Sovereign Health Care

Solvency and Financial Condition Report (SFCR) 2020

Version: 2020

Date: 24 March 2021

Any communication concerning this document should be addressed to:

Finance Director
Sovereign Health Care
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Key Document Summary

Document Status	Live
Document Owner	Finance and Investment Subgroup
Approved by	Board
Date Approved	24 March 2021

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1. COMPANY DETAILS

Company Number :	00085588
Firm Reference Number :	202818
Registered Office :	Royal Standard House 26 Manningham Lane Bradford West Yorkshire BD1 3DN
Registered Auditors :	BDO 55 Baker Street London W1U 7EU
Bankers :	Svenska Handelsbanken, AB 1st Floor Centre of Excellence Hope Park Bradford BD5 8HH
Solicitors :	Gordons LLP Piccadilly House 8 Duke Street Bradford BD1 3QX
Investment Managers :	Torevell & Partners 5 Oxford Court Manchester M2 3WQ
Internal Audit :	Naylor Wintersgill Carlton House Grammar School Street Bradford BD1 4NS
Regulators :	Prudential Regulation Authority 20 Moorgate London EC2R 6DA Financial Conduct Authority 25 The North Colonnade London 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

Following CP8/18 "Solvency II: external audit of the public disclosure requirement", in which the PRA proposed removing the external audit requirement for the SCFRs of certain small Solvency II firms and groups, the PRA published PS25/18.

The threshold will be defined by the result of a calculation based on gross written premiums and best estimate liabilities. The metric means that firms with gross written premiums of less than £100m and best estimate liabilities of less than £1bn are likely to be classified as small insurers and therefore not require an audit of their SFCR.

Sovereign Health Care has applied the metric as stated above, and the board are of the opinion the SFCR will not require an audit.

3. STATEMENT OF DIRECTORS’ RESPONSIBILTIES

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 24th March 2021.

Russ Piper
Chief Executive

4. 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 and 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.

5. 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 70,500 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.

The following principles remain core to the business;

- To remain an independent company and provider of individual and company health care cash plans
- To grow our customer numbers in a profitable manner
- To be able to gift the equivalent of between 5% and 10% of annual turnover each year in charitable donations from investment returns
- To deliver value for money and useable products to its customers
- To remain a low compliance risk to our regulators

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 individual 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 £6.8m 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 45 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 short of £591,000 to charitable causes during 2020. For future periods we intend to keep the level of charitable donations at an equivalent amount of between 5% and 10% of annual turnover.

Dignity, respect and treating each other as we wish to be treated is as important as our overall business results. The way in which we interact with each other as colleagues, customers and other stakeholders is essential for our future and the Board made a commitment to our Culture and Values initiative which commenced during the 2019, whilst the pandemic slowed progress on this initiative, the plan will be to progress this through 2021.

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 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, a new accounting platform, transition to in-house hosting of all key systems, improvements in our claims processing methodology, insurance processing platform availability and robustness improvements and delivery of a new hosted website and joining capability. In 2018, significant steps were achieved to deliver our on-line self-service customer portal, with this service being fully marketed throughout 2019. As at the end of December 2020, approximately 23,000 registrations were completed for this service. Further investment was committed in 2020 to make additional improvements to our administration system and processes, 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, this IT improvement program will continue into 2021.

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.

In 2020, the Company continued to strengthen its Corporate Governance by appointing three new Non-Executive Directors (NEDs), this forms part of the medium-term plan to become a fully independent Board in 2022. Sovereign Health Care continues to adopt the AFM Corporate Governance Code in an appropriate manner for the size and complexity of our organisation. The Board are of the opinion, all principles set out below were met:

- **Purpose and Leadership** - An effective board promotes the purpose of an organisation, and ensured that its values, strategy and culture align with that purpose.
- **Board Composition** - Effective board composition required an effective chair and a balance of skills, background, experience and knowledge with individual directors having sufficient capacity to make valuable contribution. The size of a board should be guided by the scales and complexity of the organisation.
- **Director Responsibilities** - The board and individual directors should have a clear understanding of their accountability and responsibilities. The board’s policies and procedures should support effective decision-making and independent challenge.
- **Opportunity And Risk** - A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establish oversight for the identification and mitigation of risks.
- **Remuneration** - A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.
- **Stakeholder Relations and Engage** - Directors should foster effective stakeholder relationships aligned to the organisation’s purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

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

Summary of statutory results

	Actual 2020 £000's	Budget 2020 £000's	Variance 2020 £000's	2019 £000's
Earned Income				
Net Written Premiums	10,677	11,429	(752)	10,911
Net Commisions Received	75	84	(9)	57
Claims incurred				
Net Claims Incurred	(5,571)	(7,608)	2,037	(7,838)
Net Operating Expenses	(2,963)	(3,857)	893	(3,347)
Underwriting Result	**2,218**	**48**	**2,170**	**(217)**
Investment Income - Net	990	1,518	(528)	1,287
Interest Payable	-	-	-	-
Realised gain/(loss) on investments	257	-	257	3,359
Impairment of land and buildings	(80)	-	(80)	-
Unrealised gain/loss) on investments	103	-	103	3,421
Charitable donations	(591)	(602)	11	(855)
Surplus/(deficit) before taxation	**2,897**	**964**	**1,932**	**6,995**

The global COVID-19 pandemic began impacting operations at the start of 2020. Following the various UK government's announcements throughout the year, Sovereign Health Care implemented its business continuity plan, limiting the office to key workers only. The office environment complies with social distancing requirements after completing a COVID-19 risk assessment. The Board are satisfied the measures put in place meet government guidance, and continues to do so, to minimise the risk for Sovereign employees working in our office. Limiting the office to key workers only, assured minimal disruption to customers, enabling the continued processing of customers' claims and payments as normal. The Sovereign team were all enabled to work remotely where required and continued to operate our telephone lines and a call back service outside of our normal hours.

During March sales started to decline as companies began closing workplaces and our field sales team remained at home throughout the year. Although this reduced sales growth, measures were successfully implemented to market our product offering in a digital format whilst complying with COVID restrictions. This offering will be further developed into 2021.

Global markets were shocked during 2020, particularly in February and March as the extent of the pandemic came to fruition. This inherently effected our investment portfolio at the start of the year but markets rallied in the last quarter as the presidential election came to a close, electing Joe Biden, and the agreement of a basic Brexit trade deal with the EU was finalised. Our investment portfolio, made up of collective funds, ended the year at £51,573,948 (2019: £50,199,191), coupled with cash and cash at the bank of £19,882,549 (2019:

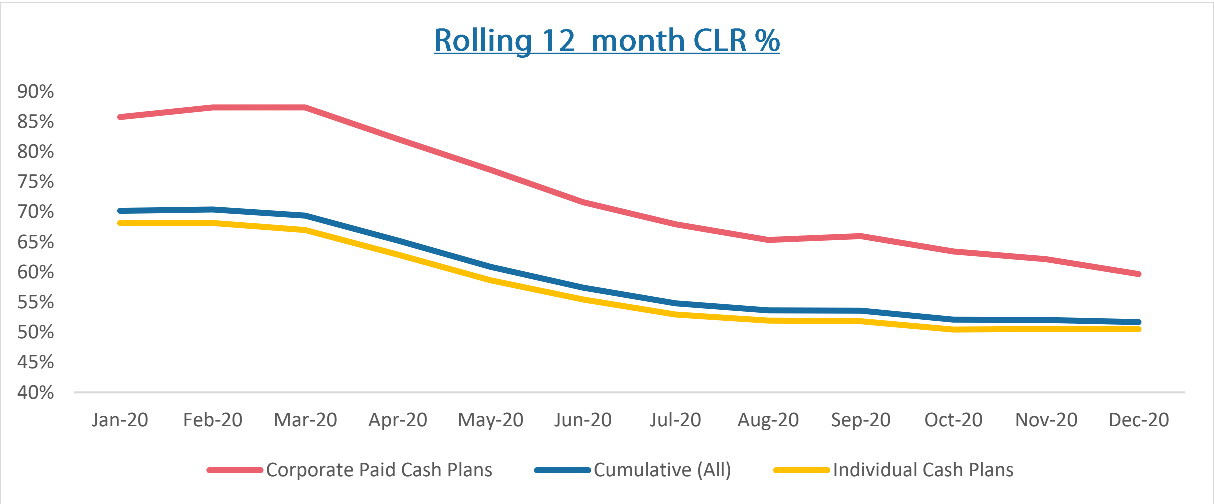
£18,696,259) contributes to our extremely strong capital position. Whilst the pandemic has not gone away, the Board are very aware of the market volatility and the significant human and economic impact for the foreseeable future. Against, the volatile background, the Board are in agreement to continue investing in good quality equities for the long-term, alongside a more defensive element provided by our cash and deposit holdings. The company remains mindful that markets can be volatile and as a result we look to ensure that the underlying business remains profitable and self-supporting.

For the year ended 31 December 2020 the consolidated Sovereign Health Care statutory results show an overall pre-tax profit of just below £2.9m (2019: £7m profit). Net earned premiums reduced by £233,290 as a direct result of reduced sales activity, as our field sales team remained at home, unable to visit worksites from mid-March onwards. Whilst this particular sales channel was considerably affected, the business to business sales channel remained strong, achieving 84% to new sales target. To mitigate the risk of reduced worksite sales, a new digital sales channel was successfully implemented at the start of September, coupled with remote account management. Underwriting results improved as a direct result of the reduced claims. Claiming behaviour and claims payments changed significantly, as health care practitioners closed their doors in the first lockdown, only attending to emergency appointments. April and May saw low levels of claims, however this was temporary, as restrictions eased claims increased. By the end of the year, near typical claiming levels returned, even throughout the second lockdown as most practitioners remained open. The Board believes offering other benefits such as a 24-hour confidential telephone helpline and access to a 24-hour GP service are integral to our product offering, giving customers extra support and throughout the pandemic, has added more emphasis on customer product value.

Operating expense ratio is calculated by taking the net operating expenses over net earned premium, showing the proportion of premiums which are used in running the insurance business. The operational expense ratio has reduced by 3%, directly related to the operational impact of the various national lockdowns. Included in net operational expenses for 2020 was an amount of £160,415 relating to strategic IT developments, which were not capitalised in the balance sheet.

The CLR is the ratio of claims paid to policyholders compared to the total value of premiums received from policyholders. The 12 month claims loss ratio for all books of business combined had significantly reduced to 52% due to practitioners closing over the first lockdown period, however when looking at the last 6 months of the year, this ratio increases to 60%, near expected levels. The Board have also made the decision to postpone consumer product and premium reviews for the foreseeable future, until the full risks of the pandemic are known. The CLR by book type is detailed below.

Please note that the cumulative analysis shown below is the aggregate of all books of business, cash plan and corporate paid plans.



6. 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 subgroups and determining their membership and delegated authorities

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

- Finance and Investment subgroup
- Remuneration subgroup
- Audit and Risk subgroup
- Sales and Marketing subgroup
- Compliance and Governance subgroup
- Community Programme subgroup
- Systems and IT subgroup

The Terms of Reference of each subgroup and their membership are reviewed annually by the Board. Following a review at the beginning of 2021, the Audit and Risk subgroup will change to the Audit and Governance subgroup and the Compliance and Governance subgroup will become the Risk and Compliance subgroup.

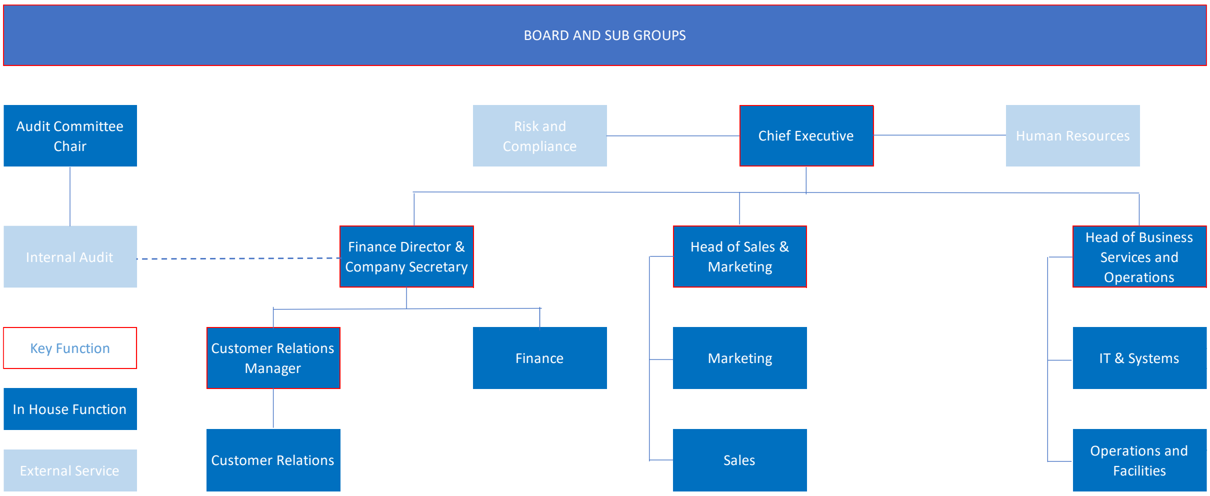
Board Remuneration

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 2018 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 Remuneration subgroup for presentation to the Board as a whole. Currently the role of Chair of the Board receives 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 requirements of the Senior Managers and Certification Regime (SM&CR) as introduced by the FCA from 10 December 2018 (previously the Senior Insurance Managers Regime) 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 2020 ORSA will be reviewed and approved by the Board prior to 31 July 2021.

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 Boards 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 Investment Subgroup, the Audit and Risk Subgroup and the Compliance and Governance Subgroup. Each subgroup shall report back to the Board who will decide on the adequacy of the subgroup's review. It is the Board's responsibility to establish the terms of reference of each subgroup.

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

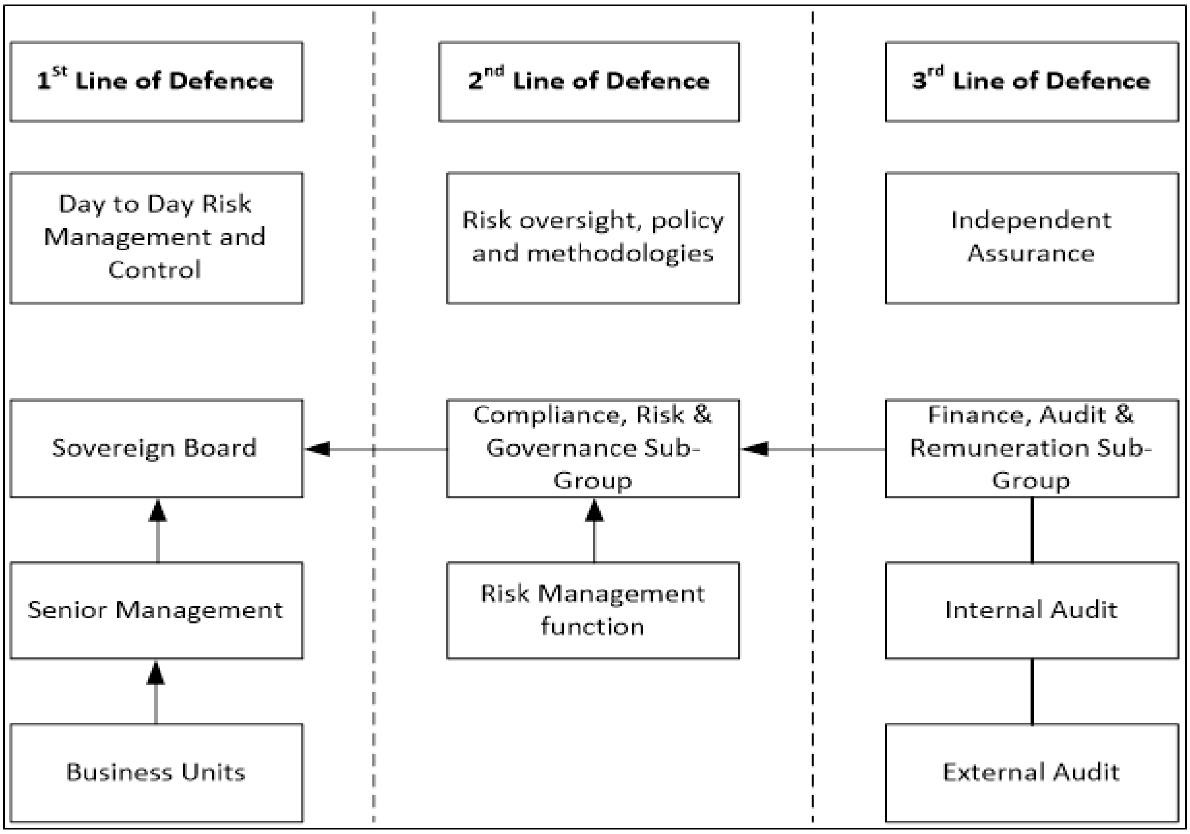
- The Business Principles and related objectives

- 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 subgroup 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 reporting from this function is direct to the chairs of both the Audit and Risk and/or the Compliance and Governance subgroups.

The Risk Management function reports to the Sovereign Board via the Audit and Risk and/or the Compliance and Governance subgroups.

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	• agree assessment of the risk with the risk management function including gross and net scores • sign off any relevant authority levels or limits • agree all mitigating strategies identified, plus determine if new controls are required/existing ones can be modified or removed
Control owner	• operate and monitor controls identified within the risk register • report regularly to risk management function and risk owner regarding operation of controls • confirm with risk management the on-going appropriateness of control scoring • recommend to risk owner any changes in control design

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

Subgroup responsibilities

In addition to the Compliance and Governance subgroup, the Board of Sovereign has delegated responsibilities to the Finance and Investment subgroup, the Remuneration subgroup, the Audit and Risk subgroup, the Sales and Marketing subgroup, the Community Programme subgroup and the Systems and IT subgroup. 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 subgroups 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 subgroup 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 Subgroup, 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 subgroup 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 Subgroups.
- At a secondary level each of the Sovereign Subgroups 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 Subgroups.

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 Audit and Risk and/or the Compliance and Governance subgroups 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 subgroup 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 Subgroup
- Audit and Risk Subgroup

- Remuneration Subgroup
- Finance and Investment Subgroup
- Sales and Marketing Subgroup
- Systems and IT Subgroup
- 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.

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 appropriate subgroup with timescales and prioritisation guidance being provided. In light of the subgroup changes planned for 2021, the internal audit plan will be approved by the Audit and Governance subgroup going forward.

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 Chair of the Audit subgroup. 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

The actuarial function is outsourced to a third party actuarial consulting practice along with the SMF20, Chief Actuarial Function. Oversight of the requirements and deliverables is appointed to the Finance Director.

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.

7. 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 recognises the significant influence of the valuation of the Company's investment portfolio on the SCR coverage levels, currently at 299% (2019: 297%). The Board will continue to review and consider the solvency position and coverage levels on a periodic basis, should the ratio drop to 200%, this would trigger the board to consider crystallisation of investment assets in order that the company maintain sufficient liquidity to meet 12 months cost of claims and operational expenses as they fall due.

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) (£5.9m) or b) 12 months forecast claims payments (£7.2m). 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 £7.2m. 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 £23.6m (2019: £22.8m) 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, the capital requirement under the Solvency II regime is £2.3m (2019: £2.4m) with the balance of the SCR of £21.3m reflecting the costs of having the additional reserves of c£70.5m.

Risk Profile

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

Risk Category	Reference No	Description
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.
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 deposits and cash equivalents of £18.8m (2019: £17.6m) are held with a number of counterparties and different terms. Cash immediately available on call equates to £11.8m, this balance includes cash in hand of £1k. Due to economic uncertainty, the Board felt it prudent to reduce the exposure to market volatility by holding a significant amount of cash as a defensive element, the current portfolio having a ratio of 78% in collective funds and 22% in cash and deposits. This active management of the portfolio accounts for the significant increase in deposits and cash equivalents. 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 £1.5m (2019: £1.5m), and in meeting policyholder claims, represented on the year-end statement of financial position by the provision for outstanding claims totalling £0.6m (2018: £0.7m). 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 £19.5k 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 but not received (included within debtors) of £642k (2019: £527k).

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 polices.

Emerging Risks

Emerging risks are risks which may develop or which already exist that are difficult to quantify but may have a high loss potential. The board considers the following risks as emerging:

Financial Risks of Climate Change

Climate change, and society's response to it, presents many financial risks. Whilst the financial risk from climate change may crystallise in full over a longer time horizon, they are also becoming apparent now. Financial risks from climate change arise from two primary channels, or 'risk factors', physical and transition risk. After the PRA issued a supervisory statement in April 2019, the Board has considered the financial risks and the associated materiality. The potential physical risk for the group, increased underwriting due to a fluctuation in hospital stays triggered by weather conditions, is deemed to be limited. Claims trends are actively monitored on an ongoing basis to identify any significant change in claims experience which allows prices to be adjusted accordingly, with 30 days' notice to the customer. The potential transition risk has been identified regarding the valuation of collective funds, and the underlying assets invested into sectors sensitive towards a low carbon economy.

Our investment strategy is focussed on delivering medium to long term growth whilst creating sufficient dividend income to fund the community funding programme. The Board accept there is an element of financial risk relating to climate change, specifically transition risk associated with investing into collective funds. Our collective funds, valued at £51.6m, present the largest risk. The Board have opted for an engagement strategy with our asset managers, and our investment advisors are in continuous talks with the fund managers to discuss environmental, social and governance (ESG) consideration as well as performance.

Through the finance and investment sub-group and the Board, our investment advisors present ESG ratings for each collective fund including the following measures:

- Peer rank
- Global rank
- % of "green" revenue
- % of "brown" revenue
- Carbon intensity figure
- Carbon intensity figure (CIF) band
- Overall ESG rating

Of the 18 collective funds we are invested in, 16 are rated with a low or moderate CIF band, 1 fund was rated as having a high CIF band and 1 was unclassified as this fund had only been recently established and has not been rated. The active asset managers within our portfolio all have a preference for sustainable business models and good governance, and with the increasing focus on ESG considerations, the Directors were pleased these funds produced above average ratings as a result. With active engagement, rather than an exclusion mandate, the focus is on evaluating and monitoring effective risk management of climate change whilst keeping ESG ratings as an indicator.

The Board have also requested each fund manager provide a climate change statement for review alongside a sector analysis in order to perform stress testing, this is ongoing and will form a part of the TCFD (Task Force on Climate-related Financial Disclosures) reporting requirements for 2021. With risks, there are potential opportunities, and the company has concentrated efforts in defining a paperless claims journey for our customers, which went live in the latter half of 2020. The move away from paper reduces the Group's carbon footprint in addition to realising operational cost efficiencies.

The appropriate director has been allocated the responsibility of managing the financial risks of climate change and their statement of responsibilities have been updated accordingly. These risks identified will be continually monitored across multiple sub groups including:

- Finance and Investment
- Audit and Risk
- Compliance and Governance

Having regard to the nature of our strategic plans, the Board does not consider climate change to be of significant risk in the medium term but continues to monitor and manage any risks that arise. The Group keeps a watchful eye on developments to ensure understanding of the effects of climate change are appropriately reflected in our strategic plans and ORSA.

Risk Sensitivity and Solvency II impact

We are strongly capitalised with a Solvency II capital surplus of £46.9m (2019: £45m) representing a solvency cover of 299% (2019: 297%). Capital requirements have increased by £0.8m as a result of the increase in value of the investment portfolio.

	2020	**2019**
		£
Own Funds	70,452,268	67,754,923
Solvency Capital Requirement (SCR)	(23,587,697)	(22,794,053)
Solvency II Capital Surplus	46,864,570	44,960,869
Solvency Capital Ratio	299%	297%

The SCR of £23.6m would change by an amount equal or opposite to 19% or less following a:

- 20% rise or fall in equities (surplus would increase by £5.9m/decrease by £5.9m respectively), or
- 100% rise in the volume of insurance underwritten (surplus would move by less than £400k)

Sensitivity

Investments	**20% decrease in equities**	**20% increase in equities**
SCR	19,195,603	27,991,967
Own Funds	60,137,478	80,767,057
Surplus	40,941,875	52,775,090
Solvency Capital Ratio	213%	189%
Movement in surplus	(5,922,695)	5,910,520
Movement in SCR	-19%	19%

Underwriting	**Decrease by 100%**	**Increase by 100%**
SCR	23,464,211	23,926,056
Movement in SCR	(123,486)	338,358

8. 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.

Balance Sheet		2020 Solvency II	2020 Statutory Account
	£	£	£
Intangible assets		-	-
Deferred tax assets		-	-
Property, plant & equipment held for own use		675,000	720,629
Holdings in related undertakings, including participations		801,293	10,100
Equities - unlisted		2,519	2,519
Collective Investments Undertakings		51,573,948	51,573,948
Deposits other than cash equivalents		6,995,650	-
Insurance and intermediaries receivables		641,519	641,519
Cash and cash equivalents		11,796,996	18,801,781
Any other assets, not elsewhere shown		202,464	288,903
Total assets		**72,689,389**	**72,039,398**
Best Estimate	596,720		
Risk margin	156,635		
Technical provisions - health (similar to non-life)		753,355	1,085,163
Contingent liabilities		19,548	-
Provisions other than technical provisions		106,284	106,284
Deferred tax liabilities		182,827	-
Insurance & intermediaries payables		36,073	36,073
Payables (trade, not insurance)		14,180	14,180
Any other liabilities, not elsewhere shown		1,124,853	1,124,853
Total liabilities		**2,237,121**	**2,366,553**
Excess of assets over liabilities		**70,452,268**	**69,672,845**

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
Deferred Tax Asset	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.
Intangible Assets	Write down any value to £Nil to reflect estimated fair market value.
Property, Plant and Equipment	Write down any value to £Nil to reflect estimated fair market value.
Holdings in related undertakings, including participations	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. (where net assets value is negative this is included within contingent liabilities)
Collective investments undertakings and equities	This includes all financial investments except subsidiaries (these are brought in through participations). All investments are measured at fair value with adjustments through the profit and loss. The methodologies applied to determination of fair value holdings are : 1. Listed/quoted investments are carried at market bid value; 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. The vast majority of the assets held are valued using methodology 1. There are 4 methodologies available, however above are shown the 2 adopted.
Financial Receivables inc. Insurance Receivables	This covers: Amounts owed from policyholders. 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.

Category of Asset (continued)	SII Valuation Basis
Cash and cash equivalents and deposits other than cash equivalents	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.
Any other assets, not elsewhere shown	Assets are held at fair value or equivalent due to short duration of the assets held.

Category of Liability	SII Valuation Basis
Technical Provisions	Adjustment required to remove the statutory accounting balances and replace with best estimate of liabilities and risk margin balances.
Contingent Liabilities	The balance represents the excess of liabilities over assets of a wholly owned subsidiary that has a negative net asset value.
Other Provisions	Other provisions represent amounts expected to be paid and are held at fair value.
Payables (trade)	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.
Other Liabilities	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.

	2020			2019		
	£	£	£	£	£	£
UK Statutory Retained Earnings			**69,672,845**			**67,180,555**
Deferred Tax Asset	-			-		
Participations	791,193			732,290		
Transfer out of cash and cash equivalents	(7,004,785)			(811,295)		
Transfer of cash into deposits other than cash and cash equivalents	6,995,650			811,295		
Change in valuation basis of other assets	(132,068)			(265,526)		
Change in assets		649,990			466,764	
Removal to technical provisions	1,085,163			1,262,221		
Best Estimate liabilities	(596,720)			(845,586)		
Risk margin	(156,635)			(161,585)		
Change in valuation basis of other liabilities	(19,548)			(12,718)		
Deferred Tax Liabilites	(182,827)			(134,729)		
Change in liabilities		129,432			107,604	
Net change			779,422			574,368
Solvency II Own Funds			**70,452,268**			**67,754,923**

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 market 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.

9. 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	**2020**	**2019**
	£	**£**
Excess of assets over liabilities	70,452,268	67,754,923
Other basic own fund items	-	-
Reconciliation reserve	**70,452,268**	**67,754,923**

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	**Solvency II**	**UK GAAP**	**Appendix Reference**
	£	**£**	
At 31 December 2020	70,452,268	69,672,845	s.23.01.b
Minimum Capital Requirement	5,896,924		s.23.01.b
Solvency Capital Requirement	**23,587,697**		s.23.01.b/s.25.01.b
SCR coverage ratio	**299%**		s.23.01.b

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

Overall MCR calculation	**2020**	**2019**	**Appendix Reference**
	£	**£**	
Linear MCR	527,581	550,252	s.28.01.b
SCR	23,587,697	22,794,053	s.28.01.b
MCR cap	10,614,464	10,257,324	s.28.01.b
MCR floor	5,896,924	5,698,513	s.28.01.b
Combined MCR	5,896,924	5,698,513	s.28.01.b
Absolute floor of the MCR	2,255,200	2,153,325	s.28.01.b
Minimum Capital Requirement	**5,896,924**	**5,698,513**	

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

Category		**31-Dec-20**			**31-Dec-19**
		Risk Amount	**Diversif. Factor**	**Capital Requirements**	
Risk Component					
Basic Operational Risk Charge		**320,316**		**320,316**	**327,315**
Interest Rate Risk	54,003		(48,992)	5,012	3,186
Equity Risk	18,636,949		(1,186,958)	17,449,991	17,301,423
Property Risk	168,750		(45,874)	122,876	138,379
Spread Risk	-		-	-	-
Currency Risk	8,017,921		(3,415,216)	4,602,705	4,048,419
Concentration Risk	35,726		(35,668)	58	-
Market Risk		**26,913,349**	**(4,732,707)**	**22,180,642**	**21,491,407**
Counterparty Risk		**1,452,457**	**(32,371)**	**1,420,086**	**880,663**
Health Underwriting Risk		**2,820,217**	**(569,545)**	**2,250,673**	**2,401,773**
Overall Diversification			**(2,584,020)**	**(2,584,020)**	**(2,307,105)**
Solvency Capital Requirement		**31,506,340**	**(7,918,643)**	**23,587,697**	**22,794,053**
Loss absorbing impact of Deferred Tax				-	-
Solvency Capital Requirement		**31,506,340**	**(7,918,643)**	**23,587,697**	**22,794,053**

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

Sovereign Health Care

Solvency and Financial Condition Report

Disclosures

31 December

2020

(Monetary amounts in GBP thousands)

General information

Undertaking name	Sovereign Health Care
Undertaking identification code	213800PGKJQYRABOJQ62
Type of code of undertaking	LEI
Type of undertaking	Non-life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2020
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business
S.05.02.01 - Premiums, claims and expenses by country
S.17.01.02 - Non-Life Technical Provisions
S.19.01.21 - Non-Life insurance claims
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	675
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	59,373
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	801
R0100	*Equities*	3
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	3
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	51,574
R0190	*Derivatives*	
R0200	*Deposits other than cash equivalents*	6,996
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	0
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	0
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	642
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	11,797
R0420	Any other assets, not elsewhere shown	202
R0500	**Total assets**	72,689

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	753
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	753
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	597
R0590	*Risk margin*	157
R0600	Technical provisions - life (excluding index-linked and unit-linked)	0
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	
R0630	*Best Estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	0
R0660	*TP calculated as a whole*	
R0670	*Best Estimate*	
R0680	*Risk margin*	
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	
R0710	*Best Estimate*	
R0720	*Risk margin*	
R0740	Contingent liabilities	20
R0750	Provisions other than technical provisions	106
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	183
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	36
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	14
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,125
R0900	**Total liabilities**	2,237
R1000	**Excess of assets over liabilities**	70,452

S.05.01.02

Premiums, claims and expenses by line of business

Non-life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)												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	
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0200
	Premiums written																	
R0110	Gross - Direct Business	10,628																10,628
R0120	Gross - Proportional reinsurance accepted																	0
R0130	Gross - Non-proportional reinsurance accepted																	0
R0140	Reinsurers' share																	0
R0200	Net	10,628	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,628
	Premiums earned																	
R0210	Gross - Direct Business	10,677																10,677
R0220	Gross - Proportional reinsurance accepted																	0
R0230	Gross - Non-proportional reinsurance accepted																	0
R0240	Reinsurers' share																	0
R0300	Net	10,677	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	10,677
	Claims incurred																	
R0310	Gross - Direct Business	5,386																5,386
R0320	Gross - Proportional reinsurance accepted																	0
R0330	Gross - Non-proportional reinsurance accepted																	0
R0340	Reinsurers' share																	0
R0400	Net	5,386	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5,386
	Changes in other technical provisions																	
R0410	Gross - Direct Business	0																0
R0420	Gross - Proportional reinsurance accepted																	0
R0430	Gross - Non-proportional reinsurance accepted																	0
R0440	Reinsurers' share																	0
R0500	Net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R0550	**Expenses incurred**	3,413	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	3,413
R1200	**Other expenses**																	
R1300	**Total expenses**																	3,413

S.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
R0010								
		C0080	C0090	C0100	C0110	C0120	C0130	C0140
	Premiums written							
R0110	Gross - Direct Business	10,628						10,628
R0120	Gross - Proportional reinsurance accepted							0
R0130	Gross - Non-proportional reinsurance accepted							0
R0140	Reinsurers' share							0
R0200	Net	10,628						10,628
	Premiums earned							
R0210	Gross - Direct Business	10,677						10,677
R0220	Gross - Proportional reinsurance accepted							0
R0230	Gross - Non-proportional reinsurance accepted							0
R0240	Reinsurers' share							0
R0300	Net	10,677						10,677
	Claims incurred							
R0310	Gross - Direct Business	5,386						5,386
R0320	Gross - Proportional reinsurance accepted							0
R0330	Gross - Non-proportional reinsurance accepted							0
R0340	Reinsurers' share							0
R0400	Net	5,386						5,386
	Changes in other technical provisions							
R0410	Gross - Direct Business	0						0
R0420	Gross - Proportional reinsurance accepted							0
R0430	Gross - Non-proportional reinsurance accepted							0
R0440	Reinsurers' share							0
R0500	Net	0						0
R0550	**Expenses incurred**	3,413						3,413
R1200	**Other expenses**							
R1300	**Total expenses**							3,413

S.17.01.02

Non-Life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				Total Non-Life obligation
		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	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport reinsurance	Non-proportional property reinsurance	
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**	0																0
R0050	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole																	0
	Technical provisions calculated as a sum of BE and RM																	
	Best estimate																	
	Premium provisions																	
R0060	Gross	-66																-66
R0140	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0150	**Net Best Estimate of Premium Provisions**	-66																-66
	Claims provisions																	
R0160	Gross	662																662
R0240	Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default																	0
R0250	**Net Best Estimate of Claims Provisions**	662																662
R0260	**Total best estimate - gross**	597																597
R0270	**Total best estimate - net**	597																597
R0280	**Risk margin**	157																157
	Amount of the transitional on Technical Provisions																	
R0290	Technical Provisions calculated as a whole																	0
R0300	Best estimate																	0
R0310	Risk margin																	0
R0320	**Technical provisions - total**	753																753
R0330	**Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total**	0																0
R0340	**Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total**	753																753

S.19.01.21

Non-Life insurance claims

Total Non-life business

Z0020	Accident year / underwriting year	Accident Year

Gross Claims Paid (non-cumulative)
(absolute amount)

		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
	Year	**Development year**											**In Current year**	**Sum of years (cumulative)**
		0	1	2	3	4	5	6	7	8	9	10 & +		
R0100	Prior											0	0	0
R0160	2011	5,636	666	0	0	0	0	0	0	0	0		0	6,302
R0170	2012	6,051	690	0	0	0	0	0	0	0			0	6,741
R0180	2013	6,121	694	0	0	0	0	0	0				0	6,815
R0190	2014	6,459	661	0	0	0	0	0					0	7,121
R0200	2015	6,507	585	0	0	0	0						0	7,092
R0210	2016	6,507	704	0	0	0							0	7,211
R0220	2017	6,520	625	0	0								0	7,145
R0230	2018	6,627	641	0									0	7,268
R0240	2019	7,010	652										652	7,662
R0250	2020	4,862											4,862	4,862
R0260												**Total**	5,514	68,220

Gross Undiscounted Best Estimate Claims Provisions
(absolute amount)

		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
	Year	**Development year**											**Year end (discounted data)**
		0	1	2	3	4	5	6	7	8	9	10 & +	
R0100	Prior											0	0
R0160	2011	0	0	0	0	0	0	0	0	0	0		0
R0170	2012	0	0	0	0	0	0	0	0	0			0
R0180	2013	0	0	0	0	0	0	0	0				0
R0190	2014	0	0	0	0	0	0	0					0
R0200	2015	0	0	0	0	0	0						0
R0210	2016	0	0	0	0	0							0
R0220	2017	0	0	0	0								0
R0230	2018	0	0	0									0
R0240	2019	0	0										0
R0250	2020	0											0
R0260												**Total**	0

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	70,452	70,452			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	70,452	70,452	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	70,452	70,452	0	0	0
R0510	Total available own funds to meet the MCR	70,452	70,452	0	0	
R0540	Total eligible own funds to meet the SCR	70,452	70,452	0	0	0
R0550	Total eligible own funds to meet the MCR	70,452	70,452	0	0	
R0580	**SCR**	23,588				
R0600	**MCR**	5,897				
R0620	**Ratio of Eligible own funds to SCR**	298.68%				
R0640	**Ratio of Eligible own funds to MCR**	1194.73%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	70,452				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	0				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0				
R0760	**Reconciliation reserve**	70,452				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	257				
R0790	**Total Expected profits included in future premiums (EPIFP)**	257				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	22,181		
R0020	Counterparty default risk	1,420		
R0030	Life underwriting risk	0		
R0040	Health underwriting risk	2,251		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-2,584		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	23,267		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	320
R0140	Loss-absorbing capacity of technical provisions	0
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	23,588
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	23,588
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	0

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	528

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance	597	10,628
R0030	Income protection insurance and proportional reinsurance	0	
R0040	Workers' compensation insurance and proportional reinsurance	0	
R0050	Motor vehicle liability insurance and proportional reinsurance	0	
R0060	Other motor insurance and proportional reinsurance	0	
R0070	Marine, aviation and transport insurance and proportional reinsurance	0	
R0080	Fire and other damage to property insurance and proportional reinsurance	0	
R0090	General liability insurance and proportional reinsurance	0	
R0100	Credit and suretyship insurance and proportional reinsurance	0	
R0110	Legal expenses insurance and proportional reinsurance	0	
R0120	Assistance and proportional reinsurance	0	
R0130	Miscellaneous financial loss insurance and proportional reinsurance	0	
R0140	Non-proportional health reinsurance	0	
R0150	Non-proportional casualty reinsurance	0	
R0160	Non-proportional marine, aviation and transport reinsurance	0	
R0170	Non-proportional property reinsurance	0	

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations		
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	528
R0310	SCR	23,588
R0320	MCR cap	10,614
R0330	MCR floor	5,897
R0340	Combined MCR	5,897
R0350	Absolute floor of the MCR	2,255
R0400	**Minimum Capital Requirement**	5,897