impact

We are strongly capitalised with a Solvency II capital surplus of £37.7m (2016 : £37.5m) representing a solvency cover of 251% (2016: 272%). Capital requirements have increased by £3.0m as a result of growth in the value of the investment portfolio.

|                                    | 2017         | 2016         |
|------------------------------------|--------------|--------------|
|                                    | £            | £            |
| Own Funds                          | 62,744,553   | 59,261,523   |
| Solvency Capital Requirement (SCR) | (25,011,827) | (21,806,409) |
| Solvency II capital surplus        | 37,732,726   | 37,455,114   |
| Solvency Cover Ratio               | 251%         | 272%         |

The SCR of £25.0m would change by an amount equal or opposite to 15% or less following a:

- 20% rise or fall in equities (surplus would increase by £5.1m/decrease by £5.5m respectively), or
- 100% rise or fall in the volume of insurance underwritten (surplus would move by less than £500k)



## 9. VALUATION FOR SOLVENCY PURPOSES

The table below sets out, by material asset and liability class, the valuation of each category under both Solvency II and UK GAAP statutory account reported balances.

The assumptions and basis of valuation of each material category of business is considered separately where they differ from the statutory reporting valuation processes. As a general principle the value of a balance sheet item should reflect the amount at which the assets and liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction.

All valuations should be made on a going concern principle, rather than a "fire sale" or insolvency valuation which by the very nature of the approach would deliver higher liability and lower asset values.

|  |           | 2017              | 2017              |
|--|-----------|-------------------|-------------------|
|  |           | Solvency II       | Statutory Account |
| Assets   | £         | £                 | £                 |
| Intangible Assets  |           | -                 | 17,850            |
| Deferred tax assets  |           | 59,539            | -                 |
| Property, plant & equipment held for own use               |           | -                 | 159,207           |
| Holdings in related undertakings, including participations |           | 554,153           | 10,100            |
| Equities - unlisted  |           | 2,519             | 2,519             |
| Collective Investment Undertakings                         |           | 53,688,656        | 53,688,656        |
| Deposits other than cash equivalents                       |           | 8,807,353         | 5,628,064         |
| Insurance and intermediaries receivables                   |           | 567,160           | 567,160           |
| Receivables (trade, not insurance)                         |           | 755,000           | 755,000           |
| Cash and cash equivalents                                  |           | 2,976,195         | 6,155,516         |
| Any other assets, not elsewhere shown                      |           | 142,315           | 295,615           |
| <b>Total Assets</b>  |           | <b>67,552,890</b> | <b>67,279,687</b> |
| <b>Liabilities</b>   |           |                   |                   |
| <i>Best Estimate</i>                                       | 2,402,151 |                   |                   |
| <i>Risk Margin</i>   | 313,366   |                   |                   |
| Technical Provisions - non-life                            |           | 2,715,517         | 1,337,498         |
| Contingent Liabilities                                     |           | 948,667           | -                 |
| Provisions other than technical provisions                 |           | 107,721           | 107,721           |
| Payable (trade, not insurance)                             |           | 41,137            | 41,127            |
| Any other liabilities, not elsewhere shown                 |           | 995,295           | 995,395           |
| <b>Total Liabilities</b>                                   |           | <b>4,808,337</b>  | <b>2,481,741</b>  |
| <b>Excess of assets over liabilities/Own Funds</b>         |           | <b>62,744,553</b> | <b>64,797,946</b> |

Contingent liabilities reflect the excess of liabilities over assets of the participation in a loss making subsidiary.

The table below details the individual elements of the UK GAAP balance sheet prepared under FRS 102 and how the valuation methodology differs under the valuation basis for the preparation of the Solvency II balance sheet.

| Category of Asset   | SII Valuation Basis  |
|---|--|
| <b>Deferred Tax Asset</b>   | A deferred tax asset or liability arises on the temporary difference between the valuation of assets and liabilities (including technical provisions) for the statutory financial statements. The deferred tax asset reflects the associated reduction in tax liability that would arise on the results for the company should the higher Solvency II best estimate of liability (over the statutory technical provisions) ever be realised.   |
| <b>Intangible Assets</b>  | Write down any value to £Nil to reflect estimated fair market value.   |
| <b>Property, Plant and Equipment</b>                              | Write down any value to £Nil to reflect estimated fair market value.   |
| <b>Holdings in related undertakings, including participations</b> | <p>All participations will be held an adjusted equity valuation on a solvency II basis. No adjustments are made to arrive at the adjusted equity valuation from the UK statutory accounts valuation of participations for Sovereign Health Care as the assets and liabilities of the subsidiaries are either fair value, or deemed to be fair value and no inadmissible assets are held.</p> <p>(where net assets value is negative this is included within contingent liabilities)</p>  |
| <b>Collective investments undertakings and equities</b>           | <p>This includes all financial investments except subsidiaries (these are brought in through participations).</p> <p>All investments are measured at fair value with adjustments through the profit and loss. The methodologies applied to determination of fair value holdings are :</p> <ol style="list-style-type: none"> <li>1. Listed/quoted investments are carried at market bid value;</li> <li>2. Where no quoted market price or suitable proxy is available, alternative valuation methods are used in accordance with Article 10 of the Delegated Regulation 2015/35.</li> </ol> <p>The vast majority of the assets held are valued using methodology 1. There are 4 methodologies available, however above are shown the 2 adopted.</p> |
| <b>Financial Receivables inc. Insurance Receivables</b>           | <p>This covers:</p> <p>Amounts owed from policyholders.</p> <p>Debtors are reflected at book value which is deemed equivalent to fair value equivalent due to short duration of the assets held. The company operates a provision mechanism for debts in excess of 3 months.</p>   |

|   |   |
|---|---|
| <b>Cash and cash equivalents and deposits other than cash equivalents</b> | No change in valuation methodology. The presentation under cash and cash equivalents or deposits other than cash equivalents is determined by the ability to withdraw balances within twenty four hours without incurring a penalty (instant access) which differs from FRS102. |
| <b>Any other assets, not elsewhere shown</b>                              | Assets are held at fair value or equivalent due to short duration of the assets held.   |

| <b>Category of Liability</b>  | <b>SII Valuation Basis</b>   |
|-------------------------------|--|
| <b>Technical Provisions</b>   | Adjustment required to remove the statutory accounting balances and replace with best estimate of liabilities and risk margin balances.                              |
| <b>Contingent Liabilities</b> | The balance represents the excess of liabilities over assets of a wholly owned subsidiary that has a negative net asset value.                                       |
| <b>Other Provisions</b>       | Other provisions represent amounts expected to be paid and are held at fair value.   |
| <b>Payables (trade)</b>       | Amounts expected to be paid (including taxation), liabilities are reflected at book value which is deemed equivalent to fair value equivalent due to short duration. |
| <b>Other Liabilities</b>      | Amounts expected to be paid not shown elsewhere, liabilities are reflected at book value which is deemed equivalent to fair value equivalent due to short duration.  |



## UK GAAP to Solvency II Balance sheet walk

The table below identifies the key reclassifications and changes in valuation (using the methodology described above) that move the Company from its reported UK GAAP Report and Accounts Retained Earning to the Solvency II Own Funds.

|   | 2017              | 2016              |
|---|-------------------|-------------------|
|   | £                 | £                 |
| <b>UK Statutory Retained Earnings</b>                               | 64,797,946        | 61,154,090        |
| Deferred Tax Asset  | 59,539            | 233,928           |
| Participations  | 544,053           | 473,321           |
| Transfer out of cash and cash equivalents                           | (3,179,289)       | (6,386,802)       |
| Transfer of cash into deposits other than cash and cash equivalents | 3,179,289         | 6,386,802         |
| Change in valuation basis of other assets                           | <u>(330,399)</u>  | <u>(420,195)</u>  |
| <b>Change in assets</b>   | 273,193           | 287,054           |
| Removal of technical provisions                                     | 1,337,498         | 1,270,710         |
| Best estimate current liabilities                                   | (2,402,151)       | (2,190,560)       |
| Risk Margin   | (313,366)         | (311,351)         |
| Change in valuation basis of other liabilities                      | <u>(948,567)</u>  | <u>(948,419)</u>  |
| <b>Change in liabilities</b>  | (2,326,586)       | (2,179,620)       |
|   | (2,053,393)       | (1,892,567)       |
| <b>Solvency II Own Funds</b>  | <u>62,744,553</u> | <u>59,261,523</u> |

## Technical Provisions

The technical provisions comprise two elements the best estimate of current liabilities and a Solvency II risk margin. Both balances are shown in the earlier balance sheet comparison of UK statutory accounts and Solvency II balance sheet values.

Both the best estimate technical provision and risk margin contain an in built level of uncertainty within the calculation of the balance due to the estimated nature of the potential future liabilities of the business. Given the relatively small value of the best estimate technical provisions within the context of the total SCR and the volume of historical data available, the levels of uncertainty within the balance are deemed to be low.

The best estimate of future liabilities has been developed over time to include our expected nominal value of net future cashflows for claims incurred within the underwriting period. This balance excludes the element of prudence that is contained within the UK GAAP balance. The best estimate also includes our estimate of claims handling costs for the business over the period over which policyholders are entitled to make claims for events that have occurred at the balance sheet date.

The net cashflows are calculated using projected payment patterns for gross claims and any associated recoveries. The patterns utilised have been generated using the historical trend data for the line of business. Due to the short tail nature of the insurance business the immaterial impact of discounting the future cashflows has been removed.

Within the calculation of the best estimate of the liabilities there remain some inherent uncertainties within the calculation. Where items are uncertain historical data has been referenced to obtain a suitable estimate for use within the calculation. Within the technical provisions as calculated, such uncertainties were identified in relation to renewal rates, lapse rates, medical inflation (and therefore the claims loss ratio) and future claims instance rates.

In calculating the risk margin element of the technical provisions we have utilised the standard formula to calculate the SCR of the business and applied a prescribed market cost of capital at 6% to the balance in order to arrive at an estimate of the premium an alternative provider would require in order to fund the capital requirement of the business as a whole.

When calculating the SCR for the business, the company has taken the decision not to apply the optional transitional arrangements for the risk charge on the equity held. This decision was taken in light of the capital strength of the business compared to the capital requirement as calculated under the standard formula.

In the calculation of the Best Estimate of the liabilities no allowance has been made for any of the transitional adjustments set out in the Delegated acts. We have made no adjustment for matching or volatility in the risk free rate or any transitional adjustments to overall technical provisions.

The Risk margin is the cost of holding the SCR over the lifetime of the insurance book of business. This cost is determined by applying the prescribed cost of capital at 6% to the projected SCR, excluding equity risk, over the life of the insured policies as at 31 December and discounting this balance at the risk free rate.

When viewing the difference between the UK Statutory Balance sheet value and the Solvency II technical provisions the key differences relate to :

- Replacement of unearned premium reserve with best estimate of future premium income;
- Solvency II Risk margin; and
- Requirement to hold reserves to meet the costs of processing claims in the subsequent period

When considering the overall value of the technical provisions the business has viewed any events that may fall outside of the standard modelling of our required provisions to meet future insurance liabilities (Events not in Data) and concluded that these values are immaterial.

## 10. CAPITAL MANAGEMENT

Capital management focuses on two main elements :

- Ensuring that the company holds sufficient capital to ensure coverage of regulatory capital requirements (Minimum Capital Requirement (MCR) and SCR) over the foreseeable planning horizon (currently a 3 yearly cycle); and
- Optimisation of the quality of capital available (as all capital currently held is historical retained earnings, other than deferred tax assets, this is the highest quality available under Solvency II).

Sovereign Health Care's Own Funds remain a combination the historical retained earnings (Tier 1 Capital), combined with the deferred tax impact of the 1 in 200 shock on equity investments (Tier 3 Capital).

| Reconciliation reserve            | 31-Dec-17         | 31-Dec-16         |
|-----------------------------------|-------------------|-------------------|
| Excess of assets over liabilities | 62,744,553        | 59,261,523        |
| Other basic own fund items        | (59,539)          | (233,928)         |
| <b>Reconciliation reserve</b>     | <b>62,804,092</b> | <b>59,495,451</b> |

### Minimum Capital Requirement and Solvency Capital Requirement

Sovereign Health Care fully complies with the Standard Formula in the calculation of both the MCR and SCR. No material simplified methods or undertaking specific parameters have been used in the calculation of either the MCR or SCR. A detailed review of the assumptions within the model were undertaken and these were found to be appropriate for the firm. Set out below is a summary of our Retained Earnings/Own Funds, the MCR and SCR together with coverage ratios :

|                                     | Own Funds/Retained Earnings |            |                     |
|-------------------------------------|-----------------------------|------------|---------------------|
| Description                         | Solvency II                 | UK GAAP    | Appendix Reference  |
|                                     | £                           | 0          |                     |
| At 31 Dec 2017                      | 62,744,553                  | 64,797,946 | s.23.01.b           |
| Minimum Capital Requirement         | 6,252,957                   |            | s.23.01.b           |
| <b>Solvency Capital Requirement</b> | <b>25,011,826</b>           |            | S.23.01.b/s.25.01.b |
| <b>SCR coverage Ratio</b>           | <b>251%</b>                 |            | s.23.01.b           |

The MCR, calculated using the standard formula, is detailed below :

| Overall MCR calculation            | 31-Dec-17        | 31-Dec-16        |
|------------------------------------|------------------|------------------|
| Linear MCR                         | 619,191          | 603,645          |
| SCR                                | 25,011,826       | 21,806,409       |
| MCR cap                            | 11,255,322       | 9,812,884        |
| MCR floor                          | 6,252,957        | 5,451,602        |
| Combined MCR                       | 6,252,957        | 5,451,602        |
| Absolute floor of the MCR          | 2,196,325        | 2,251,250        |
| <b>Minimum Capital Requirement</b> | <b>6,252,957</b> | <b>5,451,602</b> |

The SCR, calculated using the standard formula, detailed below :

| Category                                     | 31-Dec-17  |                   |                    | 31-Dec-16            |
|--|------------|-------------------|--------------------|----------------------|
|  |            | Risk Amount       | Diversif. Factor   | Capital Requirements |
| <b>Risk Component</b>                        |            |                   |                    |                      |
| <b>Basic Operational risk Charge</b>         |            | <b>322,912</b>    |                    | <b>322,912</b>       |
| Interest Rate Risk                           | 32,844     |                   |                    | 10,432               |
| Equity Risk                                  | 20,722,570 |                   |                    | 18,845,907           |
| Property Risk                                | 188,750    |                   |                    | 188,750              |
| Spread Risk                                  | 117,925    |                   |                    | 14,973               |
| Currency Risk                                | 7,003,022  |                   |                    | 6,938,235            |
| Concentration Risk                           | 100,427    |                   |                    | 178,750              |
| <b>Market Risk</b>                           |            | <b>28,165,538</b> | <b>(4,462,544)</b> | <b>23,702,994</b>    |
| <b>Counterparty Risk</b>                     |            | <b>1,040,521</b>  |                    | <b>1,040,521</b>     |
| <b>Health Underwriting Risk</b>              |            | <b>3,133,032</b>  | <b>(629,565)</b>   | <b>2,503,467</b>     |
| <b>Overall Diversification</b>               |            |                   | <b>(2,498,528)</b> | <b>(2,498,528)</b>   |
| <b>Solvency Capital Requirement</b>          |            | <b>32,662,003</b> | <b>(7,590,637)</b> | <b>25,071,366</b>    |
| <b>Loss absorbing impact of Deferred Tax</b> |            |                   |                    | <b>(59,539)</b>      |
| <b>Solvency Capital Requirement</b>          |            | <b>32,662,003</b> | <b>(7,590,637)</b> | <b>25,011,827</b>    |

#### Use of Duration based Equity Risk Sub module in the calculation of the SCR

The duration based equity risk sub module has not been used in the calculation of the SCR.

#### Difference between Standard Formula and any Internal Model used

No internal or partial internal model has been used in the calculation of the SCR.

#### Non Compliance with MCR and SCR

The company has maintained Own Funds in excess of the MCR and the SCR throughout the reporting period.

## APPENDIX 1 – SOLVENCY AND FINANCIAL CONDITION REPORT REQUIRED TEMPLATES

## S.02.01.02

### Balance sheet

|  | Solvency II<br>value |
|--|----------------------|
|  | C0010                |
| <b>Assets</b>  |                      |
| Intangible assets  |                      |
| Deferred tax assets  | 60                   |
| Pension benefit surplus  |                      |
| Property, plant & equipment held for own use   | 0                    |
| Investments (other than assets held for index-linked and unit-linked contracts)        | 63,053               |
| <i>Property (other than for own use)</i>   | 0                    |
| <i>Holdings in related undertakings, including participations</i>                      | 554                  |
| <i>Equities</i>  | 3                    |
| <i>Equities - listed</i>   |                      |
| <i>Equities - unlisted</i>   | 3                    |
| <i>Bonds</i>   | 0                    |
| <i>Government Bonds</i>  | 0                    |
| <i>Corporate Bonds</i>   | 0                    |
| <i>Structured notes</i>  | 0                    |
| <i>Collateralised securities</i>   | 0                    |
| <i>Collective Investments Undertakings</i>   | 53,689               |
| <i>Derivatives</i>   |                      |
| <i>Deposits other than cash equivalents</i>  | 8,807                |
| <i>Other investments</i>   | 0                    |
| Assets held for index-linked and unit-linked contracts                                 |                      |
| Loans and mortgages  | 0                    |
| <i>Loans on policies</i>   | 0                    |
| <i>Loans and mortgages to individuals</i>  |                      |
| <i>Other loans and mortgages</i>   |                      |
| Reinsurance recoverables from:   | 0                    |
| <i>Non-life and health similar to non-life</i>   | 0                    |
| <i>Non-life excluding health</i>   | 0                    |
| <i>Health similar to non-life</i>  | 0                    |
| <i>Life and health similar to life, excluding index-linked and unit-linked</i>         | 0                    |
| <i>Health similar to life</i>  |                      |
| <i>Life excluding health and index-linked and unit-linked</i>                          |                      |
| <i>Life index-linked and unit-linked</i>   |                      |
| Deposits to cedants  | 0                    |
| Insurance and intermediaries receivables   | 567                  |
| Reinsurance receivables  |                      |
| Receivables (trade, not insurance)   | 755                  |
| Own shares (held directly)   | 0                    |
| Amounts due in respect of own fund items or initial fund called up but not yet paid in | 0                    |
| Cash and cash equivalents  | 2,976                |
| Any other assets, not elsewhere shown  | 142                  |
| <b>Total assets</b>  | <b>67,553</b>        |

|  | Solvency II<br>value |
|--|----------------------|
|  | C0010                |
| <b>Liabilities</b>   |                      |
| Technical provisions - non-life  | 2,716                |
| <i>Technical provisions - non-life (excluding health)</i>                              | 0                    |
| <i>TP calculated as a whole</i>  | 0                    |
| <i>Best Estimate</i>   | 0                    |
| <i>Risk margin</i>   | 0                    |
| <i>Technical provisions - health (similar to non-life)</i>                             | 2,716                |
| <i>TP calculated as a whole</i>  | 0                    |
| <i>Best Estimate</i>   | 2,402                |
| <i>Risk margin</i>   | 313                  |
| Technical provisions - life (excluding index-linked and unit-linked)                   | 0                    |
| <i>Technical provisions - health (similar to life)</i>                                 | 0                    |
| <i>TP calculated as a whole</i>  |                      |
| <i>Best Estimate</i>   |                      |
| <i>Risk margin</i>   |                      |
| <i>Technical provisions - life (excluding health and index-linked and unit-linked)</i> | 0                    |
| <i>TP calculated as a whole</i>  |                      |
| <i>Best Estimate</i>   |                      |
| <i>Risk margin</i>   |                      |
| Technical provisions - index-linked and unit-linked                                    | 0                    |
| <i>TP calculated as a whole</i>  |                      |
| <i>Best Estimate</i>   |                      |
| <i>Risk margin</i>   |                      |
| Contingent liabilities   | 949                  |
| Provisions other than technical provisions   | 108                  |
| Pension benefit obligations  |                      |
| Deposits from reinsurers   |                      |
| Deferred tax liabilities   |                      |
| Derivatives  |                      |
| Debts owed to credit institutions  |                      |
| Financial liabilities other than debts owed to credit institutions                     |                      |
| Insurance & intermediaries payables  |                      |
| Reinsurance payables   |                      |
| Payables (trade, not insurance)  | 41                   |
| Subordinated liabilities   | 0                    |
| <i>Subordinated liabilities not in BOF</i>   |                      |
| <i>Subordinated liabilities in BOF</i>   | 0                    |
| Any other liabilities, not elsewhere shown   | 995                  |
| <b>Total liabilities</b>   | <b>4,808</b>         |
| <b>Excess of assets over liabilities</b>   | <b>62,745</b>        |

5.05.01.02

Premiums, claims and expenses by line of business

Non-life

| Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              | Line of business for: accepted non-proportional reinsurance |                                |            |               | Total  |
|--|-----------------------------|---------------------------------|-----------------------------------|-----------------------|--|---|-----------------------------|---------------------------------|--------------------------|------------|----------------------|--------------|---|--------------------------------|------------|---------------|--------|
| Medical expense insurance  | Income protection insurance | Workers' compensation insurance | Motor vehicle liability insurance | Other motor insurance | Marine, aviation and transport insurance | Fire and other damage to property insurance | General liability insurance | Credit and suretyship insurance | Legal expenses insurance | Assistance | Misc. financial loss | Health       | Casualty  | Marine, aviation and transport | Property   |               |        |
| (L)(X)(10)   | (C)(3)(16)                  | (C)(6)(13)                      | (C)(6)(4)                         | (C)(7)(26)            | (C)(9)(29)                               | (C)(1)(10)                                  | (C)(A)(8)(1)                | (C)(A)(7)(6)                    | (C)(1)(24)               | (C)(1)(10) | (C)(1)(7)(2)         | (C)(1)(3)(0) | (C)(1)(4)(3)  | (C)(1)(1)(4)                   | (C)(1)(16) | (C)(1)(9)(18) |        |
| <b>Premiums written</b>  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| Gross - Direct Business  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
|  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 10,172 |
|  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Gross - Proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Gross - Non-proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Reinsurers share   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 10,172 |
| Net  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| <b>Premiums earned</b>   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| Gross - Direct Business  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
|  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 10,764 |
| Gross - Proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Gross - Non-proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Reinsurers share   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 10,764 |
| Net  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| <b>Claims incurred</b>   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| Gross - Direct Business  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
|  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 7,224  |
| Gross - Proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Gross - Non-proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Reinsurers share   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 7,224  |
| Net  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| <b>Changes in other technical provisions</b>   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| Gross - Direct Business  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
|  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | -56    |
| Gross - Proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Gross - Non-proportional reinsurance accepted  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 0      |
| Reinsurers share   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | -56    |
| Net  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| <b>Expenses incurred</b>   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
| Other expenses   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               |        |
|  |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 4,227  |
| Total expenses   |                             |                                 |                                   |                       |  |   |                             |                                 |                          |            |                      |              |   |                                |            |               | 4,227  |

## 5.05.02.01

## Premiums, claims and expenses by country

## Non-life

|   | C0010        | C0020  | C0030 | C0040 | C0050  | C0060 | C0070                        |
|---|--------------|--|-------|-------|--|-------|------------------------------|
|   | Home Country | Top 5 countries (by amount of gross premiums written) - non-life obligations |       |       | Top 5 countries (by amount of gross premiums written) - non-life obligations |       | Total Top 5 and home country |
|   | C0080        | C0090  | C0100 | C0110 | C0120  | C0130 | C0140                        |
| <b>Premiums written</b>                       |              |  |       |       |  |       |                              |
| Gross - Direct Business                       | 10,772       |  |       |       |  |       | 10,772                       |
| Gross - Proportional reinsurance accepted     |              |  |       |       |  |       | 0                            |
| Gross - Non-proportional reinsurance accepted |              |  |       |       |  |       | 0                            |
| Reinsurers' share                             |              |  |       |       |  |       | 0                            |
| Net   | 10,772       | 0  | 0     | 0     | 0  | 0     | 10,772                       |
| <b>Premiums earned</b>                        |              |  |       |       |  |       |                              |
| Gross - Direct Business                       | 10,764       |  |       |       |  |       | 10,764                       |
| Gross - Proportional reinsurance accepted     |              |  |       |       |  |       | 0                            |
| Gross - Non-proportional reinsurance accepted |              |  |       |       |  |       | 0                            |
| Reinsurers' share                             |              |  |       |       |  |       | 0                            |
| Net   | 10,764       | 0  | 0     | 0     | 0  | 0     | 10,764                       |
| <b>Claims incurred</b>                        |              |  |       |       |  |       |                              |
| Gross - Direct Business                       | 7,224        |  |       |       |  |       | 7,224                        |
| Gross - Proportional reinsurance accepted     |              |  |       |       |  |       | 0                            |
| Gross - Non-proportional reinsurance accepted |              |  |       |       |  |       | 0                            |
| Reinsurers' share                             |              |  |       |       |  |       | 0                            |
| Net   | 7,224        | 0  | 0     | 0     | 0  | 0     | 7,224                        |
| <b>Changes in other technical provisions</b>  |              |  |       |       |  |       |                              |
| Gross - Direct Business                       | -58          |  |       |       |  |       | -58                          |
| Gross - Proportional reinsurance accepted     |              |  |       |       |  |       | 0                            |
| Gross - Non-proportional reinsurance accepted |              |  |       |       |  |       | 0                            |
| Reinsurers' share                             |              |  |       |       |  |       | 0                            |
| Net   | -58          | 0  | 0     | 0     | 0  | 0     | -58                          |
| <b>Expenses incurred</b>                      | 4,227        |  |       |       |  |       | 4,227                        |
| <b>Other expenses</b>                         |              |  |       |       |  |       |                              |
| <b>Total expenses</b>                         |              |  |       |       |  |       | 4,227                        |



### Non-Life Technical Provisions

who le

### Premium provisions

### Premium provisions

### Premium provisions

GROSS

Net Best Estimate of Pre

Net Best Estimate of Pre

### Claims provisions

Gross

COUNTERPARTY DEFAULT

COUNTERPARTY DEFAULT

Total best estimate - gross

Total best estimate - net

Risk margin

Amount of the transitional on Technical Provisions

Technical Provisions calculated as a whole

Best estimate

Technical provisions - total

Recoverable from reinsurance contract/SPV and

Finite Re after the adjustment for expected losses due to counterparty default - total

Technical provisions minus recoverables from

reinsurance/SPV and Finite Re - total

[illegible]

S.19.01.21

# Non-Life insurance claims

## Total Non-life business

Accident year / underwriting year

| Gross Claims Paid (non-cumulative) |       |      |      |      |      |      |      |      |      |      |        |                 |
|------------------------------------|-------|------|------|------|------|------|------|------|------|------|--------|-----------------|
| (absolute amount)                  |       |      |      |      |      |      |      |      |      |      |        |                 |
| Year                               | 0010  | 0020 | 0030 | 0040 | 0050 | 0060 | 0070 | 0080 | 0090 | 0100 | 0110   | 0170            |
|                                    | 0     | 1    | 2    | 3    | 4    | 5    | 6    | 7    | 8    | 9    | 10 & + | In Current year |
| Prior                              |       |      |      |      |      |      |      |      |      |      | 0      | 0               |
| 2008                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2009                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2010                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2011                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2012                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2013                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2014                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2015                               | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2016                               | 648   | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| 2017                               | 6,577 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0               |
| Total                              |       |      |      |      |      |      |      |      |      |      |        | 6,577           |
|                                    |       |      |      |      |      |      |      |      |      |      |        | 7,224           |

| Gross Undiscounted Best Estimate Claims Provisions |       |      |      |      |      |      |      |      |      |      |        |                            |
|--|-------|------|------|------|------|------|------|------|------|------|--------|----------------------------|
| (absolute amount)                                  |       |      |      |      |      |      |      |      |      |      |        |                            |
| Year   | 0010  | 0020 | 0030 | 0040 | 0050 | 0060 | 0070 | 0080 | 0090 | 0100 | 0170   | 0180                       |
|  | 0     | 1    | 2    | 3    | 4    | 5    | 6    | 7    | 8    | 9    | 10 & + | Year end (discounted data) |
| Prior  |       |      |      |      |      |      |      |      |      |      | 0      | 0                          |
| 2008   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2009   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2010   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2011   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2012   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2013   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2014   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2015   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2016   | 0     | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| 2017   | 2,693 | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0      | 0                          |
| Total  |       |      |      |      |      |      |      |      |      |      |        | 2,693                      |

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

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

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  
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  
Deductions for participations in financial and credit institutions

Total basic own funds after deductions

Ancillary own funds  
Unpaid and uncalled ordinary share capital callable on demand  
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand  
Unpaid and uncalled preference shares callable on demand  
A legally binding commitment to subscribe and pay for subordinate liabilities on demand  
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC  
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC  
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC  
Other ancillary own funds  
Total ancillary own funds

Available and eligible own funds  
Total available own funds to meet the SCR  
Total available own funds to meet the MCR  
Total eligible own funds to meet the SCR  
Total eligible own funds to meet the MCR

SCR  
MCR  
Ratio of Eligible own funds to SCR  
Ratio of Eligible own funds to MCR

Reconciliation reserve  
Excess of assets over liabilities  
Own shares (held directly and indirectly)  
Foreseeable dividends, distributions and charges  
Other basic own fund items  
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds  
Reconciliation reserve

Expected profits  
Expected profits included in future premiums (EPIFP) - Life business  
Expected profits included in future premiums (EPIFP) - Non-life business  
Total Expected profits included in future premiums (EPIFP)

| Total         | Tier 1<br>unrestricted | Tier 1<br>restricted | Tier 2 | Tier 3    |
|---------------|------------------------|----------------------|--------|-----------|
| 0.00          | 0.00                   |                      | 0.00   |           |
| 0.00          | 0.00                   |                      | 0.00   |           |
| 0.00          | 0.00                   |                      | 0.00   |           |
| 0.00          |                        | 0.00                 | 0.00   | 0.00      |
| 0.00          | 0.00                   |                      |        |           |
| 0.00          |                        | 0.00                 | 0.00   | 0.00      |
| 0.00          |                        | 0.00                 | 0.00   | 0.00      |
| 62,685,024.77 | 62,685,024.77          |                      |        |           |
| 0.00          |                        | 0.00                 | 0.00   | 0.00      |
| 59,539.00     |                        |                      |        | 59,539.00 |
| 0.00          | 0.00                   | 0.00                 | 0.00   | 0.00      |
| 0.00          |                        |                      |        |           |
| 0.00          | 0.00                   | 0.00                 | 0.00   |           |
| 62,744,563.77 | 62,685,024.77          | 0.00                 | 0.00   | 59,539.00 |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      | 0.00   | 0.00      |
| 62,744,563.77 | 62,685,024.77          | 0.00                 | 0.00   | 59,539.00 |
| 62,685,024.77 | 62,685,024.77          | 0.00                 | 0.00   |           |
| 62,744,563.77 | 62,685,024.77          | 0.00                 | 0.00   | 59,539.00 |
| 62,685,024.77 | 62,685,024.77          | 0.00                 | 0.00   |           |
| 25,011,826.47 |                        |                      |        |           |
| 6,252,956.62  |                        |                      |        |           |
| 250.88%       |                        |                      |        |           |
| 1002.49%      |                        |                      |        |           |
| 62,744,563.77 |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 59,539.00     |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 62,685,024.77 |                        |                      |        |           |
| 0.00          |                        |                      |        |           |
| 173,098.80    |                        |                      |        |           |
| 173,098.80    |                        |                      |        |           |

# S.25.01.21

## Solvency Capital Requirement - for undertakings on Standard Formula

|   | Gross solvency capital requirement | USP   | Simplifications |
|---|------------------------------------|-------|-----------------|
|   | 00110                              | 00090 | 00120           |
| Market risk   | 23,703                             |       |                 |
| Counterparty default risk   | 1,041                              |       |                 |
| Life underwriting risk  | 0                                  |       |                 |
| Health underwriting risk  | 2,503                              |       |                 |
| Non-life underwriting risk  | 0                                  |       |                 |
| Diversification   | -2,499                             |       |                 |
|   |                                    |       |                 |
| Intangible asset risk   | 0                                  |       |                 |
|   |                                    |       |                 |
| <b>Basic Solvency Capital Requirement</b>   | <b>24,748</b>                      |       |                 |
|   |                                    |       |                 |
| <b>Calculation of Solvency Capital Requirement</b>  | 00100                              |       |                 |
| Operational risk  | 323                                |       |                 |
| Loss-absorbing capacity of technical provisions   | 0                                  |       |                 |
| Loss-absorbing capacity of deferred taxes   | -60                                |       |                 |
| Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | 0                                  |       |                 |
| <b>Solvency Capital Requirement excluding capital add-on</b>                                | <b>25,012</b>                      |       |                 |
| Capital add-ons already set   | 0                                  |       |                 |
| <b>Solvency capital requirement</b>   | <b>25,012</b>                      |       |                 |
|   |                                    |       |                 |
| <b>Other information on SCR</b>   |                                    |       |                 |
| Capital requirement for duration-based equity risk sub-module                               | 0                                  |       |                 |
| Total amount of Notional Solvency Capital Requirements for remaining part                   | 0                                  |       |                 |
| Total amount of Notional Solvency Capital Requirements for ring fenced funds                | 0                                  |       |                 |
| Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios   | 0                                  |       |                 |
| Diversification effects due to RFF nSCR aggregation for article 304                         | 0                                  |       |                 |

# 5.28.01.01

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

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

MCR<sub>IL</sub> Result

C0010

619

| Net (of reinsurance/SPV) best estimate and TP calculated as a whole | Net (of reinsurance) written premiums in the last 12 months |
|---|---|
| C0020   | C0030   |

Medical expense insurance and proportional reinsurance  
Income protection insurance and proportional reinsurance  
Workers' compensation insurance and proportional reinsurance  
Motor vehicle liability insurance and proportional reinsurance  
Other motor insurance and proportional reinsurance  
Marine, aviation and transport insurance and proportional reinsurance  
Fire and other damage to property insurance and proportional reinsurance  
General liability insurance and proportional reinsurance  
Credit and suretyship insurance and proportional reinsurance  
Legal expenses insurance and proportional reinsurance  
Assistance and proportional reinsurance  
Miscellaneous financial loss insurance and proportional reinsurance  
Non-proportional health reinsurance  
Non-proportional casualty reinsurance  
Non-proportional marine, aviation and transport reinsurance  
Non-proportional property reinsurance

|       |        |
|-------|--------|
| 2,402 | 10,772 |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |
| 0     |        |

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

MCR<sub>L</sub> Result

C0040

0

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

Obligations with profit participation - guaranteed benefits  
Obligations with profit participation - future discretionary benefits  
Index-linked and unit-linked insurance obligations  
Other life (re)insurance and health (re)insurance obligations  
Total capital at risk for all life (re)insurance obligations

|  |  |
|--|--|
|  |  |
|  |  |
|  |  |
|  |  |

### Overall MCR calculation

Linear MCR  
SCR  
MCR cap  
MCR floor  
Combined MCR  
Absolute floor of the MCR

C0070

|        |
|--------|
| 619    |
| 25,012 |
| 11,255 |
| 6,253  |
| 6,253  |
| 2,196  |
| 6,253  |

Minimum Capital Requirement