DIRECT LINE INSURANCE GROUP PLC, U K INSURANCE LIMITED AND CHURCHILL INSURANCE COMPANY LIMITED

SINGLE SOLVENCY AND FINANCIAL CONDITION REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

INTRODUCTION

Direct Line Insurance Group plc (the "**Company**") together with its subsidiaries (the "**Group**") has prepared a Single Solvency and Financial Condition Report ("**SFCR**") as at 31 December 2019, in accordance with permission granted by the Prudential Regulation Authority ("**PRA**") in December 2015 to produce a Single SFCR. This permission allows the Group to produce one SFCR that covers both the Group and its individual regulated subsidiaries and is valid until 31 December 2020.

The Group's regulated entities are U K Insurance Limited ("**UKI**") and Churchill Insurance Company Limited ("**CIC**"). In meeting the requirements for a Single SFCR, information is reported for the Group, UKI and CIC separately except where that information is equivalent in both nature and scope at Group level to that at regulated subsidiary level. The Boards of Directors of the Company, UKI and CIC (the "**Boards**") have the same membership. Much of the information in the SFCR is equally relevant to the Group, UKI and CIC. Where this is not the case, this has been highlighted.

The requirement to produce an SFCR follows the introduction of Solvency II as the solvency framework which was implemented on 1 January 2016 as the capital adequacy regime for the European insurance industry. Solvency II has established a set of EU-wide capital requirements and risk management standards with the aim of increasing protection for policyholders.

The SFCR presents information on the business and performance, system of governance, risk profile, valuation for solvency purposes and capital management of the Group, UKI and CIC. Relevant information about the business of the Group is also included in the Group's Annual Report & Accounts which is the primary vehicle for reporting performance, consolidated financial statements, corporate governance and risk management to the Group's investors. The Group's Annual Report & Accounts 2019 was published on its website in March 2020 and a copy can be found at: www.directlinegroup.co.uk/en/investors

Some elements of this report are subject to external audit as detailed in the Auditor's report, which can be found on page 64.

EXECUTIVE SUMMARY

SECTION A – Business and performance summary

The Group

The Group's vision is to create a world where insurance is personal, inclusive and a force for good and its purpose is to help people carry on with their lives, giving them peace of mind now and in the future. The Group believes that by serving the needs of its customers it can create value for its people, society, the planet and its shareholders.

In the midst of significant business change, a highly competitive market and an evolving regulatory backdrop, the Group has delivered another good set of financial results, with improved quality, demonstrating its discipline and the value of its business model.

The Group is Britain's leading personal motor insurer measured by in-force policies, mainly represented through its well-known brands Direct Line, Churchill, Privilege, and its new Darwin brand, and also through its partners. The Group is also one of Britain's leading personal home insurers measured by in-force policies selling home insurance products through its brands Direct Line, Churchill and Privilege, and its partners Royal Bank of Scotland and NatWest.

The Group is one of the leading providers of rescue, travel and pet insurance in the UK. Green Flag is the third largest roadside recovery provider. The Group is also the second largest travel and fourth largest pet insurer, as well as providing insurance for mid-to-high-net worth customers.

The Group protects commercial businesses through its brands, NIG, Direct Line for Business and Churchill. NIG sells its products exclusively through brokers operating across the UK, whilst Direct Line for Business sell insurance policies direct via phone and online and Churchill sell insurance policies direct via phone, online and through price comparison websites.

Solvency II lines of business

The policies underwritten by the Group are spread across the Solvency II lines of business including motor vehicle liability insurance, other motor insurance, fire and other damage to property insurance, general liability insurance, income protection insurance, legal expenses insurance, assistance and miscellaneous financial loss.

Business performance in 2019

On an International Financial Reporting Standards ("**IFRS**") basis in 2019, underwriting profit decreased to £232.1 million (2018 restated: £259.8 million) as lower prior-year reserve releases of £294.5 million, including the effects of changes to the Ogden discount rate detailed below, were partially offset by lower operating expenses and reduced weather-related claims of £6 million (2018: £75 million weather-related claims). Operating profit decreased by £59.5 million to £546.9 million (2018 restated: £606.4 million) as a result of reductions in underwriting profit, instalment and other operating income and investment return. Current year operating profit, as a proportion of total operating profit improved, making progress towards the Group's target of achieving more than half of the Group's annual operating profit from current year earnings by the end of 2021.

Following a Government review, as dictated by the terms of the Civil Liability Act 2018, on 15 July 2019 the Lord Chancellor announced a new Ogden discount rate of minus 0.25% to take effect from 5 August 2019. Compared to an assumed Ogden discount rate of 0% this resulted in a £16.9 million increase in reserves split across the Motor and Commercial segments. In 2018, following the granting of royal ascent for the Act in December 2018, the Group reviewed the Ogden discount rate for reserves for large bodily injury claims and selected an assumed rate of 0% for reserving purposes as at 31 December 2018. This resulted in a release of £54.8 million in 2018.

Section A of the SFCR has more information on the Group's business and performance in 2019: see pages 6 to 17 of this report.

SECTION B – System of governance summary

The Group's Board of Directors (the "**Board**") is committed to promoting a culture of high standards of corporate governance, business integrity, ethics and professionalism in all of its activities. The Board endorses the UK Corporate Governance Code 2018 (the "**Code**"), which applied to the 2019 financial year, and the related Guidance on Board Effectiveness. The Board is committed to underpinning all of the Group's activities with the highest standards of corporate governance to help support the creation of long-term sustainable value for the Group's shareholders and other stakeholders.

The Board has resolved to approve and adopt a High Level Control and System of Governance Framework document as a statement of the governance structure and requirements applicable to each Company and the Group.

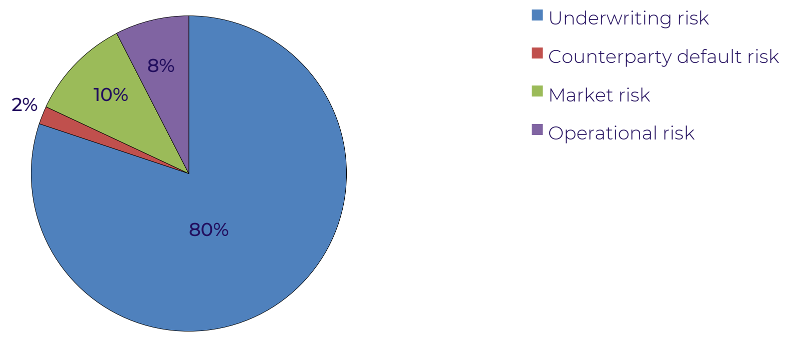
The Group has an embedded Enterprise Risk Management Framework ("**risk management framework**") with clear accountabilities and risk ownership designed to ensure that we identify, manage, mitigate and report on all key risks and controls through the three lines of defence model:

– First line: Management is responsible for embedding risk management into business as usual, and change processes whilst creating transparent reporting of risks and management actions;
– Second line: The Risk function is responsible for the design and recommendation to the Board Risk Committee of the risk management framework, its implementation across the Group and the provision of proportionate oversight of risks, events and management actions throughout the Group; and
– Third line: Group Audit is responsible and accountable for providing an independent and objective view of the adequacy and effectiveness of the Group's risk management, governance and internal control framework.

Section B of the SFCR has more information on the Group's system of governance: see pages 18 to 30 of this report.

SECTION C – Risk profile summary

The following chart shows the UKI Solvency Capital Requirement ("**SCR**") of £1,284.4 million as at 31 December 2019, calculated using the approved internal model, by risk type. The SCR for the Group as at 31 December 2019 using its approved model was £1,316.0 million.



The risk profile of the Group and UKI has not changed materially over the reporting period.

Underwriting risk is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. Underwriting risk includes catastrophe risk and the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

Market risk is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems, or from external events.

Counterparty default risk is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Group undertakings.

The UK left the EU on 31 January ("**Brexit**") with "a deal", so that essentially there has been no substantive changes in practice to the trading and other arrangements between the UK and the EU, at least during the "implementation period" which is due to last until 31 December 2020, unless extended. Nonetheless, the terms, if any, of any future trading relationship between the UK and the EU, and between the UK and other key countries, are not yet known and there remains uncertainty and at least the possibility of a disruptive end to the implementation period. Although the Group is predominantly a UK business, it does, for example have exposure to financial markets and import goods and services to fulfil insurance claims. The Group has been monitoring events carefully and has proactively taken steps to mitigate the likely impact on the Group to the extent it is considered to be appropriate and proportionate to do so, given the considerable uncertainties; however, in the event of a disruptive end to the implementation period the Group will not be immune. Further information can be found on page 56 of the Group's Annual Report and Accounts 2019 at www.directlinegroup.co.uk/en/investors

Section C of the SFCR has more information on the Group's risk profile: see pages 31 to 38 of this report.

SECTION D – Valuation for solvency purposes summary

In accordance with the Solvency II requirements, the Group values all assets and liabilities on the balance sheets of the Group and its regulated entities at fair value, which represents an amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. Goodwill and intangible assets are valued at zero.

An analysis of the Solvency II material classes of assets and liabilities is provided in sections D.1 and D.3 respectively. Section D details the recognition and valuations bases, the judgements and any assumptions made, including sources of estimation uncertainty applied for Solvency II, and compares these with judgements and assumptions made in the preparation of IFRS financial statements.

Section D.2 describes the bases, methods and assumptions for the valuation of Solvency II technical provisions, including the estimation uncertainty, and compares these with the bases, methods and assumptions used in the preparation of the IFRS financial statements.

A summary of the Solvency II balance sheets for the Group and its regulated subsidiaries is set out below:

As at 31 December 2019	Group £m	UKI £m	CIC £m
Total investments	5,821.2	5,589.9	17.3
Property, plant and equipment held for own use	214.9	126.9	–
Reinsurance recoverables	1,170.3	1,149.2	24.5
Insurance and other receivables	200.2	128.9	0.6
Cash and cash equivalents	223.1	214.9	–
Deferred tax assets	89.3	14.1	–
Other assets	52.6	–	–
Total assets	**7,771.6**	**7,223.9**	**42.4**
Technical provisions	4,683.2	4,658.5	28.1
Provisions other than technical provisions	74.3	40.0	–
Deferred tax liabilities	–	6.9	0.1
Derivatives	30.5	30.3	–
Debts owed to credit institutions	52.3	46.7	–
Financial liabilities other than debts owed to credit institutions	164.4	209.9	0.1
Insurance and other payables	222.4	71.4	0.1
Subordinated liabilities	259.4	259.4	–
Total liabilities	**5,486.5**	**5,323.1**	**28.4**
Excess of assets over liabilities	**2,285.1**	**1,900.8**	**14.0**

Section D of the SFCR has more information on the Group's valuation for solvency purposes: see pages 39 to 49 of this report.

SECTION E – Capital management summary

In June 2016, UKI, the Group's principal underwriter, received approval from the PRA to use its Internal Economic Capital Model which forms part of a Group-wide partial internal model which has been in use from the same date.

The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements. The policies and processes that the Group adopts to manage its own funds to mitigate the risk of breaching regulatory and internal capital adequacy are described in the Group's Capital Management Minimum Standard.

As at 31 December 2019, £1.9 million of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to tiering restrictions (2018: £nil).

The solvency capital ratio was as follows for the Group and regulated entities:

As at 31 December 2019	Group £m	UKI £m	CIC £m
Solvency capital requirement	1,316.0	1,284.4	0.8
Capital surplus above solvency capital requirement	855.0	575.8	13.2
Solvency capital ratio (%)	**165%**	**145%**	**1740%**

Section E of the SFCR has more information on the Group's capital management: see pages 50 to 61 of this report.

Reconciliation of excess of assets over liabilities to own funds

As at 31 December 2019	Group £m	UKI £m	CIC £m
Excess of assets over liabilities	**2,285.1**	**1,900.8**	**14.0**
Capital distributions	(347.1)	(300.0)	–
Own shares[1]	(26.4)	–	–
Less deferred tax assets	(89.3)	–	–
Less reclassified restricted Tier 1	(1.9)	–	–
Excess of assets over liabilities (Tier 1)	**1,820.4**	**1,600.8**	**14.0**
Reclassified restricted Tier 1 and subordinated liabilities (Tier 2)	261.3	259.4	–
Deferred tax assets (Tier 3)	89.3	–	–
Own funds	**2,171.0**	**1,860.2**	**14.0**

Note:

1. Own shares (held directly) for employee share trusts form part of Tier 1 own funds and are included within assets on the Solvency II balance sheet.

Material changes

There have been no material changes to the business and performance, system of governance, risk profile, valuation for solvency purposes or capital management over the reporting period.

On 3 March 2020, the Board approved a share buyback of up to £150 million. On 19 March 2020, given the uncertainty as a result of Covid-19, the Group announced the suspension of the share buyback programme. The information in this SFCR, including the own funds and solvency capital ratios, has been presented to include the buyback as a foreseeable distribution.

SECTION A: BUSINESS AND PERFORMANCE (UNAUDITED)

In this section:

A. BUSINESS AND PERFORMANCE

A.1 Business

Name and legal form

Direct Line Insurance Group plc is a public limited company incorporated in England and Wales. It has a premium listing on the UK Listing Authority's Official List. The Company's Ordinary Shares (EPIC:DLG) are admitted to trading on the London Stock Exchange.

Supervision

The Company's supervisory authorities responsible for financial supervision are:
Prudential Regulation Authority ("**PRA**")
Bank of England
20 Moorgate
London
EC2R 6DA
Switchboard: +44 (0)20 3461 4444
Email: PRA.FirmEnquiries@bankofengland.co.uk

Financial Conduct Authority ("**FCA**")
12 Endeavour Square
London
E20 1JN
Phone: +44 (0)20 7066 1000
Email: firm.queries@fca.org.uk

Auditor

External Auditor:

Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR
Phone: +44 (0)20 7936 3000

Holders of qualifying holdings

There were no holders of qualifying holdings in the Company as at 31 December 2019. A 'qualifying holding' is a direct or indirect holding in the Company which represents 10% or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of the Company.

Group ownership and structure

The Company is the ultimate holding company of the Group. The underwriting subsidiaries of the Company, both of which are 100% owned, are as follows:

– U K Insurance Limited – general insurance
– Churchill Insurance Company Limited – general insurance

The Group publishes a Single SFCR following PRA approval and a modification to the PRA Handbook. This is a single publication of a Group SFCR for Direct Line Insurance Group plc and its subsidiaries, and solo SFCR reports for both UKI and CIC. Information is separately identifiable by reference to the Group, UKI and CIC.

Basis of consolidation

The Solvency II Group balance sheet is a full consolidation in accordance with Article 335 and there are no differences in the scope of the Group used for the Group's consolidated financial statements in its Annual Report & Accounts 2019.

Subsidiaries

The subsidiary undertakings of the Company are set out below. Their capital consists of Ordinary Shares which are unlisted.

In all cases, the Company owns 100% of the Ordinary Shares, either directly or through its ownership of other subsidiaries, and exercises full control over their decision making.

Name of subsidiary	Company registration number	Place of incorporation and operation	Principal activity
Directly held by the Company:			
Direct Line Group Limited[1]	02811437	United Kingdom	Intermediate holding company
DL Insurance Services Limited[1]	03001989	United Kingdom	Management services
Finsure Premium Finance Limited[1]	01670887	United Kingdom	Non-trading company
Inter Group Insurance Services Limited[1]	02762848	United Kingdom	Dormant[7]
UK Assistance Accident Repair Centres Limited[1]	02568507	United Kingdom	Motor vehicle repair services
UK Assistance Limited[1]	02857232	United Kingdom	Dormant[7]
U K Insurance Business Solutions Limited[1]	05196274	United Kingdom	Insurance intermediary services
U K Insurance Limited[2,3]	01179980	United Kingdom	General insurance
Indirectly held by the Company:			
10-15 Livery Street, Birmingham UK Limited[4]	JE109119	Jersey	Dormant[8]
Churchill Insurance Company Limited[1]	02258947	United Kingdom	General insurance
Direct Line Insurance Limited[1]	01810801	United Kingdom	Dormant[7]
DL Support Services India Private Limited[5]	See footnote 5	India	Support and operational services
DLG Legal Services Limited[6]	08302561	United Kingdom	Legal services
DLG Pension Trustee Limited[1]	08911044	United Kingdom	Dormant[7]
Farmweb Limited[1]	03207393	United Kingdom	Dormant[7]
Green Flag Group Limited[2]	02622895	United Kingdom	Intermediate holding company
Green Flag Holdings Limited[1]	03577191	United Kingdom	Intermediate holding company
Green Flag Limited[2]	01003081	United Kingdom	Breakdown recovery services
Intergroup Assistance Services Limited[1]	03315786	United Kingdom	Dormant[7]
National Breakdown Recovery Club Limited[1]	02479300	United Kingdom	Dormant[7]
Nationwide Breakdown Recovery Services Limited[1]	01316805	United Kingdom	Dormant[7]
The National Insurance and Guarantee Corporation Limited[1]	00042133	United Kingdom	Dormant[7]
UKI Life Assurance Services Limited[1]	03034263	United Kingdom	Dormant[7]

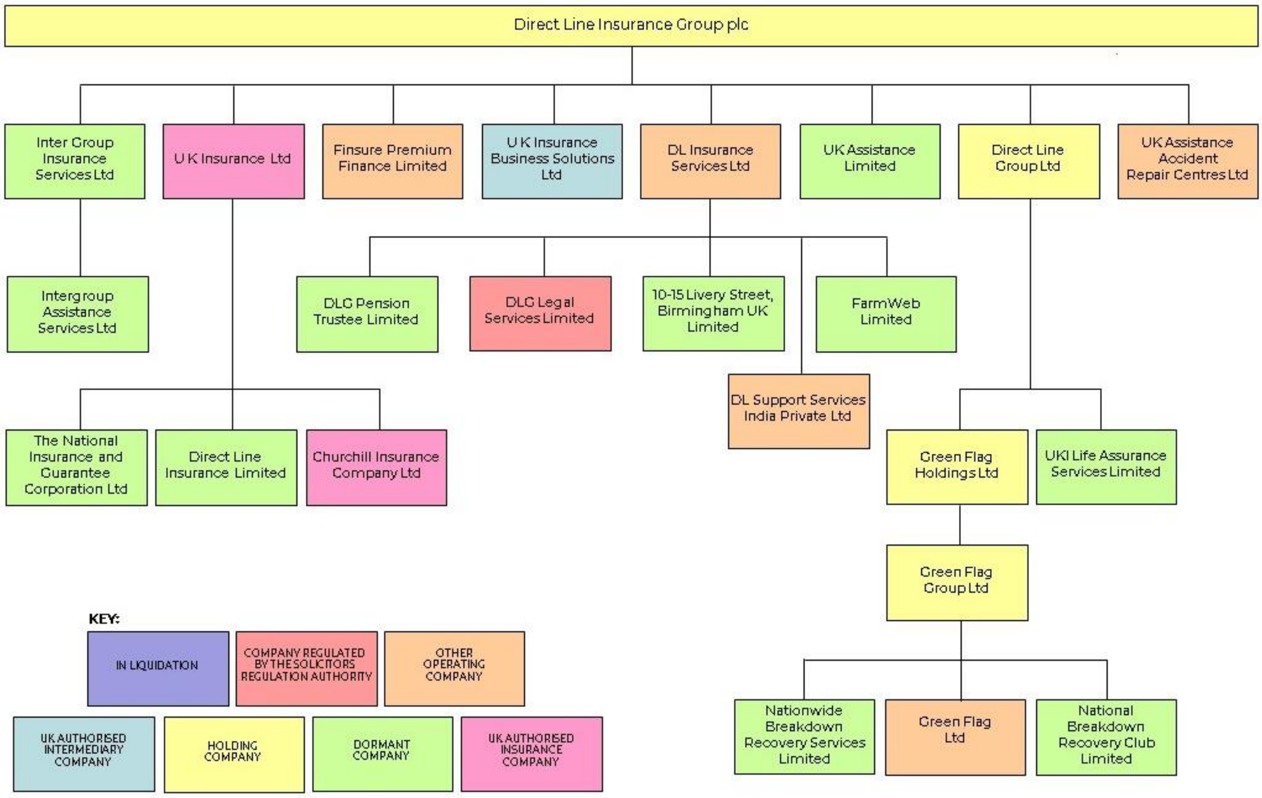
Notes:

1. Registered office at: Churchill Court, Westmoreland Road, Bromley, BR1 1DP.
2. Registered office at: The Wharf, Neville Street, Leeds, LS1 4AZ.
3. U K Insurance Limited has a branch in the Republic of South Africa.
4. Registered office at: 22 Grenville Street, St Helier, JE4 8PX, Jersey.
5. Registered office at: ESC House, 155 1st & 2nd Floor, Okhla Industrial Area Phase-3, New Delhi, 110020, India. Company registration number: U74140DL2014FTC265567.
6. Registered office at: 42 The Headrow, Leeds, LS1 8HZ.
7. These entities have not been audited in accordance with the exemptions available for dormant entities under section 480 of the Companies Act 2006.
8. Under the Companies (Jersey) Law 1991, there is no requirement to file individual accounts and audit a private limited company.

Group structure

Direct Line Group legal entity structure as at 31 December 2019

All current legal entities



Lines of business

The Group provides motor, home, rescue and other personal lines and commercial insurance products. The Group is Britain's leading personal motor insurer measured by in-force policies, mainly represented through its well-known brands Direct Line, Churchill, Privilege and its new Darwin brand, and also through its partners.

The Group is one of Britain's leading personal home insurers measured by in-force policies. The Group reaches its customers by selling home insurance products through its brands Direct Line, Churchill and Privilege, and its partners Royal Bank of Scotland and NatWest.

The Group is one of the leading providers of rescue, travel and pet insurance in the UK. Green Flag is the third largest roadside recovery provider, the Group is also the second largest travel and the fourth largest pet insurer, as well as providing insurance for mid-to-high net worth customers.

The Group protects commercial businesses through its brands, NIG, Direct Line for Business and Churchill. NIG sell products exclusively through brokers operating across the UK, whilst Direct Line for Business sell insurance policies direct via phone and online and Churchill sell insurance policies direct via phone, online and through price comparison websites.

Motor vehicle liability insurance

The Group's personal and commercial lines motor vehicle liability insurance products provide cover against third-party property damage and bodily injury liability cover.

Other motor insurance

The Group's personal and commercial lines other motor insurance products provide cover against accidental damage, fire, theft and windscreen damage.

Fire and other damage to property insurance

The Group's personal and commercial lines insurance products provide cover against accidental damage, escape of water, fire, subsidence, theft and weather (including storms and flooding).

General liability insurance

The Group's commercial lines general liability insurance products provide cover against personal accident, employers' liability, public liability for injury, public liability to property and disease.

Income protection insurance

The Group's creditor income protection insurance product includes cover in the event of being unable to continue working.

Legal expenses insurance

The Group offers legal expenses insurance cover that includes motor legal protection and family legal protection, including for employment disputes and personal injury. The cost of settling a claim made by a non-fault policyholder under a motor legal protection policy will be incurred by the third-party insurer. However, if a claim is made by a third party against an at-fault Group policyholder, the cost to the Group will be included in motor liability or other motor insurance claims and not in legal expenses claims.

Assistance

The Group's personal lines assistance products cover motor rescue, car hire and travel (including cancellation, medical and non-medical expenses).

Miscellaneous financial loss

The Group's personal and commercial lines miscellaneous financial loss products include creditor protection for unemployment, pet, including veterinary fees, home response and emergency, pecuniary loss for business interruption and commercial special risks.

Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations

The Group's personal and commercial lines insurance products provide cover for motor vehicle liability insurance and general liability insurance that can be settled by a periodic payment order as awarded by a court under the Courts Act 2003. As the Group has no non-life insurance contracts relating to health insurance obligations, future references within this document to 'Annuities from non-life' refer only to non-life annuities not relating to health insurance.

Geographical areas

The Group carries out its business primarily in the United Kingdom; a small number of policies are sold in the Republic of Ireland.

Significant business or other events

There are no significant business or other events to report in respect of the year ended 31 December 2019.

A.2 Underwriting performance

The allocation of IFRS premiums, claims and expenses to Solvency II lines of business is an allocation that is performed for the purpose of producing Quantitative Reporting Templates and the SFCR and is based on simplified allocations. The Group does not report its IFRS performance internally by Solvency II lines of business. The Board manages the Group primarily by product type and presents a segmental analysis in the Group's Annual Report & Accounts 2019 on page 181 on that basis. The segments, which are all UK based, reflect the management structure whereby a member of the Executive Committee is accountable to the Chief Executive Officer for each of the operating segments. For an understanding of the Group's IFRS performance, consistent with how the Group is managed, the Finance review starting on page 28, the Operating review starting on page 44 and the Financial statements starting on page 153 in the Group's Annual Report & Accounts 2019 provide more relevant information.

The Group, UKI and CIC adopted IFRS 16 'Leases' on a fully retrospective basis from 1 January 2019. IFRS 16 replaces IAS 17 'Leases' and resulted in all lessee arrangements now being accounted for under a single on-balance sheet model. Lease liabilities measured at the present value of future lease payments are now recognised along with a corresponding right-of-use ("**ROU**") asset on the balance sheet. In the IFRS accounts the 2018 profit and loss account and balance sheet were restated. No such restatement has been made to 2018 amounts on a Solvency II basis.

Group – by line of business

For the year ended 31 December 2019	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium	1,278.8	493.5	821.9	91.7	7.2	78.0	326.0	106.0	–	**3,203.1**
Gross earned premium	1,276.1	492.3	830.5	88.4	7.2	80.9	319.9	107.3	–	**3,202.6**
Reinsurers' share	(161.0)	–	(51.5)	(3.9)	–	–	(0.5)	(0.8)	–	**(217.7)**
Net earned premium	1,115.1	492.3	779.0	84.5	7.2	80.9	319.4	106.5	–	**2,984.9**
Gross claims	(772.8)	(266.2)	(332.2)	(38.3)	(1.5)	(12.1)	(173.8)	(97.3)	(21.9)	**(1,716.1)**
Reinsurers' share	31.3	–	12.0	3.8	–	0.4	0.7	13.7	7.8	**69.7**
Net claims	(741.5)	(266.2)	(320.2)	(34.5)	(1.5)	(11.7)	(173.1)	(83.6)	(14.1)	**(1,646.4)**
Expenses incurred	(378.2)	(165.9)	(335.8)	(40.5)	(6.7)	(14.0)	(113.1)	(30.2)	–	**(1,084.4)**
Underwriting profit/(loss)	**(4.6)**	**60.2**	**123.0**	**9.5**	**(1.0)**	**55.2**	**33.2**	**(7.3)**	**(14.1)**	**254.1**

Group – by line of business

For the year ended 31 December 2018	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium	1,332.5	451.7	822.1	88.4	9.5	84.2	314.6	108.9	–	3,211.9
Gross earned premium	1,337.4	456.9	904.1	92.5	9.5	85.7	310.4	110.2	–	3,306.7
Reinsurers' share	(157.3)	–	(55.3)	(2.8)	–	–	(0.6)	(1.2)	–	(217.2)
Net earned premium	1,180.1	456.9	848.8	89.7	9.5	85.7	309.8	109.0	–	3,089.5
Gross claims	(795.8)	(205.5)	(485.8)	(16.9)	(2.5)	(13.2)	(171.8)	(67.2)	(15.3)	(1,774.0)
Reinsurers' share	38.9	–	1.3	2.5	–	0.1	–	0.3	12.0	55.1
Net claims	(756.9)	(205.5)	(484.5)	(14.4)	(2.5)	(13.1)	(171.8)	(66.9)	(3.3)	(1,718.9)
Expenses incurred	(399.1)	(151.3)	(351.1)	(35.7)	(8.3)	(14.7)	(102.4)	(31.3)	(0.2)	(1,094.1)
Underwriting profit/(loss)	24.1	100.1	13.2	39.6	(1.3)	57.9	35.6	10.8	(3.5)	276.5

The difference between underwriting profit on a Solvency II basis and underwriting profit on an IFRS basis relates to non-technical expenses. Non-technical expenses in 2019 were £22.0 million (2018: £21.4 million). Furthermore, in 2018 IFRS underwriting profit was restated by £4.7 million to reflect the fully retrospective adoption of IFRS 16 'Leases' as referred to in note 1 to the table below.

The table below reconciles underwriting profit to profit before tax.

For the year ended 31 December	2019 £m	2018 £m
IFRS underwriting profit	**254.1**	276.5
Non-technical expenses	**(22.0)**	(21.4)
Investment return	**134.6**	154.6
Instalment and other income	**180.2**	192.0
Operating profit	**546.9**	601.7
Restructuring and one-off costs	**(11.2)**	–
Operating profit after restructuring and one-off costs	**535.7**	601.7
Finance costs	**(26.0)**	(19.1)
Profit before tax	**509.7**	582.6
IFRS 16 adjustment to IFRS profit before tax[1]	–	(2.1)
IFRS profit before tax (restated)[1]	**509.7**	580.5

Note:

1. As per the Group's Annual Report & Accounts 2019 the IFRS operating profit for 2018 was restated by £4.7 million to reflect the fully retrospective adoption of IFRS 16 'Leases'. This is described in the Group's Annual Report & Accounts 2019 within 'Notes to the consolidated financial statements', note 44 'First time adoption of IFRS 16', which starts on page 210. If the restatement was shown in the above table operating profit for 2018 would increase by £4.7 million and finance costs would increase by £6.8 million to result in profit before tax of £580.5 million.

Direct Line Insurance Group plc is the ultimate holding company for a vertically integrated general insurance group which has outsourced to companies within the Group the delivery of certain services and claims activities, for example the repair of motor vehicles. The cost of claims in UKI represents the full cost of claims to the company, whereas in the consolidated Group, claims represents the cost less margin generated from such outsourced activities.

UKI – by line of business

For the year ended 31 December 2019	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	**Total £m**
Gross written premium	1,278.8	493.5	821.9	91.7	7.2	78.0	326.0	106.0	–	**3,203.1**
Gross earned premium	1,276.1	492.3	830.5	88.4	7.2	80.9	319.9	107.3	–	**3,202.6**
Reinsurers' share	(161.0)	–	(51.5)	(3.9)	–	–	(0.5)	(0.8)	–	**(217.7)**
Net earned premium	1,115.1	492.3	779.0	84.5	7.2	80.9	319.4	106.5	–	**2,984.9**
Gross claims	(804.3)	(345.7)	(332.2)	(38.3)	(1.5)	(12.1)	(173.7)	(97.3)	(21.9)	**(1,827.0)**
Reinsurers' share	31.4	–	12.0	3.8	–	0.4	0.7	13.7	5.6	**67.6**
Net claims	(772.9)	(345.7)	(320.2)	(34.5)	(1.5)	(11.7)	(173.0)	(83.6)	(16.3)	**(1,759.4)**
Expenses incurred	(376.5)	(165.6)	(337.1)	(40.4)	(6.7)	(13.8)	(111.8)	(30.0)	–	**(1,081.9)**
Underwriting profit/(loss)	**(34.3)**	**(19.0)**	**121.7**	**9.6**	**(1.0)**	**55.4**	**34.6**	**(7.1)**	**(16.3)**	**143.6**

UKI – by line of business

For the year ended 31 December 2018	Motor vehicle liability insurance £m	Other motor insurance £m	Fire and other damage to property insurance £m	General liability insurance £m	Income protection insurance £m	Legal expenses insurance £m	Assistance £m	Misc. financial loss £m	Annuities from non-life £m	Total £m
Gross written premium	1,332.5	451.7	822.1	88.4	9.5	84.2	314.6	108.9	–	3,211.9
Gross earned premium	1,337.4	456.9	904.1	92.5	9.5	85.7	310.4	110.2	–	3,306.7
Reinsurers' share	(157.3)	–	(55.3)	(2.8)	–	–	(0.6)	(1.2)	–	(217.2)
Net earned premium	1,180.1	456.9	848.8	89.7	9.5	85.7	309.8	109.0	–	3,089.5
Gross claims	(793.0)	(305.2)	(485.8)	(16.9)	(2.5)	(13.2)	(171.8)	(67.2)	(14.7)	(1,870.3)
Reinsurers' share	38.5	–	1.3	2.5	–	0.1	(0.1)	0.4	8.0	50.7
Net claims	(754.5)	(305.2)	(484.5)	(14.4)	(2.5)	(13.1)	(171.9)	(66.8)	(6.7)	(1,819.6)
Expenses incurred	(395.9)	(153.4)	(353.2)	(35.7)	(8.3)	(14.7)	(101.5)	(31.3)	–	(1,094.0)
Underwriting profit/(loss)	29.7	(1.7)	11.1	39.6	(1.3)	57.9	36.4	10.9	(6.7)	175.9

CIC – by line of business

	2019			2018		
For the year ended 31 December	Motor vehicle liability insurance £m	Annuities from non-life £m	**Total £m**	Motor vehicle liability insurance £m	Annuities from non-life £m	Total £m
Gross written premium	–	–	–	–	–	–
Gross earned premium	–	–	–	–	–	–
Reinsurers' share	–	–	–	–	–	–
Net earned premium	–	–	–	–	–	–
Gross claims	0.5	–	**0.5**	4.8	(0.6)	4.2
Reinsurers' share	(0.7)	–	**(0.7)**	(4.5)	0.6	(3.9)
Net claims	(0.2)	–	**(0.2)**	0.3	–	0.3
Expenses incurred	–	–	–	–	–	–
Underwriting (loss)/profit	**(0.2)**	–	**(0.2)**	0.3	–	0.3

Underwriting performance – Group

UKI is the main underwriting company within the Group. CIC has six historic claims reported in the undertaking.

At a Group level, profit from underwriting performance was £254.1 million, a decrease of £22.4 million (2018: £276.5 million) as lower prior-year reserve releases of £294.5 million, including the effects of changes to the Ogden discount rate, were partially offset by lower operating expenses and reduced weather-related claims of £6 million (2018: £75 million weather-related claims).

Analysis by line of business

Motor vehicle liability insurance

Gross written premium for motor vehicle liability insurance was £1,278.8 million in 2019, a decrease of £53.7 million (2018: £1,332.5 million). The Group's Motor in-force policy count stabilised during second half of the year as some signs of premium inflation returned to the market, with new business sales on price comparison websites strengthening during the last quarter. The Group began to expand the underwriting footprint of its Darwin brand in 2019, and the deployment of the Group's next generation underwriting platform was completed for new business in its Privilege brand.

Strong new business growth was achieved in Churchill following the brand's re-launch in October and a strengthened proposition for the price comparison website channel. Retention reduced slightly, but remained strong across direct own brands and partnerships.

A number of pricing initiatives have helped to support new business competitiveness. Motor risk-adjusted prices increased by 3.1% in 2019 while targeted changes to the risk mix reduced average premiums by 3.7%. This led to Motor average premium falling slightly in 2019.

The underwriting loss of £4.6 million was a decrease of £28.7 million (2018: £24.1 million). Prior year reserve releases were £95.8 million lower year on year at £180.5 million and included an increase in reserves of £15.9 million as a result of the change in the Ogden discount rate to minus 0.25% from an assumed rate of 0.0% (2018: £47.9 million release). Bodily injury claims reserves continued to develop favourably.

Claims frequency was lower as a result of improvements to risk mix, counter fraud initiatives as well as benign weather.

Other motor insurance

Gross written premium for Other motor insurance of £493.5 million in 2019, was an increase of £41.8 million compared to the prior year (2018: £451.7 million).

The underwriting profit of £60.2 million was a decrease of £39.9 million (2018: £100.1 million), primarily due to underlying claims inflation being at the upper end of the Group's long-term expectations of 3% to 5%.

Fire and other damage to property insurance

Gross written premium for fire and other damage to property insurance, £821.9 million in 2019, was broadly similar compared to the prior year (2018: £822.1 million). In 2019, total Home and own brand policy counts fell slightly as the Group maintained underwriting discipline in a competitive market. The Group maintained strong retention rates across all brands.

The underwriting profit of £123.0 million was an increase of £109.8 million (2018: £13.2 million), reflecting improvements to escape of water claims, disciplined underwriting and benign weather. Experience in 2019 was better than the long-term expectation of claims inflation which, excluding the impact of major weather events, remained at 3% to 5%.

General liability insurance

Gross written premium for general liability insurance was £91.7 million in 2019, an increase of £3.3 million (2018: £88.4 million). The underwriting profit of £9.5 million was substantially lower than the previous year (2018: £39.6 million), which was primarily due to lower general liability reserve releases on older accident years.

Legal expenses insurance

Gross written premium for legal expenses insurance was £78.0 million in 2019, a decrease of £6.2 million (2018: £84.2 million). The underwriting profit decreased by £2.7 million to £55.2 million (2018: £57.9 million).

The cost of settling a claim made by a non-fault policyholder under a motor legal protection policy will be incurred by the third-party insurer. However, if a claim is made by a third-party policyholder under their motor legal protection policy against an at-fault Group policyholder, the cost will be included in motor vehicle liability insurance claims or other motor insurance claims.

Assistance

Gross written premium for assistance, £326.0 million, increased by £11.4 million (2018: £314.6 million) as lower premium packaged bank account volume was replaced with higher premium own brand policies. Green Flag Rescue continued to grow its higher average premium direct business during 2019, increasing in-force policies by 13.7%, to 1.1 million.

The underwriting profit before other expenses of £33.2 million decreased by £2.4 million (2018: £35.6 million), primarily due to lower prior-year reserve releases in Travel.

Miscellaneous financial loss

Gross written premium for miscellaneous financial loss of £106.0 million was £2.9 million lower compared to the prior year (2018: £108.9 million). The underwriting loss of £7.3 million was a decrease of £18.1 million (2018: profit of £10.8 million) primarily caused by consequential loss.

Annuities from non-life insurance contracts, other than health obligations

The underwriting loss of £14.1 million increased by £10.6 million compared to prior year (2018: £3.5 million) as a result of there being two new periodic payment orders partially offset by one claim ending in 2019.

Income protection

Income protection insurance is no longer sold. There are no significant movements between periods.

A.3 Investment performance

Investment return

Group

For the year ended 31 December	2019 £m	2018 £m
Investment income	146.4	159.2
Hedging to a sterling floating rate basis	(22.1)	(30.8)
Net investment income	124.3	128.4
Net realised and unrealised gains excluding hedging	10.3	26.2
Total investment return	134.6	154.6

UKI

For the year ended 31 December	2019 £m	2018 £m
Investment income	143.3	156.9
Hedging to a sterling floating rate basis	(22.2)	(30.8)
Net investment income	121.1	126.1
Net realised and unrealised gains excluding hedging	11.3	26.5
Total investment return	132.4	152.6

The Group's investment strategy aims to deliver several objectives, which are summarised below:

– to ensure there is sufficient liquidity available within the investment portfolio to meet stressed liquidity scenarios;

– to duration match non-periodic payment liabilities and back periodic payment order liabilities in an optimal manner; and

– to deliver a suitable risk-adjusted investment return commensurate with the Group's risk appetite.

Total investment return decreased by £20.0 million to £134.6 million (2018: £154.6 million). This was due to a reduction in investment income, primarily as a result of lower assets under management, and a reduction in realised and unrealised gains excluding hedging which was predominantly driven by investment property revaluations (2019: (£6.2) million, 2018: £12.7 million).

The investment income yield for 2019 reduced to 2.4% (2018: 2.5%).

Investment return for UKI decreased by £20.2 million to £132.4 million (2018 : £152.6 million), in line with the reduction in Group.

Investment yield

Group

For the year ended 31 December	2019	2018
Investment income yield[1]	2.4%	2.5%
Investment return yield[2]	2.2%	2.4%

UKI

For the year ended 31 December	2019	2018
Investment income yield[1]	2.5%	2.5%
Investment return yield[2]	2.3%	2.5%

Notes:

1. The income earned from the investment portfolio divided by the average assets under management. This excludes unrealised and realised gains and losses, impairments, and fair value adjustments. The average assets under management derives from the period's opening and closing balances for the total Group or UKI.
2. The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.

Investment income by asset class

Group

For the year ended 31 December	2019 £m	2018 £m
Investment AFS credit	82.1	99.7
Investment grade held-to-maturity private placements	2.8	2.6
High yield	21.2	18.9
Credit	106.1	121.2
Sovereign	2.3	2.8
Total debt securities	108.4	124.0
Infrastructure debt	7.0	6.9
Cash and cash equivalents	7.9	6.2
Commercial real estate loans	6.9	6.2
Investment property	16.2	15.9
Total investment income	146.4	159.2

UKI

For the year ended 31 December	2019 £m	2018 £m
Investment AFS credit	81.9	99.7
Investment grade held-to-maturity private placements	2.8	2.6
High yield	21.2	18.9
Credit	105.9	121.2
Sovereign	2.3	2.8
Total debt securities	108.2	124.0
Infrastructure debt	7.0	6.9
Cash and cash equivalents	5.5	4.4
Intercompany loan income	–	–
Commercial real estate loans	6.9	6.2
Investment property	15.7	15.4
Total investment income	143.3	156.9

Investment expenses

Group

For the year ended 31 December	2019 £m	2018 £m
Total investment expenses	9.7	12.0

UKI

For the year ended 31 December	2019 £m	2018 £m
Total investment expenses	9.7	12.0

Gains and losses recognised in equity

Group

For the year ended 31 December	2019 £m	2018 £m
Fair value gain/(loss) on AFS investments	118.1	(121.4)
Less: realised net gains on AFS investments included in income statement	(16.5)	(19.5)
Tax relating to items that may be reclassified	(17.3)	23.9
Movement in AFS reserves during the year	84.3	(117.0)

UKI

For the year ended 31 December	2019 £m	2018 £m
Fair value gain/(loss) on AFS investments	117.9	(121.4)
Less: realised net gains on AFS investments included in income statement	(14.5)	(10.3)
Tax relating to items that may be reclassified	(17.6)	22.1
Movement in AFS reserves during the year	85.8	(109.6)

Investment in securitised credit

The Group does not hold any securitised credit assets within its investment portfolio.

A.4 Performance of other activities

Instalment and other operating income

Group

For the year ended 31 December	2019 £m	2018 £m
Instalment income	114.0	119.9
Other operating income:		
Vehicle replacement referral income	19.1	17.2
Revenue from vehicle recovery and repair services[1]	28.3	25.1
Legal services income	11.3	11.2
Other income[2,3]	7.5	18.6
Other operating income	66.2	72.1
Total	180.2	192.0

Notes:

1. Revenue from vehicle recovery and repair services include salvage income previously reported in other income. Comparative data for the year ended 31 December 2018 has been reported accordingly.
2. Other income includes mainly fee income from insurance intermediaries.
3. In 2018 other income included a £9.6 million gain on the sale of a property.

UKI

For the year ended 31 December	2019 £m	2018 £m
Instalment income	114.0	119.9
Other operating income:		
Vehicle replacement referral income	19.1	17.2
Other income	1.7	2.4
Other operating income	20.8	19.6
Total	134.8	139.5

Instalment and other operating income decreased by £11.8 million, primarily as a result of the non-repeat of a £9.6 million property gain in 2018.

Operating commitments where the Group/UKI is the lessor

The following tables analyse future aggregate minimum undiscounted lease payments receivable under non-cancellable operating leases in respect of property leased to third-party tenants.

Group

	2019 £m	2018 £m
Within one year	13.8	14.5
In the second to fifth years inclusive	39.2	42.9
After five years	69.1	70.4
Total	122.1	127.8

UKI

	2019 £m	2018 £m
Within one year	13.7	14.4
In the second to fifth years inclusive	38.8	42.6
After five years	68.9	69.9
Total	121.4	126.9

A.5 Any other information

Other regulatory changes

A main FCA focus has continued to be on pricing practices generally, including its Market Study on General Insurance Pricing Practices. For some time the Group has been actively taking steps regarding pricing as well as working with the ABI and holding proactive discussions with the FCA on potential remedies. The Group is supportive of the FCA market study, the outcomes of which are due for publication in June 2020. The FCA has also been focused on firms' culture and governance, operational resilience, management of regulatory change, the general insurance distribution chain, vulnerable customers, affordability as it relates to consumer credit, complaint handling and the appropriate establishment of customers' demands and needs as per the requirements under the Insurance Distribution Directive.

The PRA has continued to focus generally on the pillars of its financial risk framework, namely reserving, pricing, reinsurance and investments, as well as operational resilience, cyber underwriting risk and the financial risks arising from climate change.

UK storms and Coronavirus

The recent storms Ciara and Dennis in February have shown how important it is to be with the right insurer and the Group is proud with how it supported its customers during these difficult times. As at the date of the release of the Group's preliminary results on 3 March 2020, the Group estimated that the claims costs of these storms would be in the region of £35 million, net of Flood Re recoveries, across the Home and Commercial businesses compared to an expected annual weather cost of around £64 million. Additional claims from Storm Jorge are not expected to be material.

The Coronavirus outbreak (specifically the disease COVID-19) has the potential to impact the 2020 result of the Group's Travel business. The Group has Travel reinsurance protection to mitigate the cost of an event over a 28 day period to £1 million up to a limit of £10 million. The full coverage, if utilised, can be reinstated once on the same terms. As at the date of the release of the Group's preliminary results on 3 March 2020, incurred claims were around £1 million. Like all businesses, the Group is subject to the consequences of disruption to financial markets and global supply chains which, over time, could impact the performance of investments and the cost and speed of fulfilling customers' claims.

SECTION B: SYSTEM OF GOVERNANCE (UNAUDITED)

In this section:

B. SYSTEM OF GOVERNANCE

This section provides information regarding the system of governance of the Group. References to Group include the Group's regulated insurance companies, UKI and CIC.

Assessment of the adequacy of the Group's system of governance

The Board oversees the system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound risk management framework.

The Group has adopted a High Level Control and System of Governance Framework document which has been approved by the Boards as a statement of the governance structure and requirements applicable to the Company and the Group.

The Board has established a risk management model that separates the Group's risk management responsibilities into Three Lines of Defence. An explanation of these responsibilities can be found on page 52 of the Group's Annual Report & Accounts 2019 at www.directlinegroup.co.uk/en/investors

During the year the Board approved the Group's Own Risk and Solvency Assessment following detailed review and challenge to management by the Board Risk Committee. The governance process for the 2019 Own Risk and Solvency Assessment report includes engagement with and challenge from Risk Management Committee members, the Chair of the Board Risk Committee, the Chair of the Audit Committee and the Board. The Group has adhered to a fully documented and audited process to produce the 2019 Own Risk and Solvency Assessment report, in line with Solvency II requirements.

The conclusions of the Own Risk and Solvency Assessment are taken into consideration in assessing the Group's risk and capital position related to the Plan and approved by the Board. The 2019 Own Risk and Solvency Assessment report summarised five key areas relating to the Plan:

- the vision and risk appetite;
- key assumptions and dependencies;
- prominent and increasing risks;
- forecast capital and solvency position on a Solvency II basis; and
- stress test of the Plan.

The 2019 Own Risk and Solvency Assessment report contained additional information including an assessment of: non-quantifiable risks, appropriateness of the standard formula, technical provisions and the outcomes of stress and scenario tests and reverse stress tests.

The Board was also supported in its review of the annual Internal Risk and Control Assessment. This process involved each function completing a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attesting to the status of the effectiveness of the risk management and internal control systems. The Risk function reviewed and challenged these findings and the Audit function provided an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The Group then combined the overall findings into a Group-level assessment, which the Chief Executive Officer approved. The process included reporting on the nature and effectiveness of the controls, and other management processes that manage these risks.

Group Audit undertook an annual assessment of the governance, risk management and control environment for the 12 months ended 31 December 2019, which was reviewed by the Audit Committee in February 2020 before the Group's Annual Report & Accounts 2019 were approved by a duly authorised Committee of the Board on 2 March 2020.

As part of the end of year process:

i) The Audit Committee noted that following the review of the adequacy and effectiveness of the Group's internal financial controls and internal control systems, no issues had been identified that could be considered to represent:
   - material systemic control weaknesses or breakdowns;
   - material fraud or irregularities;
   - prolonged exposure to material control weaknesses through management failure to remediate control weaknesses on a timely basis;
   - material control issues where the root cause is indicative of significant management negligence or incompetence; or
   - evidence of repeat occurrence of material issues arising from a failure on the part of management to deliver fully robust remediation.

ii) The Board Risk Committee noted that their review of the adequacy and effectiveness of the Group's risk and governance framework, including risk appetite, risk exposures and the identification, monitoring and management of risk and control issues had not identified any issues which could be considered to represent:
   - material or systemic weaknesses or breakdown in the systems of governance or Enterprise Risk Management Strategy and Framework;
   - material or extended breaches of the Group's approved risk appetite or related authorities, limits and mandates;
   - material regulatory breaches or notifications;
   - material risk to the Group's reputation; or
   - evidence of repeat occurrence of material issues arising from a failure on the part of management to deliver fully robust remediation.

The Group has identified certain principal risks as being applicable to the Group, for example as referred to in the Own Risk and Solvency Assessment and those summarised in the Group's Annual Report & Accounts 2019, and assesses robustly those principal risks. The Board sets and monitors adherence to the risk strategy, risk appetite and risk framework. Within this overall context, the Board has over time approved a system of governance which is referred to in the High Level Control and System of Governance document and which includes the Matters Reserved to the Board, the Board Committees' terms of reference, risk appetite statements, the Enterprise Risk Management Strategy and Framework, Group policies and minimum standards.

B.1 General information on the system of governance

The Boards

The Boards are comprised of the same persons and act as the Administrative, Management or Supervisory Body.

For details of the Company's Board, visit the Group's corporate website at www.directlinegroup.co.uk/en/who-we-are/leadership

The Board has a collective objective of promoting the long-term success of the Company for its shareholders and provides leadership of the Company. The Board's specific duties are set out in the Schedule of Matters Reserved for the Board, which contains items reserved for the Board to consider and approve, relating to strategy and management, material contracts, financial reporting and controls, internal controls and risk management, Board membership and succession planning, corporate governance, structure and capital and delegation of authority. In addition to the Schedule of Matters Reserved, each Board Committee has written terms of reference defining its role and responsibilities.

Details regarding Board meetings and Board activity during 2019 can be found on pages 85 to 87 of the Group's Annual Report & Accounts 2019 at www.directlinegroup.co.uk/en/investors

Structure of the Board, Board Committees and executive management

A summary of the role of the Board, its six Committees (Audit Committee, Board Risk Committee, Nomination and Governance Committee, Remuneration Committee, Corporate Responsibility Committee and Investment Committee) and the responsibilities of the Chairman, the Chief Executive Officer and executive management can be found on pages 83 and 84 of the Group's Annual Report & Accounts 2019 at www.directlinegroup.co.uk/en/investors

The terms of reference of these Committees are available at www.directlinegroup.co.uk/en/who-we-are/governance/board-committees

The Board is responsible for ensuring there is an appropriate system of governance in operation throughout the Group. This includes a robust system of internal controls and a sound risk management framework.

The Group's governance framework is detailed in the Group's High Level Control and System of Governance Framework document. This document details how the Group meets Solvency II and PRA requirements to identify Key Functions and to have and maintain a Responsibilities Map in respect of the PRA and FCA Senior Managers and Certification Regime requirements. The Board reviews these documents annually.

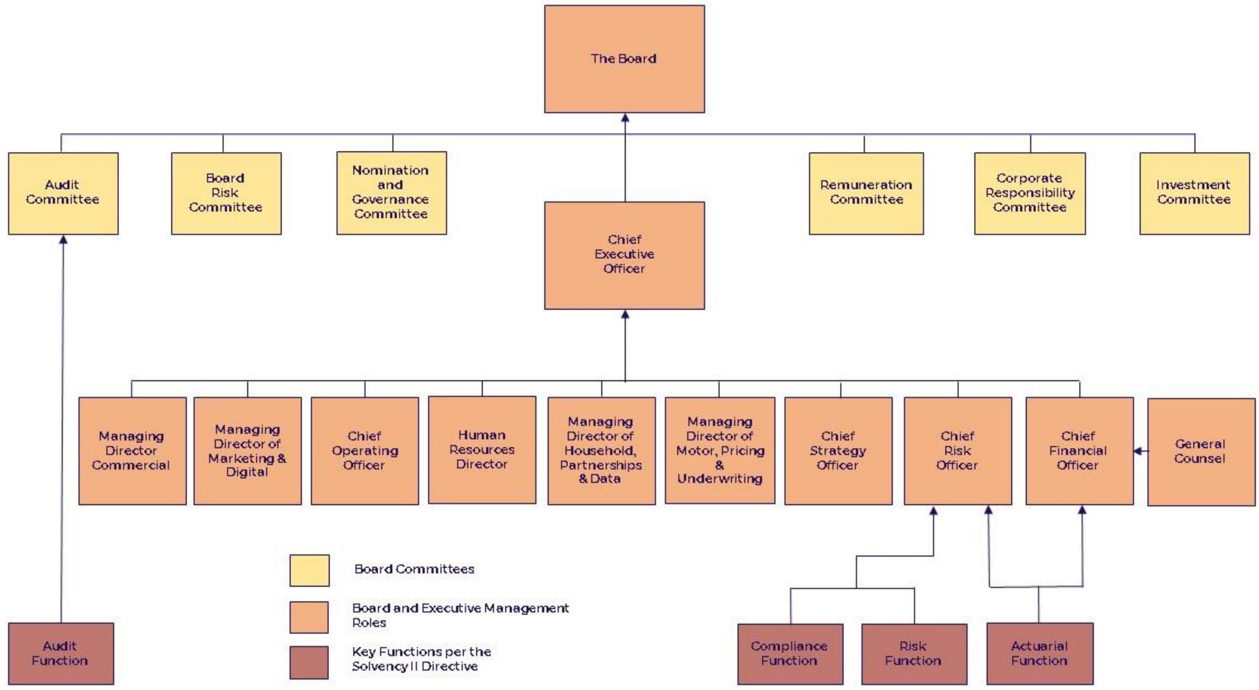
The core elements of the Governance Framework are the:

- Matters Reserved for the Board and the Board Committees' Terms of Reference;
- High Level Control and System of Governance Framework document;
- risk appetite statements;
- Enterprise Risk Management Strategy and Framework, which sets out the Group's approach to setting risk strategy and for managing risks to the strategic objectives and day-to-day operations of the business;
- Group policies, which address specific risk areas, are aligned to the Group's risk appetite, and inform the business how it needs to conduct its activities to remain within risk appetite; and
- minimum standards, which interpret the Group policies into a set of requirements that can be implemented throughout the Group.

Further details regarding the split of responsibilities for the different parts of the Group's governance framework can be found on page 90 of the Group's Annual Report & Accounts 2019 at www.directlinegroup.co.uk/en/investors

Solvency II Key Functions

Set out below is a diagram highlighting the day-to-day reporting lines of the Key Functions as required by the Solvency II Directive:



Note:

1. The responsibilities of the Actuarial function holder are split between the Actuarial Director and the Director of Financial Risk.

Further information on the authority, resources and the independence of the four Solvency II Key Functions identified above is set out in sections B.3 to B.6 of this report.

Those working in the Solvency II Key Functions are subject to the provisions of the Fit and Proper minimum standard (see section B.2) which requires them to have the necessary skills, knowledge and experience to fulfil their position. This is assessed both on initial appointment and through annual performance appraisals.

Material changes in the system of governance

There have been no material changes to the Company's system of governance during the reporting period.

Information on remuneration policy and practices

Introduction

The Group believes that employees are critical to the success of the Group's business, both now and into the future. As a result, the Group's remuneration policy aims to provide, in the context of the Group's business strategy, an attractive reward proposition at the right cost to attract, retain, motivate and reward high calibre employees so that they are engaged to deliver superior long-term business performance within acceptable risk parameters and having due regard to all relevant regulatory guidance.

Executive Directors: Principles of remuneration policy

The Directors' remuneration policy was most recently approved at the Company's Annual General Meeting on 11 May 2017. A new policy will be proposed at the 2020 Annual General Meeting for approval with only relatively small changes to refine it. The Committee were satisfied that the Policy remains 'fit for purpose'. The policy provides a clear and simple framework for remuneration of the Company's Directors and aligning the Executive Directors' variable pay opportunities to the business strategy and achievement of the Company's performance indicators.

The table on the next page summarises the implementation of the elements of Executive Directors' remuneration in 2019.

Key features	Implementation in 2019*
Base salary Reviewed annually with any increases taking effect on 1 April. The Remuneration Committee considers a range of factors when determining salaries, including pay increases throughout the Group, individual performance and market data.	No salary increase for the outgoing Chief Executive Officer. Chief Executive Officer designate salary increased to £800,000 (effective from appointment on 9 May 2019) No salary increase for the Chief Executive Officer designate at 1 April. New Chief Financial Officer was appointed. The increase to MD Personal Lines in 2019, effective 1 April 2019, reflecting the average increase awarded to UK employees in 2019 of 2.25%.
Pensions and benefits Chief Executive Officer and Chief Financial Officer pension contribution rate is set in line with the pension level received by the majority of the employee population. Benefits comprise providing a company car or car allowance, private medical insurance, life assurance, income protection and health screening. Like all employees, the Executive Directors are also eligible for certain discounted Group products.	Chief Executive Officer designate pension contribution was reduced to 9% of salary (effective from appointment on 9 May 2019). The pension contribution rate will be in line with that of the wider work force for all new Executive Director appointments.
Annual Incentive Plan ("AIP") Maximum opportunity at 175% of salary for the Chief Executive Officer and Chief Financial Officer. 40% of the award is deferred into shares, typically vesting after three years. At least 50% of bonus is based on financial measures. The Committee considers various non-financial and strategic performance measures. It bases its judgement on the payment outcome at the end of the performance period on its assessment of the level of stretch inherent in targets. Any payment is subject to an additional gateway assessment, including assessing risk factors. Malus and clawback conditions apply.	For 2019 the weightings of the measures were as follows: – Financial metrics – 55%: Profit before tax. – Customer measures – 15%: measures including Net Promoter Score, complaints and claims. (Net Promoter Score is an index that measures the willingness of customers to recommend products or services to others). – People measures – 10%: specifically measures around succession, diversity and engagement. – Personal – 20%: shared objectives across the Executive Committee specifically around technology transformation and cost base to ensure sustained success.
Long-Term Incentive Plan ("LTIP") Awards typically granted as nil-cost options. Awards typically granted every six months at half the annual level. The Plan allows for awards with a maximum value of 200% of base salary per financial year. Performance is measured over three years and determined by Return on Tangible Equity ("**RoTE**") and relative Total Shareholder Return ("**TSR**") measures. Awards vest subject to financial underpin and payment gateway. Malus and clawback conditions apply. Awards are subject to an additional two-year holding period following the end of the three-year performance period.	For 2019 awards the performance conditions were: – RoTE - 60% weighting. – TSR - 40% weighting. **Return on Tangible Equity condition:** – measured over financial years 2019, 2020 and 2021. – average annual RoTE of 17.5%–20% of this portion vests. – average annual RoTE of 18.5%–40% of this portion vests. – average annual RoTE of 20.5%–100% of this portion vests. – straight-line vesting between these levels. **Relative Total Shareholder Return condition:** – measured over 3 years from date of award. – measures TSR relative to FTSE 350 (excluding investment trusts). – median ranking – 20% of this portion vests. – upper quintile ranking – 100% of this portion vests. – straight-line vesting between these levels. **Underpin:** The LTIP awards will only vest if the Committee is satisfied in relation to the Group's underlying financial performance. The Committee will also consider whether there have been any material risk failings.
Shareholding guidelines	All Executive Directors are subject to a shareholding guideline of 200% of base salary.

*The former Chief Executive Officer, Paul Geddes, left the company on 31 July 2019, having stepped down from the Board as an Executive Director at the end of the Annual General Meeting on 9 May 2019. For the period to 31 July 2019 Paul received base salary (no increase was made in 2019), benefits and pension contributions at 25% of salary. Paul was entitled to participate in the AIP for 2019 on a pro-rata basis to 31 July 2019, with maximum bonus amount of 175% of salary. Paul did not participate in new LTIP awards for 2019.

*The former Managing Director, Personal Lines, Mike Holliday-Williams, left the company on 30 September 2019, having stepped down from the Board as an Executive Director on 30 June 2019. For the period to 30 September 2019 Mike received base salary, benefits and pension contributions at 25% of salary. Mike was entitled to participate in the AIP for 2019 on a pro-rata basis to 30 September 2019, with the maximum bonus amount 175% of salary. Mike has not received an LTIP award since March 2019.

Non-Executive Directors: principles of remuneration policy

Non-Executive Directors are paid a basic annual fee. Additional fees may be paid to Non-Executive Directors who chair a Board Committee, sit on a Board Committee, and for the Senior Independent Director to reflect additional responsibilities, as appropriate.

The fees paid to the Chairman include all Board and Committee membership fees and are determined by the Remuneration Committee.

Non-Executive Directors may receive certain expenses, including the reimbursement of travel expenses and accommodation or similar which, consistent with general market practice, will be grossed-up for any tax arising on such expenses.

Reward for employees: principles of remuneration policy

The Group has one consistent reward policy for all levels of employees. Therefore, the same reward principles guide reward decisions for all Group employees, including Executive Directors. However, remuneration packages differ to account for appropriate factors in different areas of the business:

– **Annual Incentive Plan** – approximately 3,550 employees participate in the AIP. The corporate performance measures for all employees are consistent with those used for Executive Directors, although the weighting attributable to those factors may differ. The Group's strategic leaders (approximately 60 employees) also receive part of their bonus in Company shares deferred for three years;
– **Incentive awards** – approximately 3,800 employees, excluding Executive Directors, participate in a function or team specific incentive plan which assesses personal performance over a monthly period. These incentive awards may pay out monthly or quarterly;
– **Long-Term Incentive Plan** – The Group's strategic leaders participate in the LTIP, currently based on the same performance conditions as those for Executive Directors;
– **Restricted Share Plan** ("**RSP**") – RSP awards are used on a limited basis across the Company to help recruit and retain critical staff, and for talent management. Executive Directors do not receive grants under the RSP;
– **All employee share plans** ("**SIP**") – the Committee considers it important for all employees to have the opportunity to become shareholders in the Company. The HMRC-approved SIP has operated since 2013, and, in addition, the Company has made periodic awards of free shares. At year-end, approximately 3,900 employees throughout the Group had signed up to these schemes with 8,400 holding free shares in the Company; and
– **Pension and benefits** – depending on employee grade, the Company contributes 9% to the defined contribution pension scheme without any requirement for an employee contribution. Employees may also opt for a proportion or all of this to be paid as cash rather than into the pension scheme.

Relative importance of fixed and variable pay

The Company ensures that the fixed and variable remuneration components of remuneration are appropriately balanced, with the fixed portion representing a sufficiently high proportion of total remuneration which allows the operation of a fully flexible policy on variable remuneration components including the possibility to pay no variable remuneration component. Fixed pay comprises base pay, benefits and pension. Fixed pay is set to be competitive against market levels. The Company monitors both the ratio of fixed to variable pay and quantum against the market. In no cases are the fixed components of pay set at levels which would then require undue reliance on incentive pay elements for living costs.

Supplementary pension or early retirement schemes

There are no supplementary pension or early retirement schemes in place for the Board or other Key Function Holders during the reporting period.

Material transactions

On 7 December 2017, the Group issued £350 million of perpetual NC10 Restricted Tier 1 ("**RT1**") notes with a coupon rate of 4.75% per annum. The proceeds of this issuance were primarily used to fund the tender of half the Company's £500 million 30NC10 9.25% Tier 2 debt (the "**Tier 2 debt**"). On 8 December 2017, the Company completed the repurchase of £250 million nominal of the Tier 2 debt. The remaining £250 million (nominal) of Tier 2 debt has a first call date of 27 April 2022 and is guaranteed by UKI.

On 27 April 2012, the Company advanced a £500 million unsecured subordinated loan to UKI at a fixed rate of 9.5% with a repayment date of 27 April 2042. There is an option to repay the loan on specific dates from 27 April 2022. On 28 February 2019 the U K Insurance Limited Board agreed to repay at par value £250 million of the Company's £500 million subordinated loan to its parent Direct Line Insurance Group plc. This transaction settled on 7 March 2019.

CIC has a 100% quota share reinsurance treaty with UKI to recover insurance liabilities that are not satisfied by third-party reinsurers. As at 31 December 2019, the amount of the reinsurance recoverable from UKI was £2.8 million.

On 3 March 2020, the Board approved a share buyback of up to £150 million. On 19 March 2020, given the uncertainty as a result of Covid-19, the Group announced the suspension of the programme.

B.2 Fit and proper requirements

Skills, knowledge and expertise of the persons who run the Group or Key Functions

The individuals were appointed to their roles following due diligence with the objective of ensuring that they had the necessary competence and were fit and proper to fulfil their positions. In making these assessments of competence due consideration was given to the individuals':

- professional qualifications, knowledge and experience to enable sound and prudent management (fit);
- character, in that they were of good repute and integrity (proper); and
- appearance on the public financial services register, where the person is a Senior Manager.

To support effective operation of this requirement, the Group requires Senior Managers, Certification Functions and Key Function Holders to:

- comply and meet the PRA Insurance Conduct Standards and FCA Conduct Rules, in respect of roles undertaken for UKI and CIC;
- comply with the requirements expected of Senior Managers, Certification Functions and Key Function Holders to meet as set out in the Group's Regulatory Compliance Risk policy, Regulatory Accountabilities minimum standard and Interaction with Regulators minimum standard;
- manage risks and controls that are reflected in their role profiles in accordance with the Enterprise Risk Management Strategy and Framework and as set out in the High Level Control and System of Governance Framework document (the Group's Management Responsibility Map); and
- continue to pass the fit and proper self-assessment as part of the annual declaration process.

Process for assessing fitness and propriety of Approved Persons

The individuals are subject to the Group's Regulatory Compliance Risk Policy which has its own specific minimum standard on Regulatory Accountabilities which contains requirements relating to the fitness and propriety of those persons who hold regulatory accountabilities. The minimum standard requires that individuals should notify their own line manager and the Deputy Chief Risk Officer, if there is any matter that may impact directly or create a perception of impacting on their ongoing fitness and propriety. The Risk function will then notify the regulator if there is information that would be expected to be material to the assessment of their fitness and propriety.

As well as being subject to ongoing formal reviews of their performance in their role, the individuals are also subject to the Group's annual self-declaration assessment of fitness and propriety. To support effective operation of this requirement, the Group:

- ensures that all Senior Managers, Certification Functions and Key Function Holders have an up-to-date role profile which is signed by both the individual and their line manager;
- ensures that role profiles for all Senior Managers, Certification Functions and Key Function Holders correctly reflect the regulatory accountabilities they hold, and includes an up-to-date structure chart;
- ensures that all individuals who have been a Senior Manager, Certification Function or Key Function Holder for the Group for more than six months have submitted to the Risk function their return from the last annual declaration of fitness and propriety; and
- ensures the Senior Managers, Certification Functions and Key Function Holders have evidence on file to show that their training needs have been kept under review, in particular that the actions they have taken regarding training are recorded within their ongoing performance reviews and within development plans.

B.3 Risk management system, including the Own Risk and Solvency Assessment

Risks are managed on a Group-wide basis for the regulated insurance companies, UKI and CIC, and the Group as a whole, as risks faced by the Group, UKI and CIC are similar in nature and scope. References to Group also include the Group's regulated insurance companies, UKI and CIC.

The Board sets and monitors adherence to strategy, risk appetite and risk framework. The Group has established an on-going process for assessing the principal risks facing the Group and monitoring the effectiveness of the Group's risk management systems.

The Enterprise Risk Management Strategy and Framework document sets out, at a high level, the Group's approach to setting risk strategy and managing risks. It documents the high-level principles and practices to achieve appropriate risk management standards and demonstrates the inter-relationships between components of the Enterprise Risk Management Strategy and Framework.

The Enterprise Risk Management Strategy and Framework is designed to enable the Group to manage the business with the necessary understanding of its risks and controls, as well as having appropriate oversight in place to manage risks proactively. It is aligned to the Three Lines of Defence model and provides a comprehensive approach for managing all principal risks across the Group. A central component of the Enterprise Risk Management Strategy and Framework is the Policy Framework, which includes policies and minimum standards.

Policies address specific risk areas and are aligned to the Group's risk appetite and, where appropriate, are supported by underlying minimum standards which interpret policies into a set of risk and control requirements to be implemented across the Group. The Group has a review programme to ensure that the Enterprise Risk Management Strategy and Framework, policies and minimum standards remain fit for purpose.

Risk strategy and appetite

The Group's risk appetite defines the opportunities and associated risks which the Group is prepared to accept in the pursuit of achieving its strategic objectives. Risk appetite is expressed in terms of qualitative and quantitative statements that are used to drive risk-aware decision making. Risk appetite statements are supported by Key Risk Indicators (**"KRIs"**) designed to provide an early warning that appetite may be breached without remedial action being taken.

The Group reviews its risk appetite statements and KRIs annually.

The table below outlines the Group's overarching risk appetite statements:

Risk objective	Risk appetite statement
Overarching risk objective	The Group recognises that its long-term sustainability depends on having sufficient economic capital to meet its liabilities as they fall due, thus protecting its reputation and the integrity of its relationship with policyholders and other stakeholders. As part of this, the Group's appetite is for general insurance risk, focusing on personal lines retail and small and medium-sized enterprise insurance in the UK. The Group has appetite for non-insurance risks, as appropriate, to enable and assist it to undertake its primary activity of insurance.
– Maintain capital adequacy	The Group seeks to hold own funds in the range of 140% to 180% of the internal model solvency capital requirement. UKI and CIC seek to hold own funds in excess of 125% of their solvency capital requirements.
– Stable and efficient access to funding and liquidity	The Group aims to meet both planned and unexpected cash outflow requirements, including those requirements that arise following a 1-in-200 years insurance, market or credit risk event.
– Maintain stakeholder confidence	The Group has no appetite for material risks resulting in reputational damage, regulatory or legal censure, poor customer outcomes, fines or prosecutions, and other types of non-budgeted operational risk losses associated with the Group's conduct and activities. The Group will maintain a robust and proportionate internal control environment.

Risk management process

The risk management process enables the Group and its regulated insurance companies to manage risk in a structured and consistent way.

The potential impacts of all risks, events and management actions are rated using an Impact Classification Matrix which facilitates a consistent approach to the sizing and categorisation across the Group. All risks are mapped to the Group risk taxonomy to support effective risk management and reporting across the business.

The risk management process is summarised below:

- Identify – identification of current and emerging risks, including risks presented through the implementation of change, which could impact on the achievement of business strategic objectives. Identification should utilise expert judgement, historic data, external data, forward-looking analysis and models.
- Assess – assessment of risks on an inherent and residual basis in terms of potential severity of impact and likelihood of occurrence. Assessments may be reached using quantitative or qualitative measures.
- Manage – management of residual risk exposure within risk appetite through the implementation of mitigating actions. Under exceptional circumstances management may explicitly accept the risk exposure outside of appetite in line with the Group's defined Risk Acceptance process. Action plans are used throughout the Group to ensure residual risk exposure is maintained at or brought back within risk appetite, to address control weaknesses or manage remediation (where required) following an event.
- Monitor – monitoring of risk exposure using key risk indicators and to ensure management actions are being delivered. The approach and frequency of risk monitoring depends on the nature of the risk and management judgement.
- Report – regular reporting of an accurate, clear and timely assessment of the risk profile and progress with management actions. Escalation of notable changes to risk profile to relevant committees and forums. RAG statuses and Risk Outlook indicators (set out in the Directorate Risk Management minimum standard) are used in risk-related reports across the Group.

Implementation and integration of risk management system into the organisational structure and decision-making processes

Clear risk governance helps the Group with its objective of ensuring that risk management arrangements are effective. The Group Board delegates authority for risk management to the Chief Executive Officer, who then further delegates to the members of the Executive Committee. The Chief Risk Officer, who chairs the Risk Management Committee, has accountability for providing risk oversight.

The Group's risk governance arrangements include Three Lines of Defence accountabilities and the risk management responsibilities of the Board, the Board Risk Committee and Risk Management Committee. The Group ensures comprehensive risk management through its Three Lines of Defence model which can be found on page 52 of the Group's Annual Report & Accounts 2019 at www.directlinegroup.co.uk/en/investors

Own Risk and Solvency Assessment

The Own Risk and Solvency Assessment process incorporates several underlying key processes and tools within the Group's Enterprise Risk Management Strategy and Framework which are used to manage risk and capital. These underlying processes and tools are reviewed periodically throughout the year at various governance committees enabling frequent and localised decision making.

The Own Risk and Solvency Assessment is facilitated by the Risk function and supported by other teams within Finance. Outcomes of the Own Risk and Solvency Assessment are taken into consideration by the Executive Committee. The Own Risk and Solvency Assessment report is presented to the Board for challenge and the conclusions are taken into consideration in assessing the Group's risk and capital profile related to the strategic plan. The agreed outcomes and conclusions of the Own Risk and Solvency Assessment are approved by the Board.

The Own Risk and Solvency Assessment report is also a supervisory tool and, as such, is used to explain to the relevant supervisory body the current and forecast capital and solvency position of the Group throughout the strategic plan period.

Risk management system for the internal model

Governance of the Internal Economic Capital Model

The Head of Validation:

- is responsible for managing the independent validation of the Internal Economic Capital Model, including production of the validation scope, framework and annual validation report; and
- is responsible for ensuring that validation tests are sufficiently robust and well documented.

Material changes to Internal Economic Capital Model governance

There have been no changes to the governance structure of the Internal Economic Capital Model over the reporting period.

Validation process of the Internal Economic Capital Model

The Group's Model Validation minimum standard is reviewed and updated on an annual basis to reflect changes in emerging practice, Solvency II requirements and structural changes within the Group.

During 2013 to 2015, an external validation of the Internal Economic Capital Model was performed, including the tests and standards for model approval. This work was conducted independently and was reported to the Board.

The Internal Model Validation team is part of the Risk Management function, and, retain full responsibility for the delivery of independent model validation.

During 2019, the in-house Model Validation team completed its fourth annual cycle of validation, with delivery of the executive summary of the annual validation report to the Risk Management Committee in January and Board Risk Committee in February. The team has also focused on further embedding in-house model validation as a business as usual function, which has delivered benefits in terms of proactivity and flexibility.

The Model Validation team gave an overall validation opinion in the annual independent validation report on the version used for the year end 2018 SCR assessment, that nothing material had come to their attention during their testing as part of the validation process that led to them recommending to the Board Risk Committee on 26 February 2019 that the Internal Economic Capital Model and the surrounding processes were not a sound basis for the purposes of calculating regulatory capital under Solvency II for both UKI and Group.

The Group continues to make use of external resources to support model validation.

The Model Validation minimum standard requires the Chief Risk Officer to present the scope of validation activities envisaged for the year, as well as the validation framework to the Risk Management Committee for noting and the Board Risk Committee for approval on an annual basis.

The Validation Plan is drafted in line with the Model Validation Framework, which stipulates that the Group will maintain an annual cycle of validation activity and reporting, comprising three key elements:

- an annual programme of core validation testing;
- a rolling programme of 'deep-dives' into specific validation areas to take a deeper look at whether the modelling is fit for purpose and covers regulatory requirements; and
- validation of model changes (including updates to address previous validation issues).

The Model Validation Framework document distinguishes between the key elements that will form part of the annual programme of core validation testing and deep-dives. The deep-dives are performed as part of a rolling programme which aims to cover all areas of the model over a three-year time period, but also considers bespoke investigations in response to a thematic review or a current area of interest.

B.4 Internal control system

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. This control framework cascades through the divisions and central functions, detailing clear responsibilities to ensure the Group's operations have appropriate controls. This includes controls relating to the financial reporting process.

The Board, with the assistance of the Board Risk Committee and the Audit Committee as appropriate, monitored the Group's internal control systems that have been in place throughout the year under review, and reviewed their effectiveness. The monitoring and review covered all material controls, including financial, operational and compliance controls.

The Board was also supported in its review of the annual Internal Risk and Control Assessment. This process involved each function completing a self-assessment of its risks and key controls and an Executive Sponsor, responsible for the function, attesting to the status of the effectiveness of the risk management and internal control systems. The Risk function reviewed and challenged these findings and the Audit function provided an independent assessment of the overall effectiveness of the governance and risk and control framework of the Group. The Group then combined the overall findings into a Group-level assessment, which the CEO approved.

The Group Audit function supports the Board by providing an independent and objective assurance of the adequacy and effectiveness of the Group's controls. It brings a systematic and disciplined approach to evaluating and improving the effectiveness of its risk management, control and governance frameworks and processes.

The Board acknowledge that any internal control system can manage, but not eliminate, the risk of not achieving business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or financial loss.

On behalf of the Board, the Audit Committee regularly reviews the effectiveness of the Group's internal control systems. Its monitoring covers all material controls. Principally, it reviews and challenges reports from management, the Group Audit function and the External Auditor. This enables it to consider how to manage or mitigate risk in line with the Group's risk strategy.

Key procedures of the internal control system

The Group has established a number of tools to support effective implementation of the internal control system. These include:

- detailed policies and minimum standards which articulate the controls required to manage risks that the Group is exposed to;
- a review programme to ensure that policies and minimum standards remain fit for purpose;
- management of risks through risk assessment, action and event management; and
- provision of advice and guidance by minimum standard owners to the First Line of Defence in discharging their responsibilities.

Additionally, the Group has a number of processes that demonstrate the proactive use of the Enterprise Risk Management Framework. These include:

- regular, at least annual, review of the Risk Appetite Framework and statements;
- formal risk management reporting to the Risk Management Committee and Board Risk Committee as well as regular risk reporting from other risk committees and forums;
- the risk management process;
- committees and forums;
- the material risk assessment;
- the assessment of risk behaviours and attitudes;
- the Own Risk and Solvency Assessment;
- use of the Internal Economic Capital Model to inform and support decision-making;
- stress testing and scenario analysis; and
- the Internal Risk & Control Assessment process.

Compliance function

The Compliance function is a Second Line of Defence function, which is responsible for providing advice and guidance to the Group regarding compliance with both conduct and prudential regulatory requirements. The Deputy Chief Risk Officer, who is approved as a Senior Manager is responsible for the Compliance function. The Compliance function works with colleagues from across the Risk Function and management throughout the business to fulfil this responsibility.

The Regulatory Compliance Risk policy, Conduct policy, Fraud and Financial Crime policy and associated minimum standards outline the role of the function. These policies, approved by the Board, provide the high-level requirements to ensure that the Group remains compliant with supporting minimum standards. Other areas of compliance risk are covered by a number of separate policies and minimum standards on specific topics, such as information security and prudential issues. All employees are required to undertake annual online training of relevant subject areas.

In addition to the policies and minimum standards, the Compliance team undertakes the following with the objective of ensuring compliance with regulatory requirements:

- attendance at and/or chairmanship of governance forums; for example, the Financial Crime Steering Committee, Conduct Regulatory Risk Forum, Operational Risk Committee, Customer Conduct Committee, Risk Management Committee and Board Risk Committee;
- monitor regulatory developments and report areas of interest to management and the Boards;
- monitor adherence to risk appetite through the tracking of key risk indicators;
- managing incidents as they arise;
- provide advice and guidance;
- provide training;
- contribute to Internal Risk and Control Assessment;
- provide assurance and effectiveness reviews undertaken by the Compliance and Conduct Assurance team; and
- support regulatory reviews, including thematic reviews.

B.5 Internal audit function

The Group Audit function supports the Board and Executive Management (the Executive) in their aim to: (i) achieve their strategic and operational objectives; (ii) protect the assets, reputation and sustainability of the Group; and (iii) discharge their corporate governance responsibilities.

This is achieved by:

- providing assurance that the risk management processes and controls established by management are adequate, effective and sustainable to manage key business risks, including reviewing any lessons learned analysis if a significant event has occurred;
- assessing whether all significant risks are identified by management and the Risk function and reported to the Board and the Executive;
- challenging the Executive to improve governance, risk management and control activities, including challenging the definition and monitoring of risk appetite performed by the Risk function;
- challenging processes and controls that support strategic and operational decision making and assessing the appropriateness and reliability of management information presented to the Board and the Executive;
- providing a Group-wide view of specific risk and control themes emerging from Group Audit work, including considering current and emerging factors and how business processes support a customer focus and compliance with conduct requirements;
- in conjunction with the Risk function, offering an assessment of management's risk behaviours and attitudes;
- when considered appropriate or on request – providing assurance over key corporate events, such as new products and services, outsourcing, acquisitions or divestments; and
- being available to the Board, as required, to provide an independent investigations service, for example in those circumstances where it would be inappropriate for the Risk function to undertake an investigation.

Group Audit presents a quarterly report to the Audit Committee summarising the results and analysis of audit activity in the preceding quarter. On an annual basis, Group Audit presents a report which provides (i) an independent opinion on the Group's self-assessment of the Group-wide control environment; (ii) an analysis of key themes and trends identified from audit work performed in the period; (iii) an assessment of the enterprise risk management framework; and (iv) an assessment of management's risk behaviours and attitudes. Group Audit are not part of the system of risk control or compliance. Group Audit do not:

- take accountability for the risk management framework and processes;
- represent the Executive's assurance on risks; or
- take decisions on risk mitigation or implement risk mitigation actions on behalf of the Executive Committee.

Independence and objectivity of internal audit

To both preserve and reinforce the independence and objectivity of Group Audit, the primary reporting line for the Group Head of Audit is to the Chair of the Audit Committee who is an independent non-executive director. The Audit Committee is responsible for the appointment and removal of the Group Head of Audit. The Chair of the Audit Committee sets objectives for the Group Head of Audit and recommends remuneration for the Group Head of Audit to the Remuneration Committee. The Group Head of Audit communicates and interacts directly with the Audit Committee and with members of the Audit Committee in between Audit Committee meetings or where escalation is required.

The Group Head of Audit also maintains a reporting line to the Group Chief Executive Officer, to report on the outcome of audit activity and assessments on the Group control environment.

It is imperative that the independence and objectivity of Group Audit is maintained through being exempt from undertaking any executive or operational duties, or any other activity, that may impair the judgment of Group Audit. Group Audit remains free from interference by any element in the Group, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of independence and objectivity. The Group Head of Audit confirms to the Audit Committee, at least annually, the organisational independence of Group Audit.

B.6 Actuarial function

The Actuarial function for the Group encompasses both First and Second Lines of Defence activities and has been split between two Actuarial function holders.

Reserving and calculation of technical provisions is co-ordinated and performed by the First Line of Defence Actuarial function. Actuarial risk management, including opinions on underwriting and reinsurance is conducted by the Second Line of Defence. The Actuarial Director and the Director of Financial Risk are the two chief actuaries for the Group and fulfil the First and Second Lines of Defence responsibilities respectively.

The First Line of Defence Actuarial function meets the requirements of Solvency II with the following activities undertaken during the reporting period:

– co-ordinating the calculation of technical provisions;
– ensuring the appropriateness of methodologies used in the calculation of technical provisions;
– assessing the sufficiency and quality of data used in the calculation of technical provisions;
– comparing best estimates against experience; and
– informing Group management of the reliability and adequacy of technical provisions.

The Second Line of Defence Financial Risk function meets the requirements of Solvency II with the following activities undertaken:

– expressing an opinion on the overall underwriting policy;
– expressing an opinion on the adequacy of reinsurance arrangements; and
– contributing to the effective implementation of the risk management system, in particular with respect to the risk modelling underlying the calculation of the capital requirements, and to the Own Risk and Solvency Assessment.

The contribution to the effective implementation of the risk management system is additionally met by the First Line of Defence Actuarial function through the supply of technical provisions to the Internal Economic Capital Model and the balance sheet.

Both the First and Second Line of Defence functions are sufficiently composed of qualified actuaries to meet the skilled persons' requirement of actuarial functions. The activities of the Actuarial function are documented in the Actuarial Function report and submitted annually to the Board.

B.7 Outsourcing

The Supplier Management and Outsourcing minimum standard ensures the Group undertakes a consistent approach to the management of risks from the sourcing and appointment of external suppliers of goods and services in line with the risk appetite set by the Board. The Policy provides a framework within which the Group manages its outsourcing and external supplier risk exposure where external supplier risk is defined as the risk of failing to implement a robust framework for the sourcing, appointment and ongoing contract management of external suppliers, outsourced service providers and intragroup relationships.

This framework details the defined sourcing approach when procuring the services and providing regular oversight of the performance of third parties in relation to key contractual requirements. This is particularly with respect to external suppliers that are deemed to provide a material, critical and important service to the Group and therefore, ultimately, to its customers. These are services of such importance that weaknesses or failure of those services would cast doubt upon the Group's ability to comply with its key regulatory obligations or deliver its services to policyholders and as such processes and activities undertaken within sourcing and contract management have been refined to include requirements specific to these outsourced services.

The First Line of Defence identifies, assesses, manages and monitors all types of outsourcing and external supplier risks in line with the Enterprise Risk Management Strategy and Framework. Where additional guidance is required in respect of outsourcing and external supplier risk, the Procurement & Supply Chain function is consulted. The Group categorises relationships with external suppliers as follows:

– outsourcing arrangements are those of any kind between the Group and a service provider by which that service provider performs a service or an activity that would otherwise be undertaken by the Group;
– material, critical or important outsourcing arrangements are the outsourcing of a function or activity that is so important that the Group would be unable to deliver its services to policyholders without that function or activity. In the UK, all relevant arrangements must be notified to the appropriate regulator, through the Second Line of Defence Compliance function, in advance of such activity taking effect;
– intragroup outsourcing is the provision of services which are material, critical or important by one entity to another within the same Group; and
– external suppliers are third-party organisations providing goods or services to the Group or directly to the Group's customers on the Group's behalf but exclude commission payments to brokers.

Where intragroup arrangements are in-force, the Supplier Management and Outsourcing minimum standard owner is to convene a review on an annual basis to ensure that the agreements remain current and reflect the appropriate service provisions and providers. This review, as a minimum, will include representation from the Group Legal, Procurement, Risk and Compliance functions. The review aims to help ensure that intragroup arrangements are all correctly identified and supported by an appropriate agreement, and any changes required given the Group's corporate structure and the activities being undertaken are identified. Agreements are filed with the Company Secretariat function.

The intragroup agreements that currently exist are between DL Insurance Services Limited ("**DLIS**") and UKI, DLIS and CIC, and DLIS and U K Insurance Business Solutions Limited. These have been classified as material intragroup outsource agreements due to the Key Functions and services that are provided by DLIS to the regulated entities. Key Functions and services provided by DLIS include administration, operational support, and managerial advisory services; these are primarily provided from within the UK.

The Group outsources several critical or important activities to various third parties. The Group maintains, manages and provides oversight of these activities in line with the Supplier Management and Outsourcing minimum standard. These activities are provided from third parties within the UK, with the exception of a wide range of back office services across claims, customer operations, commercial and finance that are provided from third parties in India and South Africa.

B.8 Any other information

There is no other information.

Section C: Risk profile (UNAUDITED)

In this section:

C. RISK PROFILE

The risk management process outlined in B.3 aims to enable the Group to manage risk in a structured and consistent way and ensure continued effectiveness of the Group's risk mitigation techniques.

Risks are managed on a Group-wide basis for the regulated insurance companies, UKI and CIC and the Group as a whole, as risks faced by the Group, UKI and CIC are similar in nature and scope. References to Group also include the Group regulated insurance companies, UKI and CIC. The Group's risk profile has remained broadly unchanged over the year.

Prudent person principle and management of invested assets

The Prudent person principle defined in Article 132 of the Solvency II Directive includes provisions on how undertakings should invest their assets and is as much a behavioural standard as an assessment of judgements and investment decisions.

Prudence is evidenced in the manner through which investment strategies are developed (with reference to the Group's liabilities and capital), implemented and monitored and the guidance provided by the Investment Committee and Board.

The Investment Management and Treasury function is responsible for ensuring that the Group only invests in assets and instruments where the risks can be properly identified, assessed, managed, monitored, controlled and reported in accordance with the Group's Enterprise Risk Management Strategy and Framework and, in particular, the Investment Risk Policy. All assets are invested taking into consideration the aggregate security, liquidity, quality and profitability parameters for the investment portfolio as a whole.

Assets are invested in an appropriate manner with the objective of ensuring their nature and duration match technical provisions to mitigate a loss which could arise from the imperfect matching of the timing and size of the cash flows from the investments and those linked to liabilities. The Investment Management minimum standard requires the Investment Management and Treasury function to perform an asset and liability matching exercise at least annually for each material regulated entity and recommend any changes to asset classes, strategic asset benchmarks or the use of derivatives to improve, inter alia, the matching of cash flows.

The framework ensuring assets are invested in a prudent manner and subject to ongoing monitoring is characterised by the following actions:

– limiting investment in assets not admitted to trading on a regulated financial market;
– carving out investment benchmarks for cash, gilts and other high quality liquid assets consistent with the Group's analysis of liquidity requirements in stressed scenarios;
– diversifying exposure to avoid excessive reliance on any particular asset class, issuer, group of companies, industry or geographic area;
– ensuring detailed credit assessments are undertaken prior to investing in any asset or transaction and such assessments are updated at suitable intervals;
– examining credit limits employed to ensure that the size and nature of the limits provided and current utilisations remain appropriate;
– measuring and monitoring risk exposure across the entire portfolio on a daily basis;
– reviewing the performance of all asset classes against market conditions, strategic benchmarks and investment guidelines set;
– reporting market risk measures to provide regular insights on potential changes to asset prices as a result of market risk; and
– ensuring no uncovered or speculative use of derivatives occurs.

C.1 Underwriting risk

Underwriting risk

This is the risk that future claims experience on business written is materially different from the results expected, resulting in current-year losses. The Group predominantly underwrites personal lines insurance including motor, residential property, roadside assistance, creditor, travel and pet business. The Group also underwrites commercial risks primarily for low-to-medium risk trades within the small to medium-sized enterprises market. Contracts are typically issued on an annual basis which means that the Group's liability usually extends for a 12-month period, after which the Group is entitled to decline to renew or can revise renewal terms by amending the premium or other policy terms and conditions such as the excess as appropriate.

Underwriting risk includes catastrophe risk, and the risk of loss, or of adverse change in the value of the insurance liabilities resulting from significant uncertainty of pricing, underwriting and provisioning assumptions related to extreme or exceptional circumstances.

Reserve risk

Reserve risk relates to both premium and claims. This is the risk of understatement or overstatement of reserves arising from:

– the uncertain nature of claims;
– data issues and changes to the claims reporting process;
– operational failures;
– failure to recognise claims trends in the market; and
– changes in underwriting and business written so that past trends are not necessarily a predictor of the future.

Understatement of reserves may result in not being able to pay claims when they fall due. Alternatively, overstatement of reserves can lead to a surplus of funds being retained resulting in opportunity cost, for example lost investment return or insufficient resource to pursue strategic projects and develop the business.

Risk concentrations

The Group is subject to concentration risk in a variety of forms, including:

- geographic concentration risk – the Group purchases a catastrophe reinsurance programme to protect against a modelled 1-in-200-years catastrophe loss. The programme is structured with the retention and limits expressed as percentages of gross earned premium. At 31 December 2019 this was the equivalent of £1,000.0 million in excess of a retained deductible of £132.5 million (2018: £126.5 million);
- product concentration risk – the Group's business is heavily concentrated in the UK general insurance market. However, the Group offers a diversified portfolio of products and a variety of brands sold through a range of distribution channels to its customers;
- sector concentration risk – the concentration of the Group to any given industry sector is monitored and analysed in respect of commercial customers; and
- reinsurance concentration risk – the Group aims to contract with a diverse range of reinsurers on its contracts to mitigate the credit and/or non-payment risks associated with its reinsurance exposures.

It is important to note that none of these risk categories is independent of the others and that giving due considerations to the relationship between these risks is an important aspect of the effective management of insurance risk.

Management and mitigation

Underwriting risk is controlled through a range of processes:

- underwriting guidelines are set for all transacted business and pricing refined by analysing comprehensive data;
- a range of Key Performance Indicators tracking underwriting performance are regularly monitored and reported to senior management;
- governance on model change provided by various committees and the internal audits conducted by underwriting;
- catastrophe and motor excess of loss reinsurance limits the Group's exposure to events and large losses; and
- the Group invests in enhanced external data to analyse and mitigate exposures.

Reserve risk is controlled through a range of processes:

- regular reviews of the claims and premiums, along with an assessment of the requirement for a liability adequacy provision for the main classes of business by the internal actuarial team;
- the use of external actuaries to review periodically the actuarial best estimate reserves produced internally, either through peer review or through provision of independent reserve estimates;
- accompanying all reserve reviews with actuarial assessment of the uncertainties through a variety of techniques including bootstrapping and scenario analysis;
- oversight of the reserving process by relevant senior management and the Board;
- regular reconciliation of the data used in the actuarial reviews against general ledger data and reconciliation of the claims data history against the equivalent data from prior reviews; and
- regular assessment of the uncertainty in the reserves to help the Board set management best estimate reserves.

Note that the underwriting risk and the reserve risk are both mitigated by the reinsurance structure in place.

Risk sensitivity methods, assumptions, stress testing and sensitivity analysis

Multiple major weather events

Catastrophe events are a material driver of underwriting risk for the Group with reinsurance as an important mitigation.

Ogden discount rate and periodic payment orders

The Group's reserves are subject to the risk of retrospective changes in judicial conditions such as the change in the Ogden discount rate to minus 0.25% in England and Wales which took effect from 5 August 2019 under the Civil Liability Act 2018. This rate is set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases. The rate had been 2.5% since 2001 but was changed to minus 0.75% from 20 March 2017. In September 2019, the Scottish Parliament announced that the Ogden discount rate in Scotland will remain at minus 0.75% under the Damages (Investment Returns and Periodical Payments) (Scotland) Act. The Group has revised its reserve estimation to be based on the latest rates for the year ended 31 December 2019.

Further reserve revaluation may be required in future, as under the new review processes the Ogden discount rate will be reviewed again at the latest in 2024.

Uncertainty in claims reserves estimation is larger for claims such as periodic payment orders for which annually indexed payments are made typically over the lifetime of the injured party. Claims reserves for periodic payment orders are held on a discounted basis and are sensitive to a change in the discount rate.

Solvency ratio sensitivity analysis

The following table shows the Group's solvency ratio sensitivities to four insurance risk events, estimated based on an assessed impact of scenarios as at 31 December 2019.

The sensitivities have been applied to the Group solvency capital ratio after the inclusion of capital distributions announced in March 2020. Other potential risks beyond the ones described could have an additional financial impact on the Group.

	Impact on solvency capital ratio	
Scenario	31 Dec 2019	31 Dec 2018
Motor small bodily injury deterioration equivalent to accident years 2008 and 2009	(7pts)	(7pts)
One-off catastrophe loss equivalent to the 1990 storm	(9pts)	(8pts)
One-off catastrophe loss based on extensive flooding of the River Thames	(9pts)	(8pts)
Change in reserving basis for periodic payment orders to use a real discount rate of minus 1%[1]	(8pts)	(10pts)

Note:

1. The periodic payment order real discount rate used is an actuarial judgement which is reviewed annually based on the economic outlook for wage inflation relative to the European Insurance and Occupational Pensions Authority discount rate curve.

C.2 Market risk

This is the risk of loss resulting from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

The Group is mainly exposed to the following market risk factors:

- spread risk;
- interest rate risk;
- property risk; and
- currency risk.

Spread risk

This is the risk of loss from the sensitivity of the value of assets and investments to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure. The level of spread is the difference between the risk-free rate and actual rate paid on the asset, with larger spreads being associated with higher risk assets. The Group is exposed to spread risk through its asset portfolio, most notably through its investment in corporate bonds.

A detrimental outcome from Brexit would be likely to increase spread risk due to a potential related increase in UK credit spreads. This would reduce the market value of UK corporate bond holdings and impact on the value of the own funds in the Solvency II balance sheet.

Net Interest rate risk

This is the risk of loss from changes in the term structure of interest rates or rate volatility which impact assets and liabilities. The Group's interest rate risk arises mainly from its debt, floating interest rate investments and assets and liabilities exposed to fixed interest rates.

The Group has subordinated guaranteed dated notes with fixed coupon rates which were issued on 27 April 2012 at a fixed rate of 9.25% and have a redemption date of 27 April 2042; at the same time the Group entered into a 10-year designated hedging instrument, to exchange the fixed rate of interest on these notes to a floating rate, to hedge exposure to interest rate risk.

Of the £500 million notes issued, the Group has bought back a total nominal value of £250 million.

The hedging relationship was redesignated to reflect this transaction and ensure continuing hedge effectiveness.

The Group also has perpetual Tier 1 notes with fixed coupon rates with a nominal value of £350 million that were issued on 7 December 2017.

The Group also invests in floating rate debt securities, whose investment income is influenced by the movement of the short-term interest rate. A movement of the short-term interest rate will affect the expected return on these investments.

The market value of the Group's financial investments with fixed coupons is affected by the movement of interest rates. For the majority of investments in US Dollar and Euro corporate bonds, excluding £398.9 million of short duration high yield bonds (2018: £405.2 million) and £176.1 million of subordinated financial debt (2018: £167.6 million), the Group hedges the exposure of this portfolio to the US Dollar and Euro interest rate risk using swaps.

Property risk

This is the risk of loss arising from sensitivity of assets and financial investments to the level or volatility of market prices, rental yields, or occupancy rates of properties. At 31 December 2019, the value of property investments was £291.7 million (2018: £322.1 million). The property investments are located in the UK.

A detrimental outcome from Brexit would be likely to increase property risk as UK property values could decrease.

Currency risk

This is the risk of loss from changes in the level or volatility of currency exchange rates.

Exposure to currency risk is generated by the Group's investments in US Dollar and Euro denominated corporate bonds.

The Group maintains exposure to US Dollar securities through £1,366.1 million (2018: £1,699.3 million) of investments in US Dollar corporate bonds and Euro securities through £359.1 million (2018: £79.4 million) of Euro corporate bonds. The foreign currency exposure of these investments is hedged by foreign currency forward contracts, maintaining a minimal unhedged currency exposure on these portfolios, as well as a low basis risk on the hedging contracts.

A limited exposure to currency risk also arises through the Group's insurance and other contractual liabilities.

Risk concentrations

Concentration risk arises from inadequately diversified portfolios of assets, in particular:

- large exposures to individual groups;
- large exposures to certain industry sectors;
- large exposures to certain geographies – the Group holds property assets solely within the UK;
- large exposures to exchange rate fluctuations – the Group holds a significant proportion of its assets in US Dollar; and
- large exposures to different groups where movements in values and ratings are closely correlated for any other reason.

The Group manages and controls the concentration risks as part of its market risk mitigation techniques, which are described below.

Management and mitigation

The Group manages and controls the risks in its investment portfolio through:

- strategic asset allocation within the investment portfolio is reviewed by the Investment Committee which makes recommendations to the Board for its investment strategy approval;
- diversification of the types of assets, and tight control of individual credit exposures; and
- risk-reduction techniques, such as hedging foreign currency exposures with forward contracts and hedging exposure to US interest rates with swap contracts.

The Group's Investment Risk Policy and related minimum standards require the First Line of Defence, in this case the Investment Management and Treasury function, to undertake an asset-liability management study at least annually. The study must consider the following:

- mitigation of interest rate risk, typically using key rate duration analysis;
- the implications and rationale for mismatches pursued when backing liabilities on the balance sheet, for example 'real growth' asset strategy supporting inflation linked periodic payment orders;
- suitability and appropriateness of Group asset classes given the risk appetite of the Group and capital position; and
- overall expected returns from the investment portfolio given regulatory capital employed.

The quality of assets held in each segregated portfolio is controlled through investment mandates detailing acceptable credit ratings, issuer concentration limits and prohibited holdings.

The operating framework used by the Investment Management and Treasury function, evidenced through the written internal procedures framework and contractual and service level requirements in place with external service providers employed, is designed to ensure:

- assets owned are held securely, with holdings verifiable independently by the Group;
- encumbered assets, for example those allocated as collateral, can be identified easily;
- actual returns received can be measured versus benchmark criteria set and budgeted return assumptions; and
- aggregate and individual asset holdings can be monitored against the key risk controls set; for example, strategic benchmark weightings, credit ratings, issuer exposure limits and credit duration limits.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Finance function is responsible for monitoring the regulatory capital requirement to support the investment strategy. To support this, they perform stress tests on the capital, and identify management actions should such stresses occur. Additional stress testing and scenario analysis is carried out by the Risk function. Value at risk is calculated by the Capital Modelling team within the Finance function on a quarterly basis to monitor changes in market conditions on likely capital requirements. Losses may arise from:

- the sensitivity of the value of assets to changes in the level or in the volatility of credit spreads over the risk-free interest rate term structure;
- assets and liabilities for which the net asset value is sensitive to changes in the term structure of interest rates or interest rate volatility;
- the imperfect matching of the timing and size of the cash flows from the investments and those linked to the liabilities; and
- the sensitivity of assets to the level or volatility of market prices of property.

The following table shows the Group's solvency capital ratio sensitivities to two market changes, estimated based on an assessed impact of scenarios as at 31 December 2019.

The sensitivities have been applied to the December 2019 Group solvency capital ratio after the inclusion of the capital distributions announced in March 2020.

Scenario	Impact on solvency capital ratio 31 Dec 2019	31 Dec 2018
100bps increase in credit spreads[1]	(9pts)	(11pts)
100bps decrease in interest rates with no change in the PPO real discount rate	1pt	(1pt)

Notes:

1. Only includes the impact on AFS assets (excludes illiquid assets such as infrastructure debt) and assumes no changes to the SCR.

C.3 Credit risk

This is the risk of loss resulting from defaults in obligations due and/or changes in credit standing of either issuers of securities, counterparties or any debtors to which the Group is exposed. The Group is mainly exposed to the following credit risk factors:

- counterparty default risk; and
- spread risk (covered under market risk);

Counterparty default risk

This is the risk of loss from unexpected default or deterioration in the credit standing of the counterparties and debtors of Group undertakings. This risk is monitored by three forums: the Investment Risk Forum monitors credit spreads as indicators of potential losses on investments incurred but not yet realised; the Credit Risk Forum monitors reinsurance and corporate insurance counterparty default risk; and the NIG Credit Committee is responsible for monitoring broker credit risk. The main responsibility of these forums is to ensure that all material aspects of counterparty default risk within the Group are identified, monitored and measured.

The main sources of counterparty default risk for the Group are:

- investments – this arises from the investment of funds in a range of investment vehicles permitted by the investment policy;
- reinsurance recoveries – this arises in respect of reinsurance claims against which a reinsurance bad debt provision is assessed. Periodic payment orders have the potential to increase the ultimate value of a claim and, by their very nature, to increase significantly the length of time to reach final payment. This can increase reinsurance counterparty default risk in terms of both amount and longevity;
- commercial credit – this arises as brokers collect premiums on behalf of the Group; and
- consumer credit – exposure from offering monthly instalments on annual insurance contracts.

Risk concentrations

Concentration risk arises from inadequately diversified exposure to creditors, in particular:

- large exposures to individual assets (either bond issuers or deposit-taking institutions); and
- large exposures to different assets where movements in values and ratings are closely correlated.

Management and mitigation

- credit limits are set for all brokers and reinsurers and the Group actively monitors those credit exposures; and
- the Group only purchases reinsurance from reinsurers with at least an A– rating at the time cover is purchased. Certain reinsurance contracts have long durations as a result of bodily injury and periodic payment order claims, and insurance reserves therefore include provisions beyond the levels created for shorter-term reinsurance bad debt. For these contracts, reinsurance is only purchased from reinsurers that hold a credit rating of at least A+ at the time cover is purchased.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Finance function monitors the regulatory capital requirement to support the business strategy employed. They perform stress tests and identify management actions should such stresses occur. One stress test considered the impact of the Group's largest reinsurer defaulting, which would lead to a financial loss of approximately £180 million, if no recoveries could be made. However, as the default of the Group's largest reinsurer is considered to have a return period of beyond one-in-200 years, this result will not materially impact the capital requirements of the Group.

C.4 Liquidity risk

Liquidity risk is the risk of being unable to access cash from the sale of investments or other assets in order to settle financial obligations when they fall due.

Liquidity risk is considered to be immaterial to the SCR for the Group, UKI and CIC.

Management and mitigation

The annual liquidity study must consider access to liquidity in stressed scenarios. The measurement and management of the Group's liquidity risk is undertaken within the limits and other policy parameters of the Group's liquidity risk appetite and is detailed in the liquidity risk minimum standard. As part of this process the Investment and Treasury team are required to put in place a liquidity plan which must consider expected and stressed scenarios for cash in-flows and out-flows that is reviewed at least annually by the Investment Risk Committee. Compliance is monitored in respect of both the minimum standard and the regulatory requirements of the PRA.

At a more granular level, access to liquidity in stressed scenarios is met through holdings of cash, money market funds and other high quality liquid assets such as sovereign debt securities. The aggregate exposure to illiquid assets is also monitored as part of the aggregate portfolio consideration.

Additional initiatives to support liquidity include sovereign debt security repurchase agreement lines in place. These will enable any short-term material cash requirements that arise which have not been forecast to be covered without unnecessary sales of sovereign debt securities and the associated realised gains or losses on the sale.

The Investment Management and Treasury Function forms an integral component of the Group's annual strategic plan process and forecast updates during the year. Where assets under management are expected to rise or fall materially in the next two years, the Investment Management and Treasury function produces proposals for approval by the Investment Committee detailing how liquidity will be managed and maintained, where assets under management are falling, or new monies are invested.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The expected profit in future premiums ("**EPIFP**") is calculated to assess the impact on own funds of a lapse in certain policies and provides a measure of the insurer's exposure to liquidity risk. It is not a measure of overall profitability of the business, for example it does not allow for all sources of income (e.g. ancillary or investment income); it is calculated on a difference expense basis to that of ongoing operating expenses; it does not allow for the development of prior year claims provisions; and it is affected by seasonality of the business written over the year. The amount as at 31 December 2019 for Group and UKI was £127.8 million.

EPIFP figures are calculated, and included in this report, in accordance with the regulatory requirements of Solvency II. EPIFP is not a measure of any element of the profit for the Group and is not to be construed as a profit forecast for the Company or any part of the Group or interpreted to set a floor to the profits of the Company or any part of the Group. In addition, attention is drawn to the 'Forward-looking statements disclaimer' in section F.3 of this document, which applies, without limitation, to EPIFP.

The Liquidity Risk Minimum Standard requires the Investment Management and Treasury function to maintain short-term cash flow forecasts to ensure ongoing operational liquidity requirements are met. The function is also required to hold minimum levels of liquidity to meet stressed requirements on an overnight basis, within one month and within three months.

C.5 Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, systems, human error or from external events.

Risk concentrations

The Group is subject to concentration in its operational risks through, for example, its IT systems and change programmes; which include the risk of losses in a number of scenarios such as system outages and data security breaches. Technology remains at the heart of the Group operations and focus is on upgrading Group IT systems and capabilities, aimed at improving the digital offering, customer experience and operational efficiency. While progress has been made in each of these three areas, implementation and integration of a range of new IT systems is inherently complex and challenging.

Management and mitigation

The Group has in place appropriate operational processes and systems, including prevention and detection measures. These include processes which seek to ensure the Group can absorb and/or adapt to internal or external occurrences that could disrupt business operations.

The Group is continuing to work to improve performance of its IT systems while focusing on developing future systems capability. With significant strategic investment in train the Group is actively strengthening its change implementation controls to further mitigate potential impacts related to data management, IT systems' stability, cyber security and the wider internal control environment during transition.

The Group's risk management framework is designed to enable it to capture and monitor risk information in a robust and consistent way. The performance of outsourced activities is also monitored by the Group.

Risk sensitivity methods, assumptions, and stress testing and sensitivity analysis

The Group's operational risk requirement is calculated by considering a number of scenarios at a 1-in-200 level.

C.6 Other material risks

Regulatory and conduct risks

The Group maintains a constructive and open relationship with its regulators and have a strong culture of delivering on commitments to customers.

The issue of pricing practices within the general insurance market continues to be a focus of the FCA and it's an issue to which the Group has devoted a lot of attention. Its conduct risk management framework is designed to deliver fair outcomes to customers and minimise its risk exposure. It is supported by a set of conduct pricing principles to enable the fair pricing of business across the book. The Group continues to develop its approach to anticipate developments and to ensure that it can continue to provide good outcomes for its customers.

Finally, the Group carries out planned risk-based monitoring of customer processes as well as more targeted thematic reviews which consider strategic or regulatory projects to help manage the risk of unfair customer outcomes.

Reputational risks

Reputational risk is not considered a material risk in its own right within the Group, however, it is considered within the risk drivers and impact of other risk types such as compliance, change, financial reporting, partnership contractual obligations, outsourcing and conduct risks.

Strategic risks

Risks associated with strategic implementation and formulation are considered within the Material Risks Register and monitored by the Executive Committee. Strategic risks are considered to manifest across the Material Risk Register and as a result the risk is not explicitly modelled in the Group's partial internal model SCR.

Brexit

The UK left the EU on 31 January 2020, and this departure was followed immediately by an 'implementation period' which is due to last until at least 31 December 2020. During the 'implementation period' there should be little change in practice to the arrangements between the UK and the EU and any potential adverse effects should not take place, at least in the short term. Although the Group is predominantly a UK business, it does, for example, have exposure to financial markets and it import goods and services in order to fulfil insurance claims. The Group has been monitoring events carefully and has proactively taken steps to mitigate the likely impact to the extent considered appropriate and proportionate to do so, given the considerable uncertainties; however, in the event of a disruptive end to the implementation period the Group will not be immune.

Coronavirus

The Coronavirus outbreak (specifically the disease COVID-19) has the potential to impact the 2020 result of the Group's Travel business. The Group has Travel reinsurance protection to mitigate the cost of an event over a 28 day period to £1 million up to a limit of £10 million. Like all businesses, the Group is subject to the consequences of disruption to financial markets and global supply chains which, over time, could impact the performance of investments and the cost and speed of fulfilling customers' claims.

C.7 Any other information

There is no other information.

SECTION D: VALUATION FOR SOLVENCY PURPOSES

In this section:

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

Valuation methodology

The Group values all assets, excluding reinsurance receivables, goodwill and intangibles, at fair value in the Group, UKI and CIC Solvency II balance sheets, which represents an amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. When fair value is not readily available because the market is not deeply liquid, an alternative method of valuation is required. Assets that require the use of an alternative method of valuation are covered in section D.4. Asset recognition and valuation bases have been applied consistently during the reporting period. The assumptions and judgements do not include any assumptions about the future or additional sources of estimation other than those noted. Reinsurance receivables are included in section D.2, Technical provisions.

Group accounting policy – fair value

The accounting policies and the basis of valuation used in the Group IFRS financial statements and individual IFRS financial statements of its subsidiaries are consistently applied, and described in the Group's Annual Report & Accounts 2019 within 'Notes to the consolidated financial statements', note 1 'Accounting policies', which starts on page 158.

Fair value is best demonstrated by reference to a quoted price in an active market. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The appropriate quoted market price for an asset held is usually the current bid price. When current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction. If conditions have changed since the time of the last transaction, the fair value is determined by reference to observable market data such as prices for similar assets, recent transactions in less active markets or the fair value reflects the change in condition by reference to, but not limited to, interest rates, foreign exchange rates, volatilities in debt prices or credit spreads for similar financial instruments.

If the market for a financial asset is not active, the Group establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Fair value for derivatives is determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Valuation models use inputs for contractual terms and the specific risks inherent in the instrument, market prices, credit curves, yield curves, measure of volatility and correlations of such inputs.

For investment property, fair value is based on current prices using a valuation model that predominantly uses unobservable inputs. Valuations are compared with recent market transactions for similar properties and adjusted for the specific characteristics of each property.

When valuing assets and liabilities in accordance with Solvency II, the fair value hierarchy set out below is followed, which is consistent with the fair value measurement hierarchy as applied under IFRS:

Level 1 financial assets are measured in whole or in part by reference to published quotes in an active market. In an active market quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 financial assets and liabilities are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. These include AFS debt security assets for which pricing is obtained via pricing services, but where prices have not been determined in an active market, or financial assets with fair values based on broker quotes or assets that are valued using the Group's own models whereby the majority of assumptions are market-observable. Derivatives are valued using broker quotes or appropriate valuation models. Model inputs include a range of factors which are deemed to be observable, including current market and contractual prices for underlying instruments, period to maturity, correlations, yield curves and volatility of underlying instruments.

Level 3 fair value measurements used for investment properties, held-to-maturity debt securities, infrastructure debt and commercial real estate loans are those derived from a valuation technique that includes inputs for the asset that are unobservable.

Key differences between the valuation of assets under Solvency II compared to IFRS

The Group applies a value of zero to goodwill for Solvency II and measures at cost less any provision for impairment in the IFRS financial statements. For intangible assets other than goodwill, a value of zero is assigned under Solvency II for the Group and UKI, because it is not possible to sell other intangible assets separately or demonstrate that there is a market value for the same or similar assets. In the IFRS financial statements these assets are carried at cost less accumulated amortisation.

Deferred acquisition costs in the Group and UKI financial statements are not recognised as an asset under Solvency II. Insurance and other receivables in the Group and UKI financial statements primarily consist of future cash flows due from policyholders which are not yet due and are reflected as an asset within Solvency II technical provisions. Cash flows from policyholders which are due or overdue are reflected as Solvency II receivables.

The table below and those on pages 42 and 43 summarise the Group's, UKI's and CIC's Solvency II balance sheet in column (d) and compares the assets and liabilities as reported in the respective IFRS financial statements in column (a). Reclassifications required to align the respective IFRS financial statements to the prescribed format of the Solvency II balance sheet QRT's are given in column (b).

Group Balance Sheet – IFRS and SII

As at December 2019 (£m)	Notes to the financial statements	IFRS (a)	Reclassifications (b)	IFRS reclassified (c) = (a) + (b)	SFCR note	Solvency II (d)	Valuation difference (e) = (d – c)
Assets							
Goodwill	17	214.2	–	214.2		–	(214.2)
Other intangible assets	17	488.3	–	488.3		–	(488.3)
Deferred acquisition costs	23	176.2	–	176.2		–	(176.2)
Deferred tax assets		–	–	–	D.1.1	89.3	89.3
Pension benefit surplus	27	9.7	–	9.7	D.1.2	9.7	–
Property plant & equipment held for own use [1]	18,19	292.6	–	292.6	D.1.3	214.9	(77.7)
Property (other than own use)	20	291.7	–	291.7	D.1.4	291.7	–
Financial investments	28	4,311.1	725.5	5,036.6		5,040.9	4.3
Government bonds		130.8	–	130.8	D.1.5	130.8	–
Corporate bonds[2]		4,019.5	39.3	4,058.8	D.1.6	4,063.1	4.3
Collateralised securities[2]		39.3	(39.3)	–		–	–
Collective investments undertakings[3]			725.5	725.5	D.1.7	725.5	–
Derivatives	26	121.5	–	121.5	D.1.8	121.5	–
Loans and mortgages	28	483.8	–	483.8	D.1.9	488.6	4.8
Reinsurance recoverables[4]	22	1,251.3	(36.1)	1,215.2		1,170.3	(44.9)
Receivables		950.2	(750.0)	200.2		200.2	–
Insurance and intermediaries[5]		830.8	(746.1)	84.7	D.1.10	84.7	–
Reinsurance receivables[4]		10.1	(3.9)	6.2	D.1.10	6.2	–
Trade, not insurance		109.3	–	109.3	D.1.10	109.3	–
Cash and cash equivalents[3]	29	948.6	(725.5)	223.1	D.1.11	223.1	–
Other assets		16.5	30.2	46.7		42.9	(3.8)
Own shares[6]		–	30.2	30.2		26.4	(3.8)
Other assets		16.5	–	16.5	D.1.12	16.5	–
Total assets		**9,434.2**	**(755.9)**	**8,678.3**		**7,771.6**	**(906.7)**
Liabilities							
Technical provisions[5]	34,35	5,325.6	(475.9)	4,849.7	D.2	4,683.2	(166.5)
Provisions other than technical provisions	37	74.3	–	74.3	D.3.1	74.3	–
Deferred tax liabilities	13	9.6	–	9.6	D.3.2	–	(9.6)
Derivatives	26	30.5	–	30.5	D.3.3	30.5	–
Debts owed to credit institutions	29	52.3	–	52.3	D.3.4	52.3	–
Financial liabilities other than debts owed to credit institutions[1]	39	164.4	–	164.4	D.3.5	164.4	–
Insurance & intermediaries payables[5]		101.4	(98.8)	2.6	D.3.6	2.6	–
Reinsurance payables[4]	38	43.7	(40.0)	3.7	D.3.6	3.7	
Payables (trade, not insurance)[5,7]		383.3	(167.3)	216.0		216.1	0.1
Subordinated liabilities[7]	33	259.0	(4.1)	254.9	D.3.7	259.4	4.5
Total liabilities		**6,444.1**	**(786.1)**	**5,658.0**		**5,486.5**	**(171.5)**
Excess of assets over liabilities[6]		**2,990.1**	**30.2**	**3,020.3**		**2,285.1**	**(735.2)**

Notes for reclassifications in column (b):

1. Right-of-use ("**ROU**") assets and lease liabilities are now shown on the balance sheet as a result of implementing IFRS 16 'Leases'. ROU assets are included Property plant & equipment (own use) and lease liabilities are categorised as Financial liabilities other than debts owed to credit institutions.
2. Reclassification of £39.3 million to corporate bonds from collateralised securities at 31 December 2019.
3. Reclassification of £725.5 million from cash and cash equivalents to collective investments undertakings as at 31 December 2019.
4. Reclassification into reinsurance recoverables of £36.1 million from reinsurance payables of £(40.0) million and insurance receivables of £3.9 million as at 31 December 2019.

5. Reclassification of £746.1 million insurance and intermediaries receivables, £(98.8) million of insurance and intermediaries payables and £(171.4) million of payables (trade, not insurance) into technical provisions as at 31 December 2019.
6. Own shares held at 31 December 2019 of £30.2 million are held within equity on the IFRS balance sheet have been reclassified from excess of assets over liabilities to own shares.
7. Reclassification of accrued interest of £4.1 million from subordinated liabilities to payables (trade, not insurance) as at 31 December 2019.

UKI Balance Sheet – IFRS and SII

As at December 2019 (£m)	Notes to the financial statements	IFRS (a)	Reclassifications (b)	IFRS reclassified (c) = (a) + (b)	SFCR note	Solvency II (d)	Valuation difference (e) = (d – c)
Assets							
Other intangible assets	10	4.9	–	4.9		–	(4.9)
Deferred acquisition costs	17	177.1	–	177.1		–	(177.1)
Participations	13	11.5	–	11.5		14.1	2.6
Property plant & equipment held for own use [1]	11	126.9	–	126.9	D.1.3	126.9	–
Property (other than own use)	12	287.6	–	287.6	D.1.4	287.6	–
Financial Investments	14	4,225.6	583.8	4,809.4		4,813.7	4.3
Government bonds	14	125.8	–	125.8	D.1.5	125.8	–
Corporate bonds[2]	14	3,939.5	39.3	3,978.8	D.1.6	3,983.1	4.3
Collateralised securities[2]	14	39.3	(39.3)	–		–	–
Collective investments undertakings[3]			583.8	583.8	D.1.7	583.8	–
Derivatives	14,15	121.0	–	121.0	D.1.8	121.0	–
Loans and mortgages	14	483.8	–	483.8	D.1.9	488.6	4.8
Reinsurance recoverables[4]	16,22	1,229.7	(36.1)	1,193.6		1,149.2	(44.4)
Receivables		878.9	(750.0)	128.9		128.9	0.1
Insurance and intermediaries[5]		830.8	(746.1)	84.7	D.1.10	84.7	–
Reinsurance receivables[4]		9.5	(3.9)	5.6	D.1.10	5.6	–
Trade, not insurance		38.6	–	38.6	D.1.10	38.6	–
Cash and cash equivalents[3]		798.7	(583.8)	214.9	D.1.11	214.9	–
Total assets		**8,224.7**	**(786.1)**	**7,438.6**		**7,223.9**	**(214.7)**
Liabilities							
Technical provisions[5]	21,22	5,299.9	(475.8)	4,824.1	D.2	4,658.5	(165.6)
Other provisions	23	40.0	–	40.0	D.3.1	40.0	–
Deferred tax liabilities	23	15.7	–	15.7	D.3.2	6.9	(8.8)
Derivatives	15	30.3	–	30.3	D.3.3	30.3	–
Debts owed to credit institutions		46.7	–	46.7	D.3.4	46.7	–
Financial liabilities other than debts owed to credit institutions[1]		209.9	–	209.9	D.3.5	209.9	–
Insurance & intermediaries payables[5]		100.4	(98.8)	1.6	D.3.6	1.6	–
Reinsurance payables[4]		43.7	(40.0)	3.7	D.3.6	3.7	–
Payables (trade, not insurance)[5,6]		233.2	(167.3)	65.9		66.1	0.2
Subordinated liabilities[6]	20	259.8	(4.2)	255.6	D.3.7	259.4	3.8
Total liabilities		**6,279.6**	**(786.1)**	**5,493.5**		**5,323.1**	**(170.4)**
Excess of assets over liabilities		**1,945.1**	**–**	**1,945.1**		**1,900.8**	**(44.3)**

Notes for reclassifications in column (b):

1. Right-of-use ("**ROU**") assets and lease liabilities are now shown on the balance sheet as a result of implementing IFRS 16 'Leases'. ROU assets are included Property plant & equipment (own use) and lease liabilities are categorised as Financial liabilities other than debts owed to credit institutions.
2. Reclassification of £39.3 million to corporate bonds from collateralised securities as at 31 December 2019.
3. Reclassification of £583.8 million from cash and cash equivalents to collective investments undertakings as at 31 December 2019.
4. Reclassification into reinsurance recoverables of £36.1 million from reinsurance payables of £(40.0) million and reinsurance receivables of £3.9 million as at 31 December 2019.
5. Reclassification of £746.1 million of insurance and intermediaries receivables, £(98.8) million of insurance and intermediaries payables and £(171.5) million of trade payables into technical provisions as at 31 December 2019.
6. Reclassification of accrued interest of £4.2 million from subordinated liabilities to payables (trade, not insurance) as at 31 December 2019.

CIC Balance Sheet – IFRS and SII

As at December 2019 (£m)	Notes to the financial statements	IFRS (a)	Reclassifications (b)	IFRS Reclassified (c) = (a) + (b)	SFCR note	Solvency II (d)	Valuation difference (e) = (d – c)
Assets							
Collective investments undertakings[1]		–	17.3	17.3	D.1.7	17.3	–
Reinsurance recoverables	7	23.8	–	23.8		24.5	0.7
Reinsurance receivables		0.6	–	0.6		0.6	–
Cash and cash equivalents[1]		17.3	(17.3)	–		–	–
Total assets		**41.7**	**–**	**41.7**		**42.4**	**0.7**
Liabilities							
Technical provisions	9	28.5	–	28.5	D.2	28.1	(0.4)
Deferred tax liabilities	6	–	–	–		0.1	0.1
Financial liabilities other than debt owed to credit institutions		0.1	–	0.1		0.1	–
Payables (trade, not insurance)		–	–	–		0.1	0.1
Total liabilities		**28.6**	**–**	**28.6**		**28.4**	**(0.2)**
Excess of assets over liabilities		**13.1**	**–**	**13.1**		**14.0**	**0.9**

Note for reclassifications in column (b):

1. Reclassification of £17.3 million from cash and cash equivalents to collective investments undertakings as at 31 December 2018.

D.1.1 Deferred tax assets
Deferred tax assets arise solely in the Group Solvency II balance sheets and are valued at fair value.

D.1.2 Retirement benefit obligation
The Group operated a small defined benefit pension scheme with a balance sheet asset value of £9.7 million as at 31 December 2019, which was closed in 2003. The scheme assets and liabilities are measured at fair value. More detail can be found in the Group's Annual Report & Accounts 2019 in note 27 'Retirement benefit obligations' which starts on page 195.

D.1.3 Property, plant and equipment held for own use
In the Solvency II balance sheets, owned property is valued at fair value, based on valuations provided by independent registered valuers using assumptions and methodology that are consistent with investment property. Plant and equipment is valued at fair value only if an external market exists and a price verified by an independent valuer can be obtained, which results in many smaller items being valued at zero. The IFRS financial statements value property, plant and equipment at historic cost less depreciation.

Implementation of IFRS 16 'Leases' has also brought leased assets, termed right-of-use assets, onto the Solvency II balance sheet from 1 January 2019 as part of Property, plant and equipment for own use. In both the IFRS and Solvency II balance sheet, ROU assets are valued at fair value. The ROU asset is initially valued at the present value of lease payments, plus initial direct costs less any incentives received using the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily available.

D.1.4 Investment property (other than for own use)
Property is stated at fair value in the Solvency II balance sheets and IFRS financial statements based on valuations by independent registered valuers, using consistent assumptions and methodology (see also D.4). Properties classified as assets held for sale in the IFRS financial statements are valued on the same basis for Solvency II and included within properties (other than for own use) in the Group balance sheet.

D.1.5 Government bonds
Government bonds are valued at fair value in the Solvency II balance sheets and IFRS financial statements. These are based primarily in whole or in part by reference to published quotes in an active market; the value for Group is £99.6 million and £94.5 million for UKI. The Group has £31.3 million and UKI £31.3 million of government bonds that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

D.1.6 Corporate bonds
Corporate bonds in the Solvency II balance sheets are held at fair value. In the IFRS financial statements for Group and UKI they are also held at fair value with the exception of a small portfolio with a value of £104.0 million (fair value: £108.2 million) classified as held to maturity under IFRS and held at amortised cost. The fair value for Solvency II is calculated using valuation techniques that are based on observable current market transactions and model inputs for recent transactions or observable market data.

D.1.7 Collective investment undertakings
Collective investment schemes are measured at fair value in the Solvency II balance sheets and the IFRS financial statements. They consist primarily of money market funds and are valued by reference to published quotes in an active market.

D.1.8 Derivatives
Derivatives are carried at fair value in both the Solvency II balance sheets and IFRS financial statements, using the valuation technique described on page 40.

D.1.9 Loans
Under IFRS loans are valued at amortised cost. The Solvency II fair value is derived using a valuation based on a risk-adjusted discounted cash flow model. When determining the risk-adjusted discount rate, inputs for the relevant base rate, average trading spread of the overall market or sector and the credit risk specific to the loan are used.

D.1.10 Insurance and other receivables
Insurance and other receivables are valued at fair value in the Solvency II balance sheets and the IFRS financial statements. Fair value is derived from discounting expected future cash flows by a risk-adjusted discount rate. Where the time value of associated cash flows is not significant, cash flows are not discounted.

D.1.11 Cash and cash equivalents
Cash and cash equivalents are valued at fair value in the Solvency II balance sheet and amortised cost in the IFRS financial statements. They comprise cash in hand and on demand deposits with banks, and short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

D.1.12 Other assets
Other assets on the Solvency II balance sheets are valued at fair value.

D.1.13 Investment in subsidiaries
In the Solvency II balance sheet of UKI, its subsidiary CIC is valued using an adjusted equity method that applies Articles 75 to 86 of the Solvency II Directive. The investment in subsidiary is included within other assets.

D.2 Technical provisions

Group – net technical provisions

As at 31 December 2019	Net best estimates £m	Risk margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,010.6	78.2	**2,088.8**
Other motor insurance	82.6	7.2	**89.8**
Fire and other damage to property insurance	477.1	38.0	**515.1**
General liability insurance	284.2	40.4	**324.6**
Other non-life lines of business	148.8	5.8	**154.6**
	3,003.3	**169.6**	**3,172.9**
Life lines of business			
Annuities from non-life	264.1	75.9	**340.0**
Total lines of business	**3,267.4**	**245.5**	**3,512.9**

UKI – net technical provisions

As at 31 December 2019	Net best estimates £m	Risk margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,010.6	78.2	**2,088.8**
Other motor insurance	82.6	7.2	**89.8**
Fire and other damage to property insurance	477.1	38.0	**515.1**
General liability insurance	284.2	40.4	**324.6**
Other non-life lines of business	148.8	5.8	**154.6**
	3,003.3	**169.6**	**3,172.9**
Life lines of business			
Annuities from non-life	261.1	75.3	**336.4**
Total lines of business	**3,264.4**	**244.9**	**3,509.3**

CIC – net technical provisions

As at 31 December 2019	Net best estimates £m	Risk margin £m	Total net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	–	–	–
Life lines of business			
Annuities from non-life	3.0	0.6	**3.6**
Total lines of business	**3.0**	**0.6**	**3.6**

Uncertainty associated with technical provisions

Insurance is inherently uncertain with respect to the amount and timing of future cash flows, requiring the use of judgement in estimating these cash flows. Reserving risk is a significant risk to the Group and consists predominantly of bodily injury claims from the Motor business. Some of the factors that are considered when assessing the level of technical provisions include the class of business, timeliness of notification of claims, validity of claims made against a policy and validity of the amount of the claim. At any time there is a range of possible outcomes at which the technical provisions could ultimately settle and, as time passes, the uncertainty surrounding likely claims settlement for past accident periods reduces. The uncertainty is greater for bodily injury claims due to the time it takes for these claims to settle. This is particularly true for periodic payment orders awarded to settle some of the large bodily injury claims, in which annually indexed payments are made over the lifetime of the injured party.

Future management actions are allowed for in future reinsurance premium expenses. Reinsurance in place for the Group is considered to be renewed on similar terms (unless expected to be materially different) where premium exposure continues beyond the term of current treaties.

Uncertainty with respect to policyholder behaviour is considered within the calculations for bound but not incepted business. Policy data information for new and renewal business is considered by product and business category.

Differences in valuation methodologies

For each line of business, the differences in the valuation of claims provisions best estimates from IFRS reporting to a Solvency II basis break down into a number of discrete adjustments to the net IFRS insurance liabilities comprising claims reserves and other technical provisions. The net IFRS insurance liabilities include unearned premium reserves net of deferred acquisition costs and reinsurance assets per the IFRS financial statements. These differ in materiality depending on the nature of the cash flows associated with each line of business.

For the claims provisions, differences to IFRS are as follows:

- allowances for events not in data are a requirement for Solvency II purposes whereas these are not treated in the same way under IFRS. The events not in data allowance is calculated using market standard techniques;
- explicit allowances are made for additional expenses other than claims handling, such as investment management expenses on the earned claims reserves and profit share payments due on partnership arrangements;
- all cash flows are discounted for Solvency II purposes using the risk-free yield curve provided by the European Insurance and Occupational Pensions Authority with volatility adjustment as appropriate. This represents a change to IFRS reporting where only periodic payment order claims are discounted; and
- cash flows for periodic payment order claims are projected using inflation assumptions relative to the prescribed risk-free discount rates for Solvency II, before volatility adjustment.

Group

As at 31 December 2019	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,299.8	(211.0)	**2,088.8**
Other motor insurance	243.7	(153.9)	**89.8**
Fire and other damage to property insurance	656.5	(141.4)	**515.1**
General liability insurance	288.6	36.0	**324.6**
Other non-life lines of business	167.1	(12.5)	**154.6**
	3,655.7	(482.8)	3,172.9
Life lines of business			
Annuities from non-life[1]	242.4	97.6	**340.0**
Total	**3,898.1**	**(385.2)**	**3,512.9**

UKI

As at 31 December 2019	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	2,299.8	(211.0)	**2,088.8**
Other motor insurance	243.7	(153.9)	**89.8**
Fire and other damage to property insurance	655.6	(140.5)	**515.1**
General liability insurance	288.6	36.0	**324.6**
Other non-life lines of business	167.1	(12.5)	**154.6**
	3,654.8	**(481.9)**	**3,172.9**
Life lines of business			
Annuities from non-life[1]	238.3	98.1	**336.4**
Total	**3,893.1**	**(383.8)**	**3,509.3**

CIC

As at 31 December 2019	IFRS net insurance liabilities £m	Solvency II adjustments £m	Solvency II net technical provisions £m
Non-life lines of business			
Motor vehicle liability insurance	–	–	**–**
Life lines of business			
Annuities from non-life[1]	4.7	(1.1)	**3.6**
Total	**4.7**	**(1.1)**	**3.6**

Note:

1. The IFRS net insurance liabilities above for annuities from non-life are different from the net approved PPO claims provision in the corresponding IFRS financial statements, which excludes an allocation of reinsurance bad debt but does include both lump sum payments and annuities.

In addition, there are further differences between IFRS and Solvency II reporting bases that apply to all lines of business:

- the calculation of premium provisions to allow for all future cash flows relating to unearned obligations under Solvency II replaces the concept of holding a provision for unearned premium, deferred acquisition costs and liability adequacy reserve, if required; and
- an industry-wide prescribed method for calculating risk margin above the best estimate technical provisions under Solvency II is applied as opposed to a margin setting process governed internally within the Group. The risk margin is calibrated once a year to ensure the approach adopted is aligned to the derivation of the SCR.

Differences in the valuation between UKI and CIC

Within the Group's Solvency II technical provisions, the valuation for risk margin differs for UKI and CIC. The risk margin for UKI is taken from the Internal Model whilst the risk margin for CIC is based on a standard formula calculation. No additional diversification is allowed for between the entities in the Group level risk margin.

Volatility adjustment

The volatility-adjusted risk-free discount rate is used to discount reserve cash flows for the motor liability, general liability and non-life annuity classes of business. This includes application to reserves held for periodic payment order claims. The part of the discounting credit relating to the volatility adjustment amount net of reinsurance is £16.8 million, £16.6 million and £0.1 million in the respective balance sheets of the Group, UKI and CIC at 31 December 2019.

Recoverables from reinsurance contracts and special purpose vehicles

The Group has a range of reinsurance protection types which include property catastrophe, motor risk excess of loss, commercial property risk excess of loss, commercial liability risk excess of loss and smaller programmes to protect against travel, subsidence and creditor claims. Facultative cover has been purchased on selected commercial risks, mainly property. Motor risk excess of loss in past years has been on a risk attaching basis.

The Group allows for future reinsurance expenditure as an increase to the technical provisions on a contractually bound basis.

There are currently no special purpose vehicles in place for the Group's reinsurance.

Changes in assumptions relating to the calculation of technical provisions

There have been no key changes in assumptions relating to the calculation of technical provisions since last year.

The following represent parameter updates made to the calculation of technical provisions over the same period. For these parameter updates, the underlying methodology remains unchanged.

– the claims ABE, allowance for expenses, allowance for reinsurer counterparty default and cash flow patterns are updated throughout the year for all lines of business to allow for IFRS reserve movements and changes in the data underlying all assumptions;
– for the premium provisions, balance sheet items, claims assumptions and expense assumptions are updated through the year;
– both the claims provision and the premium provision assume an Ogden discount rate of minus 0.25% for England and Wales, minus 0.75% for Scotland and 2.5% for Northern Ireland.
– the events not in data model has been updated for the latest volatility parameters and scenarios; and
– the risk margin reflects an updated view of the best estimate provisions, as well as model and parameter updates in the Internal Model.

D.3 Other liabilities

Valuation methodology

The Group values all liabilities at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction. In the Group, UKI and CIC Solvency II balance sheets, no adjustments are made for own credit risk, except for subordinated liabilities. There have been no changes to the bases used for recognition, valuation and estimation of other liabilities during the reporting period. The assumptions and judgements do not include any assumptions about the future or additional sources of estimation other than those noted.

The tables in D.1 summarise and compare the value of Group, UKI and CIC Solvency II liabilities with those contained in the Group, UKI and CIC IFRS financial statements.

D.3.1 Provisions other than technical provisions

Provisions other than technical provisions are valued in the Solvency II balance sheets and the IFRS financial statements at fair value. Fair value is derived from discounting expected future cash flows by a risk-adjusted discount rate. Where the time value of associated cash flows is not significant, cash flows are not discounted.

D.3.2 Deferred tax liabilities

Deferred tax liabilities arise in the UKI and CIC Solvency II balance sheets and the IFRS balance sheets of Group and UKI. All deferred tax liabilities are valued at fair value.

D.3.3 Derivatives

Derivatives are carried at fair value in the Solvency II balance sheets and IFRS financial statements using the valuation technique described on page 40.

D.3.4 Debts owed to credit institutions

Debts owed to credit institutions comprise bank overdrafts and are measured at amortised cost using the effective interest rate method in the IFRS financial statements. Given the very short-term nature of these balances this is also considered to be a reasonable approximation to fair value for the Solvency II balance sheet.

D.3.5 Financial liabilities other than debts owed to credit institution

These represent lease liabilities for corresponding ROU assets that have been bought on balance sheet as a result of implementation of IFRS 16 'Leases' from 1 January 2019. Amounts are valued at the present value of lease payments outstanding over the term of the remaining lease. The discount rate used (i.e. incremental borrowing rate) is the same as that used for initially valuing corresponding ROU assets.

D.3.6 Insurance and other payables

Insurance and other payables are valued at fair value in the Solvency II balance sheets and the IFRS financial statements. Fair value is derived from discounting expected future payments by a risk-adjusted discount rate. Where the time value of associated payments is not significant, cash flows are not discounted.

D.3.7 Subordinated liabilities

The Group has subordinated guaranteed dated notes in the Solvency II balance sheets held at a fair value which is determined by reference to quoted prices in an active market. In the IFRS financial statements they are valued at amortised cost plus a fair value hedge adjustment for a 10-year hedge to exchange the fixed rate of interest for a floating rate of three-month LIBOR plus a spread of 707 basis points. The valuation in the Solvency II balance sheets is at fair value, based on quoted market price less the movement in own credit risk since initial recognition.

D.4 Alternative methods of valuation

The majority of the assets and other liabilities included in the Balance Sheet QRTs of the Group, UKI and CIC in sections G.2, G.3 and G.4 respectively are based on quoted market information or observable active market data. Where the quoted market information or observable market data is not available, an alternative method for valuation is used.

The Solvency II valuation methodology hierarchy is different from the IFRS fair value hierarchy but the methodology for valuing assets and other liabilities at fair value is consistent. The assets and other liabilities, that are not valued by reference to published quotes in an active market and would be classified as Level 2 or 3 in the Group's IFRS fair value hierarchy, are classified as alternative methods of valuation under Solvency II. The Group only uses alternative valuation methods when a readily observable, external market valuation is not available, or where the relevant market is deemed to be inactive.

Estimation and uncertainty of alternative method of valuation

Alternative methods for valuation include the use of estimates and assumptions that are not market observable but based on independent third-party evidence and internally developed models. Valuation uncertainty arises from variation in the expected range of the key inputs into the models, judgements relating to model inputs, and reliance on third party valuation standards. Where an alternative valuation method is used the variation to fair value is immaterial.

The material assets and other liabilities, disclosed in the Balance Sheet QRTs in sections G.2, G.3 and G.4, that have alternative methods of valuation methods applied are as follows:

Investment property and property for own use

Property is stated at fair value in the Solvency II balance sheets based on valuations by independent registered valuers. Fair value is based on current prices for similar properties adjusted for the specific characteristics of each property including the size, location and condition by reference to the benchmark property transactions.

Right of use assets and lease liabilities

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date unless the interest rate implicit in the lease is readily determinable. The incremental borrowing rate is determined based on available risk-free market yield to maturity pricing linked to the lease amount and term, and includes a credit spread.

Participations (UKI only)

Participations of £14.1 million are valued using an adjusted equity method, which takes a share of the excess of assets over liabilities of the CIC subsidiary. This method is used because a quoted market price from an active market in the equity of the subsidiary is not available.

Government and corporate bonds

If the market for a financial asset is not active, the Group establishes the fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable and willing parties (if available), reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique.

Loans and mortgages

The Solvency II fair value is derived using a valuation based on a risk-adjusted discounted cash flow model. When determining the risk-adjusted discount rate, inputs for the relevant base rate, average trading spread of the overall market or sector and the credit risk specific to the loan are used.

Derivative asset and liabilities

Fair value for derivatives is determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models. Valuation models use inputs for contractual terms and the specific risks inherent in the instrument, market prices, credit curves, yield curves, measure of volatility and correlations of such inputs.

Subordinated liabilities

The valuation in the Solvency II balance sheet is at fair value based on reference to quoted market price less the movement in own credit risk since initial recognition. The discounted cash flow uses a discount rate that takes into account the specific characteristics of the subordinated debt adjusted for market conditions. An adjustment is made to the calculated fair value to remove the movement in the Group's own credit risk since initial recognition.

D.5 Any other information

The Group, UKI and CIC adopted IFRS 16 'Leases' for the first time on 1 January 2019. As a result, lease liabilities in respect of property, motor vehicles and IT equipment are now recognised on the balance sheet, along with corresponding right-of-use assets.

The Group and UKI have recognised lease liabilities of £164.4 million and £141.1 million respectively as at 31 December 2019, and corresponding ROU assets of £149.2 million and £126.9 million respectively. The opening equity and prior period impact of IFRS 16 on the primary financial statements is presented in further detail in the Group's Annual Report & Accounts and the separate financial statements of UKI. No lease arrangements were identified in CIC.

The Group, UKI and CIC adopted 'Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7' in 2019. Although not mandatory until 2020, the amendments were adopted early to safeguard the Group and its entities from the uncertainty caused by the IBOR reform. By adopting these amendments early, the Group is able to continue applying hedge accounting to some of its benchmark interest rate exposure as the amendments permit the continuation of hedge accounting where in future the hedged benchmark interest rate may no longer be separately available.

The Group, UKI and CIC continue to apply the requirements of Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts', deferring the adoption of IFRS 9 'Financial Instruments' until the effective date of IFRS 17 'Insurance Contracts'.

IFRS 17 was issued by the International Accounting Standards Board ("**IASB**") in 2017 to replace IFRS 4 'Insurance Contracts'. IFRS 17 is currently effective for reporting periods beginning on or after 1 January 2021, however the IASB agreed on 17 March 2020 a delay of the effective date of IFRS 17, and the temporary IFRS 9 exemption in IFRS 4, until 1 January 2023.

The objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers and users. The Group's IFRS 17 impact assessment remains in progress.

SECTION E: CAPITAL MANAGEMENT

In this section:

E. CAPITAL MANAGEMENT

E.1 Own funds

E.1.1 Objective, policies and processes for managing own funds

The Group aims to manage its capital efficiently and generate long-term sustainable value for shareholders, while balancing operational, regulatory, rating agency and policyholder requirements.

The Group aims to grow its regular dividend in line with business growth.

Where the Board believes that the Group has capital which is expected to be surplus to the Group's requirements for a prolonged period, it would intend to return any surplus to shareholders. In normal circumstances, the Board expects that a solvency capital ratio around the middle of its risk appetite range of 140% to 180% of the Group's solvency capital requirement would be appropriate and it will therefore take this into account when considering the potential for special distributions. For UKI and CIC, their individual boards have approved a minimum threshold of 125% of their respective solvency capital requirements.

In the normal course of events the Board will consider whether or not it is appropriate to distribute any surplus capital to shareholders once a year, alongside the full year results.

The Group expects that one-third of the annual dividend will generally be paid in the third quarter as an interim dividend, and two-thirds will be paid as a final dividend in the second quarter of the following year. The Board may revise the dividend policy from time to time. The Group may consider a special dividend and/or a repurchase of its own shares to distribute surplus capital to shareholders.

The Group seeks to maintain sufficient economic capital consistent with its strategic aim of maintaining a credit rating in the 'A' range.

The policies and processes that the Group adopts to manage its own funds to mitigate the risk of breaching regulatory and internal capital adequacy are described in the Group's Capital Management minimum standard, which includes the following key controls:

Capital forecasting

The Group's five-year strategic plan includes a capital plan that forecasts the solvency capital requirement and coverage ratios for the Group, UKI and CIC.

Adverse capital movement

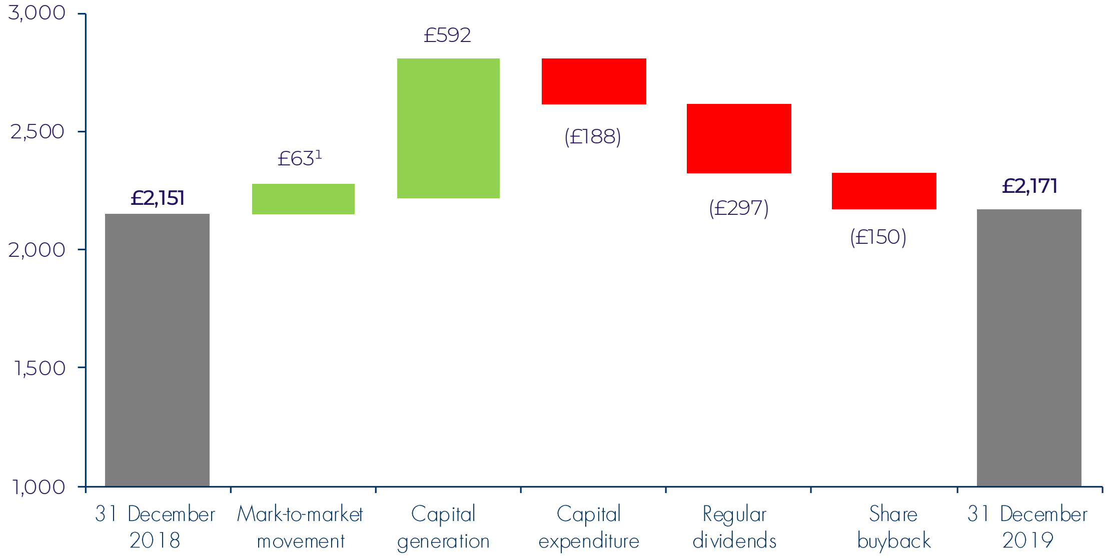
A regular review of the capital adequacy of each Group undertaking is undertaken to ensure no deterioration below the solvency capital requirement or agreed risk appetite ranges, including review of the forecast capital position and the quality of capital within own funds.

Management of dividend governance

Dividends paid by all Group undertakings are considered and approved by the responsible Board. The Company, UKI and CIC all have the right to cancel (or defer) their own dividend payments or other distributions after declaration if the undertakings cease to hold capital resources equal to or in excess of their solvency capital requirement.

There have been no material changes to the objectives, policies and processes for managing own funds over the reporting period.

Movement in Group own funds during 2019 (millions)



Note:
1. Mark-to-market movements represent movements in IFRS available for sale revaluation reserve, fair value adjustments on financial investments held at amortised cost under IFRS, fair value adjustments on investment properties, property held for own use and derivatives.

E.1.2 Analysis of the components of own funds

The following table lists total own fund items by tier for the Group, UKI and CIC

As at 31 December 2019	Group £m	UKI £m	CIC £m
Ordinary Share capital	150.0	580.8	–
Reconciliation reserve	1,306.4	1,020.0	14.0
Total Tier 1 unrestricted own funds	**1,456.4**	**1,600.8**	**14.0**
Tier 1: restricted Tier 1 debt	365.9	–	–
Less reclassified restricted Tier 1 debt[1]	(1.9)	–	–
Total eligible Tier 1 own funds	**1,820.4**	**1,600.8**	**14.0**
Tier 2: reclassified restricted Tier 1 debt and subordinated liabilities[1]	261.3	259.4	–
Tier 3: deferred tax assets	89.3	–	–
Total own funds[2]	**2,171.0**	**1,860.2**	**14.0**

As at 31 December 2018	Group £m	UKI £m	CIC £m
Ordinary Share capital	150.0	580.8	–
Reconciliation reserve	1,299.9	930.1	13.7
Total Tier 1 unrestricted own funds	**1,449.9**	**1,510.9**	**13.7**
Tier 1: restricted Tier 1 debt	354.0	–	–
Total eligible Tier 1 own funds	**1,803.9**	**1,510.9**	**13.7**
Tier 2: subordinated liabilities	261.1	522.1	–
Tier 3: deferred tax assets	86.0	20.5	–
Total own funds[2]	**2,151.0**	**2,053.5**	**13.7**

Notes:
1. As at 31 December 2019 £1.9 million of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to tiering restrictions (2018: £nil).
2. The difference between own funds for the Group and the total of UKI and CIC relates to own funds of non-regulated entities.

Group

Tier 1 own funds comprise Ordinary Share capital of £150.0 million (2018: £150.0 million) and the reconciliation reserve of £1,306.4 million (2018: £1,299.9 million). The reconciliation reserve consists of Solvency II excess of assets over liabilities of £2,285.1 million (2018: £2,228.4 million) less the value of own shares held of £26.4 million (2018: £33.2 million) and foreseeable capital distributions (dividends and share buyback) of £347.1 million (2018: £305.3 million) and other basic own fund items consisting of Tier 3 deferred tax assets of £89.3 million (2018: £86.0 million).

Ordinary Share capital of £150.0 million (2018: £150.0 million) and Tier 1 notes of £365.9 million (2018: £354.0 million) of which £1.9 million is reclassified as Tier 2 (2018: £nil). Foreseeable capital distributions consist of dividends of £197.1 million and a share buyback of £150.0 million.

On 19 March 2020, given the uncertainty as a result of Covid-19, the Group announced the suspension of the share buyback programme. The information in this SFCR, including the own funds and solvency capital ratio, has been presented to include the buyback as a foreseeable distribution.

Eligible Tier 1 own funds after foreseeable capital distributions represents 84% of own funds and 138% of the SCR.

On 7 December 2017, the Group issued £350.0 million of Tier 1 notes with a coupon of 4.75%. The Group has an optional redemption date of 7 December 2027. If the notes are not repaid on that date, the rate of interest per annum will be reset. The notes are direct, unsecured and subordinated obligations of the issuer ranking pari passu and without any preference amongst themselves. The Group has the option to cancel the coupon payment; this becomes mandatory if the Solvency condition is not met at the time of or following coupon payment, non-compliance with the minimum capital requirement, where the Group has insufficient distributable reserves or where the relevant regulator requires the coupon payment to be cancelled. Proceeds of this issuance were primarily used to fund the repurchase of £250 million subordinated guaranteed dated notes which had a market value of £326.8 million.

The Group has issued Tier 1 notes to mitigate the risk of a single refinancing date. In addition, under the Solvency II eligibility restrictions the Group previously had limited options to raise additional subordinated debt (Tier 2) capital to recover solvency. As a result of raising the Tier 1 notes and repaying half of the Tier 2 capital the Group has ability to raise further Tier 2 capital should this be required.

Tier 2 own funds include subordinated guaranteed dated notes with a nominal value of £500 million which were issued on 27 April 2012 at a fixed rate of 9.25%. On the same date, the Group also entered into a 10-year designated hedging instrument to exchange the fixed rate of interest for a floating rate of three-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

On 8 December 2017, the Group repurchased £250 million nominal value of the subordinated guaranteed dates notes for a purchase price of £330.1 million including accrued interest of £2.7 million and associated transaction costs of £0.6 million. The remaining notes, with a nominal value of £250 million, have a redemption date of 27 April 2042 with the option to repay the notes on 27 April 2022. If the notes are not repaid on that date, the rate of interest will be reset at a rate of the 6-month LIBOR plus 7.91%.

The Group has the option, in certain circumstances, to defer interest payments on the notes but to date has not exercised this right. The notes are unsecured, subordinated obligations of the Group, and rank pari passu without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all other senior creditors have been met.

UKI

Tier 1 own funds comprise Ordinary Share capital of £580.8 million (2018: £580.8 million) and the reconciliation reserve of £1,020.0 million (2018: £930.1 million). The reconciliation reserve consists of Solvency II excess of assets over liabilities of £1,900.8 million (2018: £1,531.4 million), less foreseeable dividends in the year of £300.0 million (2018: £nil) and Ordinary Share capital of £580.8 million. The deferred tax asset is £nil (2018: £20.5 million).

Tier 2 own funds comprise the UKI subordinated guaranteed dated loan notes which were issued on 27 April 2012 at a fixed rate of 9.5%. On the same date, the Company also entered into a 10-year hedge to exchange the fixed rate of interest for a floating rate of three-month LIBOR plus a spread of 706 basis points which was credit value adjusted to 707 basis points with effect from 29 July 2013.

The original issue of nominal £500 million notes have a redemption date of 27 April 2042. On 7 March 2019 UKI repaid £250 million of its subordinated debt to its parent, Direct Line Insurance Group plc. UKI has the option to repay the notes on specific dates from 27 April 2022. If the notes are not repaid on that date, the rate of interest will be reset at a rate of six-month LIBOR plus 8.16%. The notes are unsecured, subordinated obligations of UKI, and rank pari passu without any preference among themselves. In the event of a winding-up or of bankruptcy, they are to be repaid only after the claims of all senior creditors have been met. UKI has the option to defer interest payments in certain circumstances on the notes but to date has not exercised this right.

CIC

Tier 1 own funds comprise Ordinary Share capital of £100 (2018: £100) and the reconciliation reserve. The reconciliation reserve consists of Solvency II excess of assets over liabilities of £14.0 million (2018: £13.7 million) less ordinary share capital of £100 (2018: £100).

Eligible own funds by tier to cover the solvency capital requirement and minimum capital requirement

Group

The Group's SCR as at 31 December 2019 was £1,316.0 million; the limit that the sum of Tier 2 and Tier 3 capital shall not exceed 50% of the SCR is a restriction on available own funds to meet the SCR and was not applicable to the Group at 31 December 2019. Total eligible own funds to meet the SCR were £2,171.0 million, consisting of Tier 1 – unrestricted of £1,456.4 million, eligible Tier 1 – restricted of £364.0 million, Tier 2 of £261.3 million and Tier 3 of £89.3 million. The restriction that Tier 1 – restricted own funds should not exceed 20% of total Tier 1 own funds when satisfying the requirement that eligible Tier 1 items shall be at least 50% of the SCR applied. As at 31 December 2019 £1.9 million of the Group's restricted Tier 1 capital was reclassified as Tier 2 due to tiering restrictions (2018: £nil).

The Group's MCR as at 31 December 2019 was £542.3 million; Tier 3 own funds are not eligible to cover the MCR. The limit that Tier 2 own funds shall not exceed 20% of the MCR is the only other restriction of eligible own funds to meet the MCR. The total eligible own funds to meet the MCR were £1,928.8 million, consisting of unrestricted Tier 1 of £1,456.4 million, eligible restricted Tier 1 of £364.0 million and restricted Tier 2 of £108.4 million. The restriction that Tier 1 – restricted own funds should not exceed 20% of total Tier 1 own funds when satisfying the requirement that eligible Tier 1 items shall be at least 80% of the MCR was not applicable to the Group.

UKI

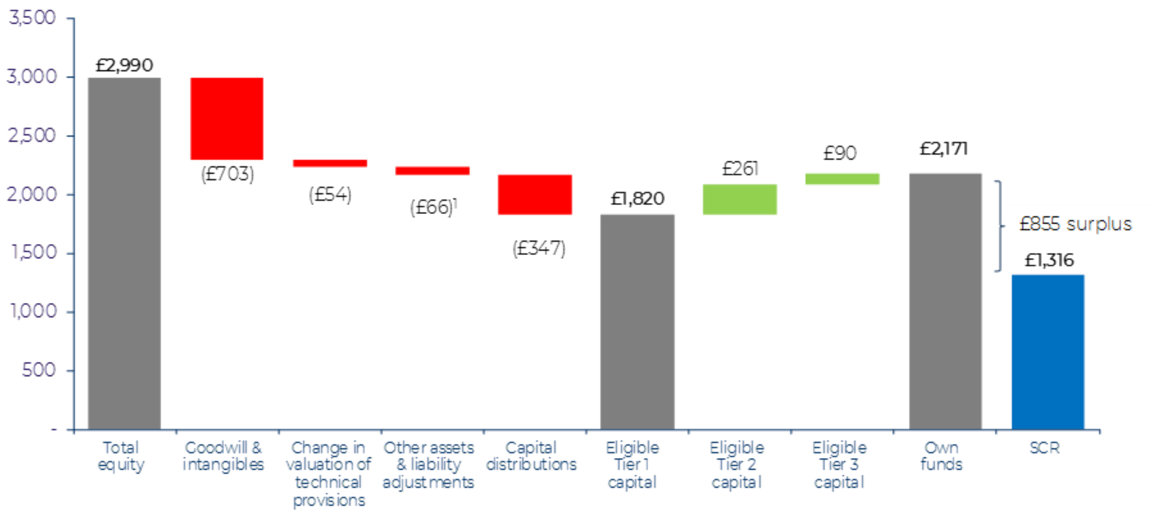
There were no restrictions on UKI's own funds to meets its SCR as at 31 December 2019 of £1,284.4 million (2018: £1,231.6 million).

The UKI MCR as at 31 December 2019 was £539.1 million; Tier 3 own funds are not eligible to cover the MCR. The restriction that limits Tier 2 items to 20% of the MCR was the only restriction. Total eligible own funds to meet the MCR were £1,708.6 million, consisting of unrestricted Tier 1 of £1,600.8 million and restricted Tier 2 of £107.8 million.

CIC

As at 31 December 2019, the CIC SCR was £0.8 million and the MCR was £3.2 million. There are no quantitative eligibility limits applicable to tiers 1, 2 or 3.

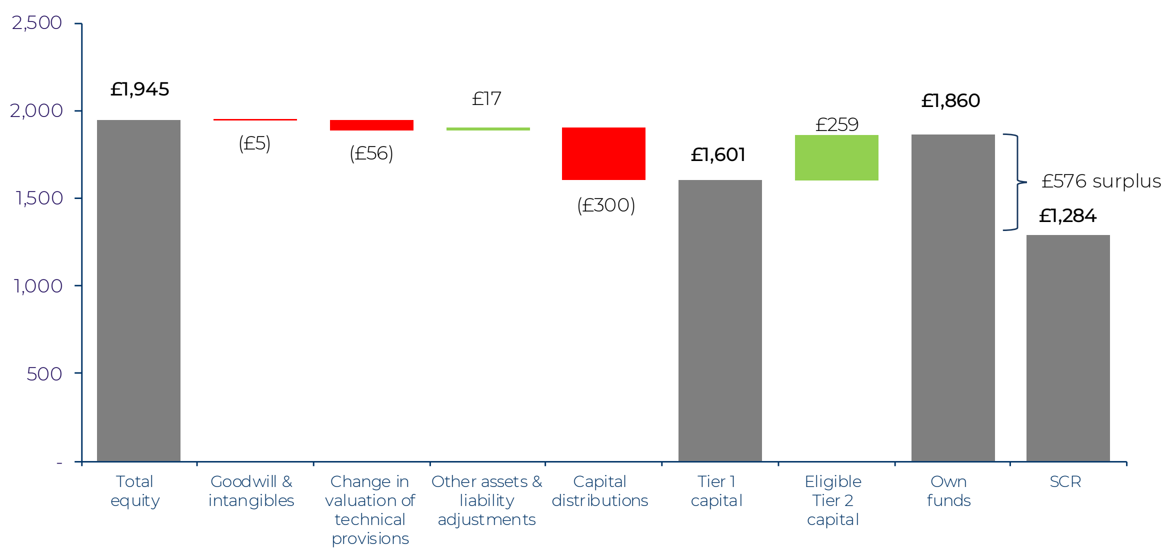
Reconciliation of Group equity in the IFRS financial statements to Solvency II own funds as at 31 December 2019 (millions)



Note:

1. Other assets and liabilities adjustments include an adjustment for £1.9 million of the Group's restricted Tier 1 capital which was reclassified as Tier 2 due to tiering restrictions.

Reconciliation of UKI equity in the IFRS financial statements to Solvency II own funds as at 31 December 2019 (millions)



Reconciliation of IFRS equity and Solvency II excess of assets over liabilities

As at 31 December 2019	Group £m	UKI £m	CIC £m
Total equity	2,990.1	1,945.1	13.1
Goodwill and intangible assets	(702.5)	(4.9)	–
Change in valuation of technical provisions	(54.5)	(56.3)	1.1
Other asset and liability adjustments	(65.6)	16.9	(0.2)
Foreseeable capital distributions	(347.1)	(300.0)	–
Excess of assets over liabilities (eligible Tier 1)	**1,820.4**	**1,600.8**	**14.0**

Neither UKI nor CIC had any items deducted from own funds or any restrictions that would affect the availability and transferability of own funds within the undertakings.

At the Group level there were no anticipated restrictions on the fungibility of own funds within Group entities and no items of own funds were dedicated to absorb specific losses. There were no restrictions on the transferability of own funds between Group entities.

E.2. Solvency capital requirement and minimum capital requirement (unaudited)

Solvency capital requirement and minimum capital requirement at the end of the reporting period

Group partial internal model solvency capital requirement

As at 31 December	2019 £m	2018 £m
SCR for the Group companies excluding UKI and its subsidiary (CIC), using integration technique 1	**31.6**	32.7
SCR for UKI using the Internal Economic Capital Model	**1,284.4**	1,231.6
Consolidated Group SCR	**1,316.0**	1,264.3

The Group received PRA approval to use a partial internal model for the calculation of its Group and solo SCRs from 1 July 2016. The SCR is not subject to supervisory assessment.

The integration technique to be used to integrate the partial internal model into the SCR standard formula is integration technique 1 as set out in Annex XVIII of the Commission Delegated Regulation (EU) 2015/35.

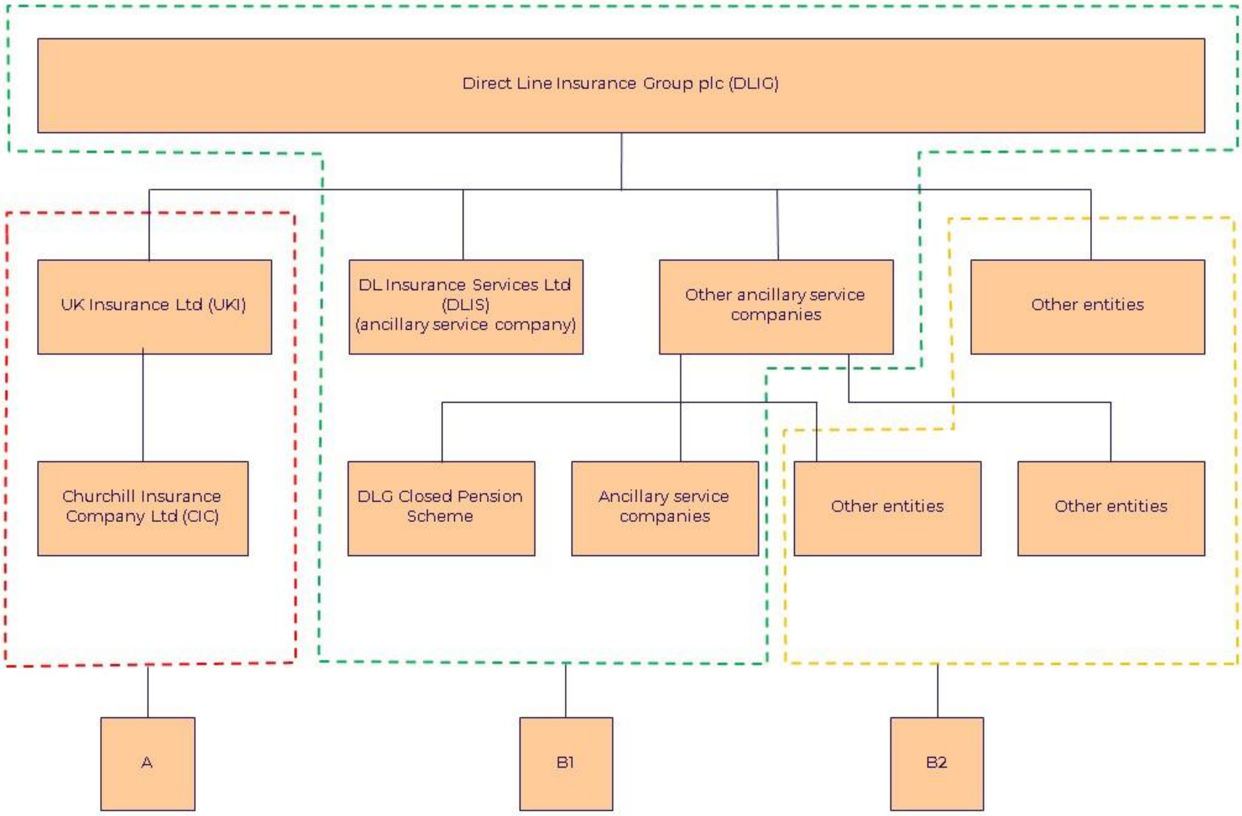
The undertakings included in the scope of the model for the calculation of the Group SCR are:

- Direct Line Insurance Group plc
- U K Insurance Limited
- Churchill Insurance Company Limited

The internal model is approved to calculate the solo SCR for UKI.

The notional standard formula of the Group holding company, excluding UKI, is calculated partly on a consolidated basis and partly on the basis of a standard formula equity risk shock for strategic participations in respect of certain entities.

The Group SCR is calculated by adding together the SCR for UKI calculated using the Internal Economic Capital Model (A) and a standard formula SCR for the non-UKI companies in the Group (B1). This standard formula SCR uses a consolidated balance sheet approach, except for certain entities (B2) which are treated as equity investments of the Group. The diagram on page 56 illustrates the generic approach.



The solo SCR for UKI includes all risks arising from CIC due to UKI owning 100% of CIC. The solo SCR for CIC is calculated using the standard formula.

The calculation of the solo SCR for CIC and for DLIG (excluding UKI) using the standard formula uses the parameters as referred to in the Solvency II regulations. The Group did not apply for undertaking specific parameters as referred to in Chapter V – Section 12 to be used. Simplified calculations as referred to in Subsection 6 of the Solvency II Delegated Regulation 2015/35 are not used.

There are no significant restrictions to the fungibility and transferability of own funds eligible for covering the Group SCR.

Due to the integration technique adopted, there are no diversification benefits taken between UKI and the Group entities. There are diversification benefits assumed between the Group entities in group B as far as has been allowed for by the standard formula. The contribution of risk from CIC to UKI is based on a CIC standard formula calculation, excluding any inter-company reinsurance provided to CIC from UKI. An uplift is applied to the CIC insurance risk calculation to reflect the limitations of the standard formula in dealing with the risks arising from periodic payment orders.

The Internal Economic Capital Model approach used to calculate the solo SCR for UKI is the same as used to calculate the contribution of UKI to the Group SCR.

Summary of entity solvency capital requirements and minimum capital requirements

As at 31 December 2019	SCR £m	MCR £m
Direct Line Insurance Group plc	1,316.0	542.3
U K Insurance Limited	1,284.4	539.1
Churchill Insurance Company Limited	0.8	3.2

Group solvency capital requirement – further information

As at 31 December	Group Partial internal model 2019 £m	Group Partial internal model 2018 £m
Non-life underwriting risk	–	–
Life underwriting risk	–	–
Health underwriting risk	–	–
Market risk	27.6	22.3
Counterparty default risk	9.9	19.0
Total – undiversified risk	37.5	41.3
Diversification	(5.9)	(8.6)
Basic SCR	31.6	32.7
Operational risk	–	–
Loss absorbing capacity of deferred taxes	–	–
Other adjustments	–	–
UKI SCR	1,284.4	1,231.6
Group SCR	1,316.0	1,264.3

Material changes over the year

Changes in the Group SCR are driven from changes in the UKI SCR which are discussed below. In respect of the element of the Group SCR attributed to the holding company, the decrease is due to changes in the defined benefit pension scheme investment portfolio.

Group minimum capital requirement – further information

The Group MCR has decreased from £557.5 million to £542.3 million over the reporting period, due to a reduction in UKI's MCR, as discussed below.

UKI solo solvency capital requirement – further information

As at 31 December	Internal Economic Capital Model 2019 £m	Internal Economic Capital Model 2018 £m
Insurance risk	1,184.2	1,102.2
Market risk	456.3	578.6
Counterparty default risk	79.9	79.3
Operational risk	284.4	263.1
Risk margin volatility	44.4	65.4
Total – undiversified risk	2,049.2	2,088.6
Diversification	(689.9)	(773.4)
Total – diversified	1,359.3	1,315.2
Loss absorbing capacity of deferred taxes	(74.9)	(83.6)
UKI SCR	1,284.4	1,231.6

Material changes over the year

The increase in insurance risk is due to exposure updates, particularly restructuring costs, higher investment spend and an increase in the motor reinsurance renewal premium.

Market risk has decreased primarily due to a change in mix of assets under management together with a tightening of credit spreads and reduction in credit volatility.

The increase in operational risk reflects a review of Professional Indemnity and Crime (PIC) cover in relation to cyber risk and a revision to the impact of conduct risk.

Risk margin volatility has decreased reflecting a lower risk margin due to a reduction in periodic payment order propensity and updates to emergence factor assumptions.

UKI minimum capital requirement – further information

The UKI MCR has decreased from £554.2 million to £539.1 million over the reporting period, reflecting a reduction in technical provisions, particularly motor and property reserves.

CIC solo solvency capital requirement – further information

As at 31 December	Standard formula 2019 £m	Standard formula 2018 £m
Non-life underwriting risk	–	0.1
Life underwriting risk	0.1	0.1
Health underwriting risk	–	–
Market risk	0.3	0.4
Counterparty default risk	0.5	0.5
Total – undiversified risk	0.9	1.1
Diversification	(0.2)	(0.3)
Basic SCR	0.7	0.8
Operational risk	0.1	0.1
CIC SCR	0.8	0.9

Material changes over the year

The reduction to the CIC SCR reflects the reduction in claims over the period.

CIC minimum capital requirement – further information

There have been no material movements in the CIC MCR, which has reduced from £3.3 million to £3.2 million over the reporting period.

Simplified calculation in the standard formula

No material simplifications have been used to derive the SCR using the standard formula.

E.3 Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement (unaudited)

The duration-based equity risk sub-module is not used in the calculation of the SCR for the Group, UKI or CIC.

E.4 Use of the internal model (unaudited)

Capital management

The Internal Economic Capital Model's primary use is to calculate the SCR. The Internal Economic Capital Model is used to assess the impact of capital management decisions and is an input into the Own Risk and Solvency Assessment to support dividend planning and budgeting.

Risk management

The Internal Economic Capital Model is used to quantify risks on the Material Risks Register and is also used to highlight the key risks to the Group. Furthermore, the Internal Economic Capital Model supports the risk appetite setting process and the review of financial forecasts, by providing stressed scenarios to give the Group's Executive Committee a range of possible outcomes.

Reinsurance management

Through the modelling of the base and alternative reinsurance structures, the Internal Economic Capital Model supports catastrophe and motor reinsurance management, by assessing the impact on profitability and capital requirements.

Portfolio management

The Internal Economic Capital Model is used to understand the relative risk associated with different cohorts of the business, and is used to advise on capital allocation to business categories. New initiatives and opportunities involve the Internal Economic Capital Model to indicate the impact on the SCR and associated return on equity.

Investment management

The Internal Economic Capital Model is used to assess the risk associated with the current asset mix, the impact of changes to the SCR and asset risk of changes in proposed asset portfolios and as a feed into the analysis of liquidity requirements which in turn impact the strategic investment decisions.

Scope of the internal model

The partial internal model calculates the Group SCR by adding together the SCR for UKI, calculated using the Internal Economic Capital Model, and a standard formula SCR for the non-UKI companies in the Group. This standard formula uses a consolidated balance sheet approach, except for certain entities which are treated as equity investments of the Group. See the diagram on page 56 which illustrates this approach.

The internal model is approved to calculate the solo SCR for UKI.

The notional standard formula for the Group companies (Section E.2), excluding UKI and its subsidiary CIC, is calculated partly on a consolidated basis and partly based on a standard formula equity risk shock for strategic participations in respect of certain entities. The underlying assets and liabilities of entities in group B1 are consolidated before applying the standard formula calculation. This sub-group consists of the Group holding company, ancillary service companies and the Group's closed pension scheme. The latter is not an entity within the Group but exposes it to pension scheme risk through its sponsor DLIS.

The risks included in the notional standard formula of the Group companies (excluding UKI and its subsidiary) are predominantly market risk and counterparty default risk. Market risk arises from the assets held at Group level and those held by the associated Group pension scheme. Counterparty default risk arises mainly from debtor balances and cash holdings.

The scope of the Internal Economic Capital Model is defined in terms of legal entities and risk categories that are represented in the Internal Economic Capital Model SCR. The Internal Economic Capital Model is considered a full internal model for the calculation of the solo UKI SCR as it includes all quantifiable material risks.

The following legal entities are included in the Internal Economic Capital Model SCR:

– U K Insurance Limited
– Churchill Insurance Company Limited

All other legal entities within the Group are excluded from the scope of the Internal Economic Capital Model.

The following risk types are included in the scope of the Internal Economic Capital Model:

– underwriting risk;
– reserving risk;
– catastrophe risk;
– market risk;
– counterparty default risk;
– liquidity risk; and
– operational risk.

The following risk types are not within the scope of the Internal Economic Capital Model, being regarded as non-quantifiable risks:

– strategic risk;
– reputational risk; and
– regulatory risk.

The Internal Economic Capital Model includes an allowance for the loss absorbing capacity of deferred taxes due to the potential for tax carry back. Risks arising due to periodic payment orders are assessed in underwriting risk and reserving risk. Market risk includes the assessment of interest rate risk arising from assets and liabilities. Liquidity risk is considered in the Internal Economic Capital Model but is assessed at zero due to the amount of liquid assets held.

Methods used to calculate the probability distribution forecast and the solvency capital requirement

Internal Economic Capital Model overview

The Internal Economic Capital Model is a full internal model as outlined by Article 112 of the Solvency II Directive. The calculation kernel within the Internal Economic Capital Model is the DLG Insurance Internal Capital Engine.

The DLG Insurance Internal Capital Engine uses stochastic processes and Monte-Carlo simulation methods to investigate the uncertainty in real world financial quantities over time by modelling real world processes as predictable movements onto which a random element is added. This random element represents the level of uncertainty within the process being modelled. Risk is measured by simulating several thousand random outcomes and observing the distribution of the outputs.

The DLG Insurance Internal Capital Engine produces future financial statements as well as a breakdown of the impact on the balance sheet by risk type. This enables the Group to understand the potential real world impact of a scenario and allows for integration into the risk management system of the Group. The DLG Insurance Internal Capital Engine simulates many possible closing balance sheets and provides a range of possible outcomes from which probabilistic measures can be obtained. This method allows the SCR to be set by measuring the 99.5th value-at-risk of the movement in own funds over a one-year period.

The DLG Insurance Internal Capital Engine is structured around a series of dependent modelling components. Each component models a specific aspect of an insurance company's operations, for example claims payments or reinsurance recoveries, and may depend on previous components, for example claims depend on a claims inflation component. The components within the DLG Insurance Internal Capital Engine may contribute to one or more of the risk types being assessed.

Internal Economic Capital Model structure

All financial modelling is a simplification of the real world. Within the DLG Insurance Internal Capital Engine this is partly addressed by grouping potential risks into homogenous cohorts rather than modelling each policy, claim or risk individually. The balance between aggregation and individual detail is important and will vary depending on the materiality and complexity of the risk being modelled.

The business structure in the DLG Insurance Internal Capital Engine is split across the following categories: Motor, Home, Rescue and other personal lines, Commercial and run-off business. Within each category there are classes where the risks are different. For example Home is split into own brands and partnerships due to profit sharing arrangements and Commercial is analysed by risk type (motor, property and liability) and channel (direct and broker). This allows for the model output to be useful and it also makes it more straightforward to source appropriate data.

The biggest risk that the Group faces is uncertainty regarding claims. Within each category, claims are modelled by loss types reflecting the different risks and influences on each type of claims. For example, Motor claims are modelled as attritional third-party property damage, attritional third-party bodily injury (capped), attritional other, large, periodic payment orders and catastrophe claims. The modelling of detailed loss types reflects the materiality, risk characteristics and homogeneity of the underlying risks being considered.

Difference between standard formula and internal model used

There are significant differences in both model structure and parameters when comparing the standard formula and the internal model. The Internal Economic Capital Model has been designed to model business processes whereas the standard formula focuses purely on a silo approach to considering specific risks with an aggregation methodology overlaid on top. The Internal Economic Capital Model is primarily calibrated to UKI data and uses expert judgement from the business, whereas the standard formula is calibrated using industry-based data and expert judgements.

There are significant differences between the Internal Economic Capital Model and standard formula SCR methodologies. The most significant differences are outlined below:

Profit

The Internal Economic Capital Model allows for expected profit over the year. The standard formula does not and this can be a significant difference.

Diversification

The correlations within the Internal Economic Capital Model SCR have been based on UKI data and expert judgement from the business. The standard formula SCR uses correlations that have been calibrated to industry-based data and expert judgement. The correlation parameters between risk types in the Internal Economic Capital Model are lower than for the standard formula. In particular, the relationship between insurance risk and market risk is assumed to be lower in the Internal Economic Capital Model than that assumed in the standard formula.

Market risk

The major difference relates to the use of an economic scenario generator by the Internal Economic Capital Model to assess market risk. The assumptions made within the economic scenario generator differ from those made by the standard formula, which primarily considers shocks in specific market variables and then attempts to apply a dependency structure on top. The economic scenario generator considers: the related evolution of economic variables over the year; considers movements in cash flows; and changes in the balance sheet in a year's time. This results in differences between the Internal Economic Capital Model and the standard formula in relation to interest rate risk, property risk and spread risk.

Non-life underwriting risk

The Internal Economic Capital Model assumes a lower level of one-year reserve volatility than that prescribed by the standard formula. The Internal Economic Capital Model SCR also considers the variability of the premium provision as at one year after the valuation date. The standard formula SCR does not consider the risk associated with this provision. All of UKI's insurance business is included within the non-life underwriting risk module of the Internal Economic Capital Model. The standard formula non-life underwriting risk calculation excludes the annuity portion of approved periodic payment order claims, which are considered within the life underwriting risk component, as well as the income protection business, which is considered within the health underwriting risk component. This further reduces the diversification effect within non-life underwriting risk in the standard formula compared with the Internal Economic Capital Model. This diversification effect is however allowed for in the standard formula when aggregating the various underwriting risk components. The Internal Economic Capital Model allows for periodic payment orders explicitly including longevity, wage inflation, propensity and reinsurance indexation. The Internal Economic Capital Model SCR utilises specialist catastrophe modelling software and focuses on those catastrophe types that have affected UKI in the past or that are most likely given the UKI portfolio. The standard formula SCR is based on prescribed scenarios which are in turn based on the Solvency II lines of business written by UKI.

Risk margin volatility

The Internal Economic Capital Model SCR includes allowance for risk margin volatility.

Operational risk

The Internal Economic Capital Model SCR basis uses a scenario-based approach which represents the UKI risk profile, considering its current risk and control environment. The standard formula calculates the SCR for operational risk, based on the premium earned in the last 12 months, the Solvency II technical provisions at the valuation date and the change in earned premium when compared to the 12 months prior to the last 12 months.

Tax

The UKI standard formula takes credit for any deferred tax liability which may exist in UKI, however this is not allowed for in the Internal Economic Capital Model SCR.

CIC

The method used to calculate the Internal Economic Capital Model capital charge for the risk relating to CIC is to use an uplifted standard formula calculation, with specific allowance for periodic payment order risk based on the Internal Economic Capital Model calibration, with no diversification benefit applied for the rest of UKI.

Risk measure and period used in the internal model

The Group's partial internal model uses a confidence level of 99.5% over a one-year period and therefore provides an equivalent level of protection for policyholders.

Nature and appropriateness of the data used in the Internal Economic Capital Model

The Internal Economic Capital Model uses both internal data and external data to calibrate parameters. Key internal data is primarily comprised of claims data which is also used for reserving and pricing purposes. The data is directly related to the risks on the balance sheet and those expected to be assumed in the next 12 months of underwriting, and therefore appropriate to use for the calibration of the Internal Economic Capital Model following adjustments for changes in exposure and risk mix.

Where there is insufficient internal data the Internal Economic Capital Model relies on external models and data. The key risks which utilise external models and data are catastrophe risk and market risk. External models and data are subject to the same standards as internally developed models.

Market studies and industry data are used as a reference and as validation points. In particular the Institute and Faculty of Actuaries Periodic Payment Order working party results are considered.

E.5 Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

The Group is compliant with the MCR and SCR.

E.6 Any other information

There is no additional Information.

SECTION F: OTHER INFORMATION

In this section:

F. OTHER INFORMATION

F.1 Approval by the Boards of the Single Solvency and Financial Condition Report for the year ended 31 December 2019

We certify that:

– the Single Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

we are satisfied that:

– throughout the financial year in question, the insurer has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the insurer; and
– it is reasonable to believe that, at the date of the publication of the Single Solvency and Financial Condition Report, the insurer has continued so to comply, and will continue so to comply in the future.

On behalf of the Boards.

Tim Harris
CHIEF FINANCIAL OFFICER
19 March 2020

F.2 Report of the external independent Auditor to the Directors of Direct Line Insurance Group plc, U K Insurance Limited and Churchill Insurance Company Limited (together "the Group") pursuant to rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Single Group Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2019:

- the 'Valuation for solvency purposes' and 'Capital management' sections of the Single Group Solvency and Financial Condition Report of the Group as at 31 December 2019, ('the Narrative Disclosures subject to audit'); and
- Direct Line Insurance Group plc templates S.02.01.02 S.22.01.22, S.23.01.22 and S.32.01.22
- U K Insurance Limited templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01 and S.28.01.01
- Churchill Insurance Company Limited templates S.02.01.02, S.12.01.02, S.17.01.02, S.22.01.21, S.23.01.01, S.25.01.21 and S.28.01.01

Together **('the Templates subject to audit')**.

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'relevant elements of the Single Group Solvency and Financial Condition Report'.

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

- information contained within the relevant elements of the Single Group Solvency and Financial Condition Report set out above which are or derive from the internal / partial internal model Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Executive summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Single Group Solvency and Financial Condition Report;
- Direct Line Insurance Group plc templates S.05.01.02, S.05.02.01 and S.25.02.22;
- U K Insurance Limited templates S.05.02.01, S.05.01.02, S.19.01.21 and S.25.03.21;
- Churchill Insurance Company Limited templates S.05.02.01, S.05.01.02 and S19.01.21;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Single Group Solvency and Financial Condition Report ('the Responsibility Statement'); and
- information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations ('the sectoral information').

To the extent the information subject to audit in the relevant elements of the Single Group Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Single Group Solvency and Financial Condition Report of the Group as at 31 December 2019 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

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

Emphasis of Matter – Basis of Accounting

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

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in the preparation of the Single Group Solvency and Financial Condition Report is not appropriate; or
- the Directors have not disclosed in the Single Group Solvency and Financial Condition Report any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Single Group Solvency and Financial Condition Report authorised for issue.

We have nothing to report in relation to these matters.

Other Information

The Directors are responsible for the Other Information.

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

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

We have nothing to report in relation to these matters.

Responsibilities of Directors for the Single Group Solvency and Financial Condition Report

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

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

Auditor's Responsibilities for the Audit of the relevant elements of the Single Group Solvency and Financial Condition Report

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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the Single Group Solvency and Financial Condition Report.

Other Matter

The Group has authority to calculate its Group Solvency Capital Requirement using a partial internal model ("the Model"), and U K Insurance using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of and outputs from the Model, or whether the Model is being applied in accordance with the Company's application or approval order.

Report on Other Legal and Regulatory Requirements

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

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

We have nothing to report in relation to this matter.

Use of our Report

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

Colin Rawlings FCA (Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

19 March 2020

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

Direct Line Insurance Group plc (Group partial internal model)

The relevant elements of the Group SFCR that are not subject to audit comprise:

The following elements of Group template S.02.01.02:
- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) – risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of Group template S.22.01.22:
- Column C0030: Impact of transitional measure on technical provisions
- Row R0010: Technical provisions
- Row R0090: Solvency Capital Requirement

The following elements of Group template S.23.01.22:
- Row R0020: Non-available called but not paid in ordinary share capital at group level
- Row R0060: Non-available subordinated mutual member accounts at group level
- Row R0080: Non-available surplus at group level
- Row R0100: Non-available preference shares at group level
- Row R0120: Non-available share premium account related to preference shares at group level
- Row R0150: Non-available subordinated liabilities at group level
- Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
- Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
- Row R0210: Non-available minority interests at group level
- Row R0380: Non-available ancillary own funds at group level
- Rows R0410 to R0440: Own funds of other financial sectors
- Row R0680: Group SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- Row R0750: Other non-available own funds

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'

U K Insurance Limited (Solo Internal Model)

The relevant elements of the SFCR that are not subject to audit comprise:

The following elements of template S.02.01.02:
- Row R0550: Technical provisions – non-life (excluding health) – risk margin
- Row R0590: Technical provisions – health (similar to non-life) – risk margin
- Row R0640: Technical provisions – health (similar to life) – risk margin
- Row R0680: Technical provisions – life (excluding health and index-linked and unit-linked) risk margin
- Row R0720: Technical provisions – Index-linked and unit-linked – risk margin

The following elements of template S.12.01.02:
- Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0110 to R0130: Amount of transitional measure on technical provisions

The following elements of template S.17.01.02:
- Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
- Rows R0290 to R0310: Amount of transitional measure on technical provisions

The following elements of template S.22.01.21:
- Column C0030: Impact of transitional measure on technical provisions
- Row R0010: Technical provisions
- Row R0090: Solvency Capital Requirement

The following elements of template S.23.01.01:

- Row R0580: SCR
- Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds

The following elements of template S.28.01.01 / S.28.02.01:

- Row R0310: SCR

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'

Churchill Insurance Company Limited (Solo standard formula)

The relevant elements of the SFCR that are not subject to audit comprise:

The following elements of template S.12.01.02:

- Rows R0110 to R0130: Amount of transitional measure on technical provisions.

The following elements of template S.17.01.02:

- Rows R0290 to R0310: Amount of transitional measure on technical provisions.

The following elements of template S.22.01.21:

- Column C0030: Impact of transitional measure on technical provisions.

Elements of the Narrative Disclosures subject to audit identified as 'unaudited'

F.3 Forward-looking statements disclaimer

This Solvency and Financial Conditions Report has been prepared for, and only for, the members of the Company as a body, and no other persons. The Company, its Directors, employees, agents or advisers do not accept responsibility to any other person to whom this document is shown, or into whose hands it may come, and any such responsibility or liability is expressly disclaimed.

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "ambition", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "over the medium term", "plans", "predicts", "projects", "propositions", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in several places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets and guidance which are contained in this document specifically with respect to the return on tangible equity, solvency capital ratio, the Group's combined operating ratio, percentage targets for current-year contribution to operating profit, prior-year reserve releases, cost reduction, reductions in expense and commission ratios, investment income yield, net realised and unrealised gains, capital expenditure and risk appetite range. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and/or are beyond the Group's control.

Forward-looking statements are guaranteeing future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to:

– United Kingdom ("**UK**") domestic and global economic business conditions;
– the outcome of discussions between the UK and the European Union ("**EU**") regarding the terms, following Brexit, of any future trading relationships between the UK and the EU;
– the terms of future trading and other relationships between the UK and other countries following Brexit;
– market-related risks such as fluctuations in interest rates and exchange rates;
– the policies and actions of regulatory authorities (including changes related to capital and solvency requirements or the Ogden discount rate or rates);
– the impact of competition, currency changes, inflation and deflation;
– the timing impact and other uncertainties of future acquisitions, disposals, partnership arrangements, joint ventures or combinations within relevant industries; and
– the impact of tax and other legislation and other regulation in the jurisdictions in which the Group and its affiliates operate.

In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document constitutes or should be construed as a profit forecast.

Neither the content of Direct Line Group's website nor the content of any other website accessible from hyperlinks on the Group's website is incorporated into, or forms part of, this document.

F.4 Glossary

Term	Definition and explanation
Actuarial best estimate ("**ABE**")	The probability-weighted average of all future claims and cost scenarios. It is calculated using historical data, actuarial methods and judgement. A best estimate of reserves will therefore normally include no margin for optimism or, conversely, caution.
Annual Incentive Plan ("**AIP**")	This incentivises the performance of Executive Directors and employees over a one-year operating cycle. It focuses on the short to medium-term elements of the Group's strategic aims.
Assets under management ("**AUM**")	This represents all assets management or administered by or on behalf of the Group, including those assets managed by third parties.
Available-for-sale ("**AFS**") investment	Available-for-sale assets are non-derivative financial assets that designated as such, or are not classified as loans and receivables, held to maturity, or financial assets at fair value through profit or loss.
Capital	The funds invested in the Group, including funds invested by shareholders and Tier 1 notes in addition, subordinated loan capital in the Group's balance sheet is classified as Tier 2 capital for Solvency II purposes.
Capital coverage ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Direct Line Insurance Internal Capital Engine ("**DIICE**")	The Group Insurance Internal Calculation Engine ("**DIICE**") is the calculation kernel in the IECM, where it is DIICE that calculates the solvency capital requirement.
Expenses incurred	Expenses incurred equal total expenses per the IFRS income statement less non-technical expenses plus claims handling expenses.
Financial Conduct Authority ("**FCA**")	The independent body that regulates firms and financial advisers.
Gross written premium	The total premiums from contracts that began during the period.
International Accounting Standards Board ("**IASB**")	A not-for-profit public interest organisation that is overseen by a monitoring board of public authorities. It develops IFRS standards that aim to make worldwide markets transparent, accountable and efficient.
Incurred but not reported ("**IBNR**")	Funds set aside to meet the cost of claims for accidents that have occurred, but have not yet been reported to the Group. This includes an element of uplift on the value of claims reported. Where the Group has determined that the value currently held in reserves is not sufficient to meet the estimated ultimate costs of the claim, it is referred to as incurred but not enough reported ("**IBNER**").
In-force policies	The number of policies on a given date that are active, and against which the Group will pay, following a valid insurance claim.
Insurance liabilities	This comprises insurance claims reserves and claims handling provision, which the Group maintains to meet current and future claims.
Internal Economic Capital Model ("**IECM**")	The IECM is an internal model as outlined by Article 112 of the Solvency II Directive.
Investment income yield	The income earned from the investment portfolio, recognised through the IFRS income statement during the period, divided by the average assets under management ("**AUM**"). This excludes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances for the total Group. See Appendix A – Alternative performance measures – on page 225 of the Annual Report & Accounts 2019.
Investment return	The investment return earned from the investment portfolio, including unrealised and realised gains and losses, impairments, and fair value adjustments.
Investment return yield	The investment return divided by the average AUM. The average AUM derives from the period's opening and closing balances. (See Appendix A – Alternative performance measures – on page 225 of the Annual Report & Accounts 2019).
Long-Term Incentive Plan ("**LTIP**")	Awards made as nil-cost options or conditional share awards, which vest to the extent that performance conditions are satisfied after a period of at least three years.
Malus	An arrangement that permits unvested remuneration awards to be forfeited, when the Company considers it appropriate.
Net earned premium	The element of gross earned premium less reinsurance premium ceded for the period where insurance cover has already been provided.
Net insurance claims	The cost of claims incurred in the period less any claims costs recovered under reinsurance contracts. It includes claims payments and movements in claims reserves.
Ogden discount rate	The discount rate set by the Lord Chancellor and used by courts to calculate lump sum awards in bodily injury cases.

Glossary continued

Term	Definition and explanation
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investment activity, but excluding finance costs, restricting and one-off costs. Normalising operating profit is operating profit adjusted for weather and changes to the Ogden discount rate.
Own Risk and Solvency Assessment ("**ORSA**")	A forward-looking assessment of the Group's risks and associated capital requirements, over the business planning period.
Periodic payment order ("**PPO**")	These are claims payments as awarded under the Courts Act 2003. PPOs are used to settle large personal injury claims. They generally provide a lump-sum award plus inflation-linked annual payments to claimants who require long-term care.
Prudential Regulation Authority ("**PRA**")	The PRA is a part of the Bank of England. It is responsible for regulating and supervising insurers and financial institutions in the UK.
Reinsurance	Contractual arrangements where the Group transfers part or all of the accepted insurance risk to another insurer.
Reserves	Funds that have been set aside to meet outstanding insurance claims and IBNR claims.
Return on Tangible Equity ("**RoTE**")	This is adjusted profit after tax divided by the Group's average shareholders' equity, less goodwill and other intangible assets. Profit after tax is adjusted to exclude restructuring and one-off costs and to include Tier 1 coupon payments. It is stated after charging tax using the UK standard rate of 19% and for 2018 it is stated after using the effective income tax rate of 18.7%. See Appendix A – Alternative performance measures – on page 225 of the Annual Report & Accounts 2019.
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes revised capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Underwriting result profit/(loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses, excluding restricting and other one-off costs.

Section G:
Quantitative Reporting Templates

In this section:

G.1 SUMMARY OF QUANTITATIVE REPORTING TEMPLATES

The templates are provided as an appendix to this document. The Company is required to disclose the following templates as set out in the Commission Implementing Regulation (EU) 2015/2452 of 2 December 2015 laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report in accordance with Directive 2009/138/EC of the European Parliament and of the Council.

Entity	Template code	Template name
Group	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.22.01.22	Impact of long-term guarantees and transitional measures
	S.23.01.22	Own funds
	S.25.02.22	Solvency capital requirement – for groups using the standard formula and partial internal model
	S.32.01.22	Undertakings in the scope of the group
UKI	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.12.01.02	Life and Health SLT technical provisions
	S.17.01.02	Non-life technical provisions
	S.19.01.21	Non-life insurance claims
	S.22.01.21	Impact of long-term guarantees and transitional measures
	S.23.01.01	Own funds
	S.25.03.21	Solvency capital requirement – for undertakings on full internal models
	S.28.01.01	Minimum capital requirement – only life or only non-life insurance or reinsurance activity
CIC	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.12.01.02	Life and Health SLT technical provisions
	S.17.01.02	Non-life technical provisions
	S.19.01.21	Non-life insurance claims
	S.22.01.21	Impact of long term guarantees and transitional measures
	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

G.2 DIRECT LINE INSURANCE GROUP PLC

General information

Undertaking name	**Direct Line Insurance Group plc**
Undertaking identification code	213800FF2R23ALJQOP04
Type of code of undertaking	LEI
Type of undertaking	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	IFRS
Method of calculation of the SCR	The Group uses a partial internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: Motor vehicle liability insurance General liability insurance Annuities from non-life
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.22.01.22	Impact of long-term guarantees and transitional measures
S.23.01.22	Own funds
S.25.02.22	Solvency capital requirement – for groups using the standard formula and partial internal model
S.32.01.22	Undertakings in the scope of the group

S.02.01.02
Balance sheet
(£'000)

		Solvency II value
		C0010
	Assets	
R0030	Intangible assets	
R0040	Deferred tax assets	89,338
R0050	Pension benefit surplus	9,731
R0060	Property, plant and equipment held for own use	214,901
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,332,488
R0080	Property (other than for own use)	291,750
R0090	Holdings in related undertakings, including participations	
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	4,193,789
R0140	Government bonds	130,864
R0150	Corporate bonds	4,062,925
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	725,475
R0190	Derivatives	121,474
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	488,619
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	488,619
R0270	Reinsurance recoverables from:	1,170,372
R0280	Non-life and health similar to non-life	850,229
R0290	Non-life excluding health	850,229
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	320,143
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	320,143
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	84,684
R0370	Reinsurance receivables	6,177
R0380	Receivables (trade, not insurance)	109,247
R0390	Own shares (held directly)	26,427
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	223,174
R0420	Any other assets, not elsewhere shown	16,436
R0500	**Total assets**	7,771,594

S.02.01.02 continued
Balance sheet
(£'000)

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions – non-life	4,023,159
R0520	Technical provisions – non-life (excluding health)	4,011,451
R0530	TP calculated as a whole	
R0540	Best estimate	3,843,135
R0550	Risk margin	168,316
R0560	Technical provisions – health (similar to non-life)	11,708
R0570	TP calculated as a whole	
R0580	Best estimate	10,386
R0590	Risk margin	1,322
R0600	Technical provisions – life (excluding index-linked and unit-linked)	660,087
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	660,087
R0660	TP calculated as a whole	
R0670	Best estimate	584,278
R0680	Risk margin	75,809
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	74,342
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	30,494
R0800	Debts owed to credit institutions	52,291
R0810	Financial liabilities other than debts owed to credit institutions	164,370
R0820	Insurance and intermediaries payables	2,631
R0830	Reinsurance payables	3,632
R0840	Payables (trade, not insurance)	216,089
R0850	Subordinated liabilities	259,447
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	259,447
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	5,486,542
R1000	**Excess of assets over liabilities**	2,285,052

S.05.01.02
Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)				
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance
		C0020	C0040	C0050	C0070	C0080
	Premiums written					
R0110	Gross – direct business	7,187	1,278.791	493,496	821,891	91,717
R0120	Gross – proportional reinsurance accepted					
R0130	Gross – non-proportional reinsurance accepted					
R0140	Reinsurers' share		160,634		49,965	4,121
R0200	Net	7,187	1,118,157	493,496	771,926	87,596
	Premiums earned					
R0210	Gross – direct business	7,187	1,276,145	492,280	830,482	88,436
R0220	Gross – proportional reinsurance accepted					
R0230	Gross – non-proportional reinsurance accepted					
R0240	Reinsurers' share		160,979		51,488	3,912
R0300	Net	7,187	1,115,166	492,280	778,994	84,524
	Claims incurred					
R0310	Gross – direct business	1,523	772,844	266,246	332,176	38,250
R0320	Gross – proportional reinsurance accepted					
R0330	Gross – non-proportional reinsurance accepted					
R0340	Reinsurers' share	2	31,354		11,977	3,770
R0400	Net	1,521	741,490	266,246	320,199	34,480
	Changes in other technical provisions					
R0410	Gross – direct business					
R0420	Gross – proportional reinsurance accepted					
R0430	Gross – non-proportional reinsurance accepted					
R0440	Reinsurers' share					
R0500	Net					
R0550	**Expenses incurred**	6,713	378,147	165,852	335,785	40,543
R1200	**Other expenses**					
R1300	**Total expenses**					

S.05.01.02 continued
Premiums, claims and expenses by line of business Non-life (£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0100	C0110	C0120	C0200
	Premiums written				
R0110	Gross – direct business	78,000	325,957	106,017	3,203,056
R0120	Gross – proportional reinsurance accepted				
R0130	Gross – non-proportional reinsurance accepted				
R0140	Reinsurers' share		483	698	215,901
R0200	Net	78,000	325,474	105,319	2,987,155
	Premiums earned				
R0210	Gross – direct business	80,919	319,831	107,276	3,202,556
R0220	Gross – proportional reinsurance accepted				
R0230	Gross – non-proportional reinsurance accepted				
R0240	Reinsurers' share		483	799	217,661
R0300	Net	80,919	319,348	106,477	2,984,895
	Claims incurred				
R0310	Gross – direct business	12,081	173,835	97,293	1,694,248
R0320	Gross – proportional reinsurance accepted				
R0330	Gross – non-proportional reinsurance accepted				
R0340	Reinsurers' share	390	739	13,665	61,897
R0400	Net	11,691	173,096	83,628	1,632,351
	Changes in other technical provisions				
R0410	Gross – direct business				
R0420	Gross – proportional reinsurance accepted				
R0430	Gross – non-proportional reinsurance accepted				
R0440	Reinsurers' share				
R0500	Net				
R0550	**Expenses incurred**	13,989	113,132	30,207	1,084,368
R1200	**Other expenses**				11,200
R1300	**Total expenses**				1,095,568

S.05.01.02 continued
Premiums, claims and expenses by line of business
Life
(£'000)

		Line of business for: life insurance obligations	
		Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	21,923	21,923
R1620	Reinsurers' share	7,798	7,798
R1700	Net	14,125	14,125
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	**Expenses incurred**		
R2500	**Other expenses**		
R2600	**Total expenses**		

S.05.02.01
Premiums, claims and expenses by country
Non-life
(£'000)

		C0010	C0020	C0070
		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	Total top 5 and home country
R0010			IRL	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross – direct business	3,202,923	133	3,203,056
R0120	Gross – proportional reinsurance accepted			
R0130	Gross – non-proportional reinsurance accepted			
R0140	Reinsurers' share	215,901		215,901
R0200	Net	2,987,022	133	2,987,155
	Premiums earned			
R0210	Gross – direct business	3,202,423	133	3,202,556
R0220	Gross – proportional reinsurance accepted			
R0230	Gross – non-proportional reinsurance accepted			
R0240	Reinsurers' share	217,661		217,661
R0300	Net	2,984,762	133	2,984,895
	Claims incurred			
R0310	Gross – direct business	1,693,667	581	1,694,248
R0320	Gross – proportional reinsurance accepted			
R0330	Gross – non-proportional reinsurance accepted			
R0340	Reinsurers' share	61,897		61,897
R0400	Net	1,631,770	581	1,632,351
	Changes in other technical provisions			
R0410	Gross – direct business			
R0420	Gross – proportional reinsurance accepted			
R0430	Gross – non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	**Expenses incurred**	1,084,326	42	1,084,368
R1200	**Other expenses**			11,200
R1300	**Total expenses**			1,095,568

S.05.02.01 continued
Premiums, claims and expenses by country
Life
(£'000)

		Home country	Top 5 countries (by amount of gross premiums written) – life obligations	Total top 5 and home country
		C0150	C0160	C0210
R1400			IRL	
		C0220	C0230	C0280
	Premiums written			
R1410	Gross			
R1420	Reinsurers' share			
R1500	Net			
	Premiums earned			
R1510	Gross			
R1520	Reinsurers' share			
R1600	Net			
	Claims incurred			
R1610	Gross	21,923		21,923
R1620	Reinsurers' share	7,798		7,798
R1700	Net	14,125		14,125
	Changes in other technical provisions			
R1710	Gross			
R1720	Reinsurers' share			
R1800	Net			
R1900	**Expenses incurred**			
R2500	**Other expenses**			
R2600	**Total expenses**			

S.22.01.22
Impact of long-term guarantees and transitional measures
(£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	4,683,246			38,372	
R0020	Basic own funds	2,170,939			(13,906)	
R0050	Eligible own funds to meet Solvency Capital Requirement	2,170,939			(13,906)	
R0090	Solvency Capital Requirement	1,315,995			(157)	

S.23.01.22

Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector					
R0010	Ordinary share capital (gross of own shares)	150,000	150,000			
R0020	Non-available called but not paid in ordinary share capital at group level					
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type Undertakings					
R0050	Subordinated mutual member accounts					
R0060	Non-available subordinated mutual member accounts at group level					
R0070	Surplus funds					
R0080	Non-available surplus funds at group level					
R0090	Preference shares					
R0100	Non-available preference shares at group level					
R0110	Share premium account related to preference shares					
R0120	Non-available share premium account related to preference shares at group level					
R0130	Reconciliation reserve	1,306,229	1,306,229			
R0140	Subordinated liabilities	259,447			259,447	
R0150	Non-available subordinated liabilities at group level					
R0160	An amount equal to the value of net deferred tax assets	89,338				89,338
R0170	The amount equal to the value of net deferred tax assets not available at the group level					
R0180	Other items approved by supervisory authority as basic own funds not specified above	365,925		365,925		
R0190	Non-available own funds related to other own funds items approved by supervisory authority					
R0200	Minority interest (if not reported as part of a specific own fund item)					
R0210	Non-available minority interests at group level					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities					
R0240	whereof deducted according to Article 228 of the Directive 2009/138/EC					
R0250	Deductions for participations where there is non-availability of information (Article 229)					
R0260	Deduction for participations included by using D&A when a combination of methods is used					
R0270	Total of non-available own fund items					
R0280	**Total deductions**					
R0290	**Total basic own funds after deductions**	2,170,939	1,456,229	365,925	259,447	89,338

S.23.01.22 continued

Own funds

(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members – calls other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0380	Non-available ancillary own funds at group level					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					
	Own funds of other financial sectors					
R0410	Reconciliation reserve					
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	Total own funds of other financial sectors					
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method					
R0460	Own funds aggregated when using the D&A and combination of method net of IGT					
R0520	Total available own funds to meet the consolidated Group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	2,170,939	1,456,229	365,925	259,447	89,338
R0530	Total available own funds to meet the minimum consolidated Group SCR	2,081,601	1,456,229	365,925	259,447	
R0560	Total eligible own funds to meet the consolidated Group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	2,170,939	1,456,229	364,057	261,315	89,338
R0570	Total eligible own funds to meet the minimum consolidated Group SCR	1,928,740	1,456,229	364,057	108,454	

S.23.01.22 continued
Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0610	**Minimum consolidated Group SCR**	542,270				
R0650	**Ratio of eligible own funds to minimum consolidated Group SCR**	3.5568				
R0660	**Total eligible own funds to meet the Group SCR (including own funds from other financial sector and from the undertakings (included via D&A)**	2,170,939	1,456,229	364,057	261,315	89,338
R0680	**Group SCR**	1,315,995				
R0690	**Ratio of eligible own funds to Group SCR including other financial sectors and the undertakings included via D&A**	1.6497				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	2,285,052
R0710	Own shares (held directly and indirectly)	26,427
R0720	Foreseeable dividends, distributions and charges	347,133
R0730	Other basic own fund items	605,263
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0750	Other non-available own funds	
R0760	**Reconciliation reserve before deduction for participations in other financial sector**	1,306,229
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) — life business	
R0780	Expected profits included in future premiums (EPIFP) — non-life business	127,783
R0790	**Total expected profits included in future premiums (EPIFP)**	127,783

Note that the expected profit in future premiums is a Solvency II specific measure of lapse risk and not a measure of overall profitability of the business. Please see C.4 Liquidity risk for details.

S.25.02.22
Solvency Capital Requirement – for groups using the standard formula and partial internal model
(£'000)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement	Amount modelled	USP	Simplifications
C0010	C0020	C0030	C0070	C0080	C0090
10301I	Other interest rate risk – interest rate risk (assets)	247,202	247,202		
10302I	Other interest rate risk – interest rate risk (liabilities)	184,068	184,068		
10399I	Diversification within other interest rate risk	(320,202)	(320,202)		
10400I	Equity risk	0	0		
10600I	Property risk	52,561	52,561		
10701I	Spread risk	353,255	353,255		
10702I	Credit risk (asset)	214,078	214,078		
10799I	Diversification within spread and credit risk (asset)	(87,040)	(87,040)		
10800I	Concentration risk	0	0		
10900I	Currency risk	0	0		
19900I	Diversification within market risk	(187,661)	(187,661)		
20300I	Other counterparty risk	79,856	79,856		
50100I	Premium risk	650,860	650,860		
50200I	Reserve risk	521,158	521,158		
50300I	Non-life catastrophe risk	597,514	597,514		
59900I	Diversification within non-life underwriting risk	(585,320)	(585,320)		
70100I	Operational risk	284,421	284,421		
80100I	Other risks	44,364	44,364		
80300I	Loss-absorbing capacity of deferred tax	(74,942)	(74,942)		
80400I	Other adjustments	0	0		

S.25.02.22 continued

Solvency Capital Requirement – for groups using the standard formula and partial internal model

(£'000)

		C0100
	Calculation of Solvency Capital Requirement	
R0110	Total undiversified components	1,974,172
R0060	Diversification	(689,776)
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	1,284,396
R0210	Capital add-ons already set	
R0220	**Solvency Capital Requirement for undertakings under consolidated method**	1,315,995
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	(74,942)
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Article 4 of Directive 2003/41/EC (transitional)	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	
R0470	Minimum consolidated Group Solvency Capital Requirement	542,270
	Information on other entities	
R0500	Capital requirement for other financial sectors (non-insurance capital requirements)	
R0510	Capital requirement for other financial sectors (non-insurance capital requirements) – credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies	
R0520	Capital requirement for other financial sectors (non-insurance capital requirements) – institutions for occupational retirement provisions	
R0530	Capital requirement for other financial sectors (non-insurance capital requirements) – capital requirement for non-regulated entities carrying out financial activities	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	31,599
	Overall SCR	
R0560	SCR for undertakings included via D&A	
R0570	**Solvency Capital Requirement**	1,315,995

S32.01.22
Undertakings in the scope of the group

								Criteria of influence						Inclusion in the scope of group supervision		Group solvency calculation
Country C0010	Identification code of the undertaking C0020	Type of code of the ID of the undertaking C0030	Legal name of the undertaking C0040	Type of undertaking C0050	Legal form C0060	Category (mutual /non mutual) C0070	Supervisory authority C0080	% capital share C0180	% used for the establishment of consolidated accounts C0190	% voting rights C0200	Other criteria C0210	Level of influence C0220	Proportional share used for group solvency calculation C0230	Yes/ no C0240	Date of decision if Article 214 is applied C0250	Method used and under method 1, treatment of the undertaking C0260
GB	213800FF2R23ALJQOP04	LEI	Direct Line Insurance Group plc	5	Company limited by shares	2								1		1
GB	549300Z5UV7Z65LTYJ43	LEI	U K Insurance Limited	2	Company limited by shares	2	PRA	100	100	100		1	100	1		1
GB	2138007B4PLYNW611O59	LEI	Churchill Insurance Company Limited	2	Company limited by shares	2	PRA	100	100	100		1	100	1		1
GB	2138008ZP4216R8AZA45	LEI	U K Insurance Business Solutions Limited	10	Company limited by shares	2	FCA	100	100	100		1	100	1		1
GB	21380093VNH85CCTZM58	LEI	National Breakdown Recovery Club Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800AEN577VPYUWS88	LEI	DLG Pension Trustee Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800C229CRIQN7Q486	LEI	Direct Line Insurance Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800ECJ98JKW8XPO58	LEI	DL Insurance Services Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800FUQURSPS5NPZ53	LEI	DLG Legal Services Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800G23ZAHTDQ7JS64	LEI	UKI Life Assurance Services Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800GGXWCI3AQUP330	LEI	UK Assistance Accident Repair Centres Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800JGMYQA8ZU3KF17	LEI	Farmweb Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800L4GCDT4J556J73	LEI	Nationwide Breakdown Recovery Services Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800LF9K2SZXPFQY79	LEI	UK Assistance Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
JE	213800MEX738WOUMSC13	LEI	10-15 Livery Street, Birmingham UK Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800MFLWGG2N8OVA34	LEI	Green Flag Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800MN5P5DE45U9W69	LEI	The National Insurance and Guarantee Corporation Limited	99	Company limited by shares	2		100	100	100		1	100	1		3
GB	213800MRCD2SJWT8EB37	LEI	Inter Group Insurance Services Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800R3C7Z1Q73IWN57	LEI	Green Flag Group Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800RFERZVGSMGH748	LEI	Finsure Premium Finance Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800RSEDIUJJHXTF77	LEI	Direct Line Group Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800S4FRZFA1QH3Y58	LEI	Green Flag Holdings Limited	99	Company limited by shares	2		100	100	100		1	100	1		1
IN	213800YY63HNK4VO2G95	LEI	DL Support Services India Private Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
GB	213800ZJIPTGNL7FP828	LEI	Intergroup Assistance Services Limited	10	Company limited by shares	2		100	100	100		1	100	1		1
JE	2138002C5L78GH6YJI82	LEI	Direct Line Insurance Group Employee Benefit Trust	99	Trust	2			100			1	100	1		1
GB	2138007UQ448Q4BRW767	LEI	DLIG 2012 Share Incentive Plan	99	Trust	2			100			1	100	1		1

General information

Undertaking name	**U K Insurance Limited**
Undertaking identification code	549300Z5UV7Z65LTYJ43
Type of code of undertaking	LEI
Type of undertaking	Non-life insurance undertakings
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of calculation of the SCR	Full internal model
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: Motor vehicle liability insurance General liability insurance Annuities from non-life
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.12.01.02	Life and health SLT technical provisions
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S.19.01.21	Non-life insurance claims
S.22.01.21	Impact of long-term guarantees and transitional measures
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S.25.03.21	Solvency capital requirement – for undertakings on full internal models
S.28.01.01	Minimum capital requirement – only life or only non-life insurance or reinsurance activity

S.02.01.02
Balance sheet
(£'000)

	Assets	Solvency II Value
		C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	126,880
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	5,115,276
R0080	Property (other than for own use)	287,650
R0090	Holdings in related undertakings, including participations	14,038
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	4,108,748
R0140	Government bonds	125,783
R0150	Corporate bonds	3,982,965
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	583,805
R0190	Derivatives	121,035
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	488,619
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	488,619
R0270	Reinsurance recoverables from:	1,149,271
R0280	Non-life and health similar to non-life	851,799
R0290	Non-life excluding health	851,799
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	297,472
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	297,472
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	84,682
R0370	Reinsurance receivables	5,592
R0380	Receivables (trade, not insurance)	38,692
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	214,872
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	7,223,884

S.02.01.02 continued
Balance sheet
(£'000)

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions – non-life	4,024,728
R0520	Technical provisions – non-life (excluding health)	4,013,020
R0530	TP calculated as a whole	
R0540	Best estimate	3,844,704
R0550	Risk margin	168,316
R0560	Technical provisions – health (similar to non-life)	11,708
R0570	TP calculated as a whole	
R0580	Best estimate	10,386
R0590	Risk margin	1,322
R0600	Technical provisions – life (excluding index-linked and unit-linked)	633,827
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	633,827
R0660	TP calculated as a whole	
R0670	Best estimate	558,582
R0680	Risk margin	75,245
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	40,018
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	6,899
R0790	Derivatives	30,334
R0800	Debts owed to credit institutions	46,719
R0810	Financial liabilities other than debts owed to credit institutions	209,916
R0820	Insurance and intermediaries payables	1,618
R0830	Reinsurance payables	3,632
R0840	Payables (trade, not insurance)	65,983
R0850	Subordinated liabilities	259,447
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	259,447
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	5,323,121
R1000	**Excess of assets over liabilities**	1,900,763

S.05.01.02
Premiums, claims and expenses by line of business Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)				
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance
		C0020	C0040	C0050	C0070	C0080
	Premiums written					
R0110	Gross – direct business	7,187	1,278,791	493,496	821,891	91,717
R0120	Gross – proportional reinsurance accepted					
R0130	Gross – non-proportional reinsurance accepted					
R0140	Reinsurers' share		160,634		49,965	4,121
R0200	Net	7,187	1,118,157	493,496	771,926	87,596
	Premiums earned					
R0210	Gross – direct business	7,187	1,276,145	492,280	830,482	88,436
R0220	Gross – proportional reinsurance accepted					
R0230	Gross – non-proportional reinsurance accepted					
R0240	Reinsurers' share		160,979		51,488	3,912
R0300	Net	7,187	1.115,166	492,280	778,994	84,524
	Claims incurred					
R0310	Gross – direct business	1,523	806,400	345,699	332,176	38,250
R0320	Gross – proportional reinsurance accepted		(2,121)			
R0330	Gross – non-proportional reinsurance accepted					
R0340	Reinsurers' share	2	31,464		11,977	3,770
R0400	Net	1,521	772,815	345,699	320,199	34,480
	Changes in other technical provisions					
R0410	Gross – direct business					
R0420	Gross – proportional reinsurance accepted					
R0430	Gross – non-proportional reinsurance accepted					
R0440	Reinsurers' share					
R0500	Net					
R0550	**Expenses incurred**	6,701	376,474	165,630	337,116	40,393
R1200	**Other expenses**					
R1300	**Total expenses**					

S.05.01.02 continued
Premiums, claims and expenses by line of business
Non-life
(£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)			Total
		Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0100	C0110	C0120	C0200
	Premiums written				
R0110	Gross – direct business	78,000	325,957	106,017	3,203,056
R0120	Gross – proportional reinsurance accepted				
R0130	Gross – non-proportional reinsurance accepted				
R0140	Reinsurers' share		483	698	215,901
R0200	Net	78,000	325,474	105,319	2,987,155
	Premiums earned				
R0210	Gross – direct business	80,919	319,831	107,276	3,202,556
R0220	Gross – proportional reinsurance accepted				
R0230	Gross – non-proportional reinsurance accepted				
R0240	Reinsurers' share		483	799	217,661
R0300	Net	80,919	319,348	106,477	2,984,895
	Claims incurred				
R0310	Gross – direct business	12,081	173,711	97,293	1,807,133
R0320	Gross – proportional reinsurance accepted				(2,121)
R0330	Gross – non-proportional reinsurance accepted				
R0340	Reinsurers' share	390	739	13,665	62,007
R0400	Net	11,691	172,972	83,628	1,743,005
	Changes in other technical provisions				
R0410	Gross – direct business				
R0420	Gross – proportional reinsurance accepted				
R0430	Gross – non-proportional reinsurance accepted				
R0440	Reinsurers' share				
R0500	Net				
R0550	**Expenses incurred**	13,843	111,813	30,015	1,081,985
R1200	**Other expenses**				
R1300	**Total expenses**				1,081,985

S.05.01.02 continued
Premiums, claims and expenses by line of business
Life
(£'000)

		Line of business for: life insurance obligations — Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	21,916	21,916
R1620	Reinsurers' share	5,624	5,624
R1700	Net	16,292	16,292
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	**Expenses incurred**		
R2500	**Other expenses**		
R2600	**Total expenses**		

S.05.02.01
Premiums, claims and expenses by country
Non-life
(£'000)

		C0010	C0020	C0070
		Home country	Top 5 countries (by amount of gross premiums written) – non-life obligations	Total top 5 and home country
R0010			IRL	
		C0080	C0090	C0140
	Premiums written			
R0110	Gross – direct business	3,202,923	133	3,203,056
R0120	Gross – proportional reinsurance accepted			
R0130	Gross – non-proportional reinsurance accepted			
R0140	Reinsurers' share	215,901		215,901
R0200	Net	2,987,022	133	2,987,155
	Premiums earned			
R0210	Gross – direct business	3,202,423	133	3,202,556
R0220	Gross – proportional reinsurance accepted			
R0230	Gross – non-proportional reinsurance accepted			
R0240	Reinsurers' share	217,661		217,661
R0300	Net	2,984,762	133	2,984,895
	Claims incurred			
R0310	Gross – direct business	1,806,552	581	1,807,133
R0320	Gross – proportional reinsurance accepted	(2,121)		(2,121)
R0330	Gross – non-proportional reinsurance accepted			
R0340	Reinsurers' share	62,007		62,007
R0400	Net	1,742,424	581	1,743,005
	Changes in other technical provisions			
R0410	Gross – direct business			
R0420	Gross – proportional reinsurance accepted			
R0430	Gross – non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	**Expenses incurred**	1,081,944	42	1,081,985
R1200	**Other expenses**			
R1300	**Total expenses**			1,081,985

S.05.02.01 continued
Premiums, claims and expenses by country
Life
(£'000)

		C0150	C0160	C0210
		Home country	Top 5 countries (by amount of gross premiums written) – life obligations	Total top 5 and home country
R1400			IRL	
		C0220	C0230	C0280
	Premiums written			
R1410	Gross			
R1420	Reinsurers' share			
R1500	Net			
	Premiums earned			
R1510	Gross			
R1520	Reinsurers' share			
R1600	Net			
	Claims incurred			
R1610	Gross	21,916		21,916
R1620	Reinsurers' share	5,624		5,624
R1700	Net	16,292		16,292
	Changes in other technical provisions			
R1710	Gross			
R1720	Reinsurers' share			
R1800	Net			
R1900	**Expenses incurred**			
R2500	**Other expenses**			
R2600	**Total expenses**			

S.12.01.02
Life and Health SLT technical provisions
(£'000)

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	**Total (life other than health insurance, including unit-linked)**
		C0090	C0150
R0010	**Technical provisions calculated as a whole**		
R0020	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
R0030	**Gross best estimate**	558,582	558,582
R0080	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default	297,472	297,472
R0090	Best estimate minus recoverables from reinsurance / SPV and Finite Re – total	261,110	261,110
R0100	**Risk margin**	75,245	75,245
	Amount of the transitional on technical provisions		
R0110	Technical provisions calculated as a whole		
R0120	Best estimate		
R0130	Risk margin		
R0200	**Technical provisions – total**	633,827	633,827

S.17.01.02
Non-life technical provisions
(£'000)

		Direct business and accepted proportional reinsurance				
		Income protection insurance	Motor vehicle liability insurance	Other motor insurance	Fire and other damage to property insurance	General liability insurance
		C0030	C0050	C0060	C0080	C0090
R0010	**Technical provisions calculated as a whole**					
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					
	Technical provisions calculated as a sum of BE and RM					
	Best estimate					
	Premium provisions					
R0060	Gross	266	400,243	161,344	121,051	36,505
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		64,868		16,030	1,477
R0150	Net best estimate of premium provisions	266	335,375	161,344	105,021	35,028
	Claims provisions					
R0160	Gross	10,120	2,416,466	(78,723)	392,797	255,263
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		741,245		20,734	6,436
R0250	Net best estimate of claims provisions	10,120	1,675,221	(78,723)	372,063	249,128
R0260	**Total best estimate – gross**	10,386	2,816,709	82,621	513,847	292,069
R0270	**Total best estimate – net**	10,386	2,010,596	82,621	477,084	284,156
R0280	**Risk margin**	1,323	78,225	7,225	37,951	40,446
	Amount of the transitional on technical provisions					
R0290	Technical provisions calculated as a whole					
R0300	Best estimate					
R0310	Risk margin					
	Technical provisions – total					
R0320	Technical provisions – total	11,709	2,894,934	89,846	551,799	332,515
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total		806,113		36,764	7,914
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total	11,709	2,088,821	89,846	515,035	324,601

S.17.01.02 continued

Non-life technical provisions
(£'000)

		Direct business and accepted proportional reinsurance			Total non-life obligation
		Legal expenses insurance	Assistance	Miscellaneous financial loss	
		C0110	C0120	C0130	C0180
R0010	**Technical provisions calculated as a whole**				
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				
	Technical provisions calculated as a sum of BE and RM				
	Best estimate				
	Premium provisions				
R0060	Gross	(293)	12,450	1,003	732,569
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		2	357	82,735
R0150	Net best estimate of premium provisions	(293)	12,448	646	649,835
	Claims provisions				
R0160	Gross	34,339	61,036	30,922	3,122,520
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		187	462	769,064
R0250	Net best estimate of claims provisions	34,339	60,849	30,460	2,353,456
R0260	**Total best estimate – gross**	34,046	73,486	31,926	3,855,090
R0270	**Total best estimate – net**	34,046	73,297	31,106	3,003,291
R0280	**Risk margin**	812	1,441	2,215	169,639
	Amount of the transitional on technical provisions				
R0290	Technical provisions calculated as a whole				
R0300	Best estimate				
R0310	Risk margin				
	Technical provisions – total				
R0320	Technical provisions – total	34,858	74,927	34,141	4,024,729
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total		188	820	851,799
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total	34,858	74,739	33,321	3,172,930

S.19.01.21
Non-life insurance claims (£'000)

Z0010 Accident year / underwriting year: Accident year

Gross claims paid (non-cumulative)
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	In current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	Prior											15,318	15,318	15,318
R0160	N-9	1,739,292	924,870	245,659	166,882	131,478	80,126	33,609	23,777	18,770	5,677		5,677	3,370,140
R0170	N-8	1,223,487	492,688	151,157	125,388	91,025	52,862	19,319	18,791	6,504			6,504	2,181,221
R0180	N-7	1,076,266	508,170	137,775	77,661	63,122	30,240	19,309	8,406				8,406	1,920,949
R0190	N-6	954,595	458,560	103,549	79,443	57,667	45,581	19,546					19,546	1,718,941
R0200	N-5	987,142	387,229	104,536	76,229	69,079	55,467						55,467	1,679,682
R0210	N-4	951,953	439,415	110,803	79,005	63,095							63,095	1,644,271
R0220	N-3	1,077,689	424,261	114,108	67,958								67,958	1,684,016
R0230	N-2	1,126,644	422,419	108,309									108,309	1,657,372
R0240	N-1	1,269,059	457,869[1]										457,869[1]	1,726,928[1]
R0250	N	1,194,036[1]											1,194,036[1]	1,194,036[1]
R0260													2,002,185[1]	18,792,874[1]

Gross undiscounted best estimate claims provisions
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	Prior											287,965	259,106
R0160	N-9							188,171	117,773	64,739	42,918		39,640
R0170	N-8						197,912	113,381	66,801	27,526			25,408
R0180	N-7					214,705	110,879	46,847	15,463				14,746
R0190	N-6				327,333	177,110	74,317	30,825					29,953
R0200	N-5			647,359	453,379	307,455	175,815						162,541
R0210	N-4		736,605	514,972	340,362	249,529							231,663
R0220	N-3	1,405,227	684,613	456,185	299,674								288,956
R0230	N-2	1,447,754	624,522	395,155									380,377
R0240	N-1	1,299,375	593,366										567,202
R0250	N	1,158,339											1,122,928
R0260													3,122,520

Note 1: C0010, R0250 and C0020, R0240 have been updated to £1,194,036 and £457,869 respectively, from the version issued on 20 March 2020 (£408,675 and £570,406 respectively) to reflect a correction to gross claims paid, with corresponding changes to C0170 and C0180. The PRA were notified of this amendment on 2 April 2020.

S.22.01.21
Impact of long-term guarantees and transitional measures
(£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	4,658,555			37,367	
R0020	Basic own funds	1,860,210			(13,797)	
R0050	Eligible own funds to meet Solvency Capital Requirement	1,860,210			(13,797)	
R0090	Solvency Capital Requirement	1,284,396			(157)	
R0100	Eligible own funds to meet Minimum Capital Requirement	1,708,580			(13,797)	
R0110	Minimum Capital Requirement	539,083			964	

S.23.01.01
Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation (EU) 2015/35					
R0010	Ordinary share capital (gross of own shares)	580,765	580,765			
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	1,019,998	1,019,998			
R0140	Subordinated liabilities	259,447			259,447	
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other own fund items approved by supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	**Total basic own funds after deductions**	1,860,210	1,600,763		259,447	
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members calls —other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					

S.23.01.01 continued
Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	1,860,210	1,600,763		259,447	
R0510	Total available own funds to meet the MCR	1,860,210	1,600,763		259,447	
R0540	Total eligible own funds to meet the SCR	1,860,210	1,600,763		259,447	
R0550	Total eligible own funds to meet the MCR	1,708,580	1,600,763		107,817	
R0580	**SCR**	1,284,396				
R0600	**MCR**	539,083				
R0620	**Ratio of eligible own funds to SCR**	1.4483				
R0640	**Ratio of eligible own funds to MCR**	3.1694				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	1,900,763
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	300,000
R0730	Other basic own fund items	580,765
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	1,019,998
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) —life business	
R0780	Expected profits included in future premiums (EPIFP) —non-life business	127,783
R0790	**Total expected profits included in future premiums (EPIFP)**	127,783

Note that the expected profit in future premiums is a Solvency II specific measure of lapse risk and not a measure of overall profitability of the business. Please see C.4 Liquidity risk for details.

S.25.03.21
Solvency Capital Requirement – for undertakings on full internal models
(£'000)

Unique number of component	Components description	Calculation of the Solvency Capital Requirement
C0010	C0020	C0030
103011	Other interest rate risk – interest rate risk (assets)	247,202
103021	Other interest rate risk – interest rate risk (liabilities)	184,068
103991	Diversification within other interest rate risk	(320,202)
104001	Equity risk	0
106001	Property risk	52,561
107011	Spread risk	353,255
107021	Credit risk (asset)	214,078
107991	Diversification within spread and credit risk (asset)	(87,040)
108001	Concentration risk	0
109001	Currency risk	0
199001	Diversification within market risk	(187,661)
203001	Other counterparty risk	79,856
501001	Premium risk	650,860
502001	Reserve risk	521,158
503001	Non-life catastrophe risk	597,514
599001	Diversification within non-life underwriting risk	(585,320)
701001	Operational risk	284,421
801001	Other risks	44,364
803001	Loss-absorbing capacity of deferred tax	(74,942)
804001	Other adjustments	0

S.25.03.21 continued
Solvency Capital Requirement – for undertakings on full internal models
(£'000)

		C0100
R0110	Total undiversified components	1,974,172
R0060	Diversification	(689,776)
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC (transitional)	
R0200	**Solvency capital requirement excluding capital add-on**	1,284,396
R0210	Capital add-ons already set	
R0220	**Solvency Capital Requirement**	1,284,396
	Other information on SCR	
R0300	Amount / estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount / estimate of the overall loss-absorbing capacity of deferred taxes	(74,942)
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds (other than those related to business operated in accordance with Article 4 of Directive 2003/41/EC (transitional)	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	

S.28.01.01
Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity
(£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	535,599

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0030	Income protection insurance and proportional reinsurance	10,386	7,187
R0050	Motor vehicle liability insurance and proportional reinsurance	2,010,596	1,118,157
R0060	Other motor insurance and proportional reinsurance	82,621	493,496
R0080	Fire and other damage to property insurance and proportional reinsurance	477,084	771,926
R0090	General liability insurance and proportional reinsurance	284,156	87,596
R0110	Legal expenses insurance and proportional reinsurance	34,046	78,000
R0120	Assistance and proportional reinsurance	73,297	325,474
R0130	Miscellaneous financial loss insurance and proportional reinsurance	31,106	105,319

S.28.01.01 continued
Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity
(£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0040
R0200	MCR_L Result	5,483

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance / SPV) total capital at risk
		C0050	C0060
R0240	Other life (re)insurance and health (re)insurance obligations	261,110	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	539,083
R0310	SCR	1,284,396
R0320	MCR cap	577,978
R0330	MCR floor	321,099
R0340	Combined MCR	539,083
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	539,083

G.4 CHURCHILL INSURANCE COMPANY LIMITED

General information

Undertaking name	**Churchill Insurance Company Limited**
Undertaking identification code	2138007B4PLYNW611O59
Type of code of undertaking	LEI
Type of undertaking	Non-life insurance undertakings
Country of authorisation	GB
Language of reporting	EN
Reporting reference date	31 December 2019
Currency used for reporting	GBP
Accounting standards	The undertaking is using IFRS
Method of calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	Volatility adjustment is applied to the following lines of business: Motor vehicle liability insurance Annuities from non-life
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.12.01.02	Life and health SLT technical provisions
S.17.01.02	Non-life technical provisions
S.19.01.21	Non-life insurance claims
S.22.01.21	Impact of long-term guarantees and transitional measures
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
(£'000)

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	17,270
R0080	Property (other than for own use)	
R0090	Holdings in related undertakings, including participations	
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	
R0140	Government bonds	
R0150	Corporate bonds	
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective investments undertakings	17,270
R0190	Derivatives	
R0200	Deposits other than cash equivalents	
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	
R0240	Loans on policies	
R0250	Loans and mortgages to individuals	
R0260	Other loans and mortgages	
R0270	Reinsurance recoverables from:	24,463
R0280	Non-life and health similar to non-life	
R0290	Non-life excluding health	
R0300	Health similar to non-life	
R0310	Life and health similar to life, excluding health and index-linked and unit-linked	24,463
R0320	Health similar to life	
R0330	Life excluding health and index-linked and unit-linked	24,463
R0340	Life index-linked and unit-linked	
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	
R0370	Reinsurance receivables	585
R0380	Receivables (trade, not insurance)	11
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	46
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	42,375

S.02.01.02 continued
Balance sheet
(£'000)

		Solvency II value
		C0010
	Liabilities	
R0510	Technical provisions – non-life	
R0520	Technical provisions – non-life (excluding health)	
R0530	TP calculated as a whole	
R0540	Best estimate	
R0550	Risk margin	
R0560	Technical provisions – health (similar to non-life)	
R0570	TP calculated as a whole	
R0580	Best estimate	
R0590	Risk margin	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	28,052
R0610	Technical provisions – health (similar to life)	
R0620	TP calculated as a whole	
R0630	Best estimate	
R0640	Risk margin	
R0650	Technical provisions – life (excluding health and index-linked and unit-linked)	28,052
R0660	TP calculated as a whole	
R0670	Best estimate	27,488
R0680	Risk margin	564
R0690	Technical provisions – index-linked and unit-linked	
R0700	TP calculated as a whole	
R0710	Best estimate	
R0720	Risk margin	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	88
R0790	Derivatives	
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	89
R0820	Insurance and intermediaries payables	
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	108
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	28,337
R1000	**Excess of assets over liabilities**	14,038

S.05.01.02

Premiums, claims and expenses by line of business Non-life (£'000)

		Line of business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance) – Motor vehicle liability insurance	Total
		C0040	C0200
	Premiums written		
R0110	Gross – direct business		
R0120	Gross – proportional reinsurance accepted		
R0130	Gross – non-proportional reinsurance accepted		
R0140	Reinsurers' share		
R0200	Net		
	Premiums earned		
R0210	Gross – direct business		
R0220	Gross – proportional reinsurance accepted		
R0230	Gross – non-proportional reinsurance accepted		
R0240	Reinsurers' share		
R0300	Net		
	Claims incurred		
R0310	Gross – direct business	(471)	(471)
R0320	Gross – proportional reinsurance accepted		
R0330	Gross – non-proportional reinsurance accepted		
R0340	Reinsurers' share	(693)	(693)
R0400	Net	222	222
	Changes in other technical provisions		
R0410	Gross – direct business		
R0420	Gross – proportional reinsurance accepted		
R0430	Gross – non-proportional reinsurance accepted		
R0440	Reinsurers' share		
R0500	Net		
R0550	**Expenses incurred**	(9)	(9)
R1200	**Other expenses**		
R1300	**Total expenses**		(9)

S.05.01.02 continued
Premiums, claims and expenses by line of business
Life
(£'000)

		Line of business for: life insurance obligations — Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Total
		C0260	C0300
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	7	7
R1620	Reinsurers' share	53	53
R1700	Net	(46)	(46)
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	**Expenses incurred**	(18)	(18)
R2500	**Other expenses**		
R2600	**Total expenses**		(18)

S.05.02.01
Premiums, claims and expenses by country
Non-life
(£'000)

		Home country	Total top 5 and home country
		C0010	C0070
R0010			
		C0080	C0140
	Premiums written		
R0110	Gross – direct business		
R0120	Gross – proportional reinsurance accepted		
R0130	Gross – non-proportional reinsurance accepted		
R0140	Reinsurers' share		
R0200	Net		
	Premiums earned		
R0210	Gross – direct business		
R0220	Gross – proportional reinsurance accepted		
R0230	Gross – non-proportional reinsurance accepted		
R0240	Reinsurers' share		
R0300	Net		
	Claims incurred		
R0310	Gross – direct business	(471)	(471)
R0320	Gross – proportional reinsurance accepted		
R0330	Gross – non-proportional reinsurance accepted		
R0340	Reinsurers' share	(693)	(693)
R0400	Net	222	222
	Changes in other technical provisions		
R0410	Gross – direct business		
R0420	Gross – proportional reinsurance accepted		
R0430	Gross – non-proportional reinsurance accepted		
R0440	Reinsurers' share		
R0500	Net		
R0550	**Expenses incurred**	(9)	(9)
R1200	**Other expenses**		
R1300	**Total expenses**		(9)

S.05.02.01 continued
Premiums, claims and expenses by country
Life
(£'000)

		Home country	Total top 5 and home country
		C0150	C0210
R1400			
		C0220	C0280
	Premiums written		
R1410	Gross		
R1420	Reinsurers' share		
R1500	Net		
	Premiums earned		
R1510	Gross		
R1520	Reinsurers' share		
R1600	Net		
	Claims incurred		
R1610	Gross	7	7
R1620	Reinsurers' share	53	53
R1700	Net	(46)	(46)
	Changes in other technical provisions		
R1710	Gross		
R1720	Reinsurers' share		
R1800	Net		
R1900	**Expenses incurred**	(18)	(18)
R2500	**Other expenses**		
R2600	**Total expenses**		(18)

S.12.01.02
Life and Health SLT technical provisions
(£'000)

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Total (life other than health insurance, including unit-linked)
		C0090	C0150
R0010	**Technical provisions calculated as a whole**		
R0020	Total recoverables from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
R0030	**Gross best estimate**	27,488	27,488
R0080	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default	24,462	24,462
R0090	Best estimate minus recoverables from reinsurance / SPV and Finite Re – total	3,026	3,026
R0100	**Risk margin**	564	564
	Amount of the transitional on technical provisions		
R0110	Technical provisions calculated as a whole		
R0120	Best estimate		
R0130	Risk margin		
R0200	**Technical provisions – total**	28,052	28,052

S.17.01.02

Non-life technical provisions
(£'000)

		Direct business and accepted proportional reinsurance – Motor vehicle liability insurance	Total non-life obligation
		C0050	C0180
R0010	**Technical provisions calculated as a whole**		
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		
	Technical provisions calculated as a sum of BE and RM		
	Best estimate		
	Premium provisions		
R0060	Gross		
R0140	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		
R0150	Net best estimate of premium provisions		
	Claims provisions		
R0160	Gross		
R0240	Total recoverable from reinsurance / SPV and Finite Re after the adjustment for expected losses due to counterparty default		
R0250	Net best estimate of claims provisions		
R0260	**Total best estimate – gross**		
R0270	**Total best estimate – net**		
R0280	**Risk margin**		
	Amount of the transitional on technical provisions		
R0290	Technical provisions calculated as a whole		
R0300	Best estimate		
R0310	Risk margin		
	Technical provisions – total		
R0320	Technical provisions – total		
R0330	Recoverable from reinsurance contract / SPV and Finite Re after the adjustment for expected losses due to counterparty default – total		
R0340	Technical provisions minus recoverables from reinsurance / SPV and Finite Re – total		

S.19.01.21
Non-life insurance claims (£'000)

Z0010	Accident year / underwriting year	Accident year

Gross claims paid (non-cumulative)
(absolute amount)

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	In current year	Sum of years (cumulative)
		C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0170	C0180
R0100	Prior											(283)	(283)	(283)
R0160	N-9													
R0170	N-8													
R0180	N-7													
R0190	N-6													
R0200	N-5													
R0210	N-4													
R0220	N-3													
R0230	N-2													
R0240	N-1													
R0250	N													
R0260												Total	(283)	(283)

Gross undiscounted best estimate claims provisions
(absolute amount)

	Year	0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
R0100	Prior												
R0160	N-9												
R0170	N-8												
R0180	N-7												
R0190	N-6												
R0200	N-5												
R0210	N-4												
R0220	N-3												
R0230	N-2												
R0240	N-1												
R0250	N												
R0260												Total	

S.22.01.21
Impact of long-term guarantees and transitional measures
(£'000)

		Amount with long-term guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	28,052			1,131	
R0020	Basic own funds	14,038			(110)	
R0050	Eligible own funds to meet Solvency Capital Requirement	14,038			(110)	
R0090	Solvency Capital Requirement	807			14	
R0100	Eligible own funds to meet Minimum Capital Requirement	14,038			(110)	
R0110	Minimum Capital Requirement	3,187			101	

S.23.01.01
Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector as foreseen in Article 68 of Delegated Regulation (EU) 2015/35					
R0010	Ordinary share capital (gross of own shares)					
R0030	Share premium account related to ordinary share capital					
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0070	Surplus funds					
R0090	Preference shares					
R0110	Share premium account related to preference shares					
R0130	Reconciliation reserve	14,038	14,038			
R0140	Subordinated liabilities					
R0160	An amount equal to the value of net deferred tax assets					
R0180	Other own fund items approved by supervisory authority as basic own funds not specified above					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions					
R0290	**Total basic own funds after deductions**	14,038	14,038			
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand					
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual-type undertakings, callable on demand					
R0320	Unpaid and uncalled preference shares callable on demand					
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand					
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC					
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC					
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC					
R0390	Other ancillary own funds					
R0400	**Total ancillary own funds**					

S.23.01.01 continued
Own funds
(£'000)

		Total	Tier 1 – unrestricted	Tier 1 – restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	14,038	14,038			
R0510	Total available own funds to meet the MCR	14,038	14,038			
R0540	Total eligible own funds to meet the SCR	14,038	14,038			
R0550	Total eligible own funds to meet the MCR	14,038	14,038			
R0580	**SCR**	807				
R0600	**MCR**	3,187				
R0620	**Ratio of eligible own funds to SCR**	17.3994				
R0640	**Ratio of eligible own funds to MCR**	4.4048				

		C0060
	Reconciliation reserve	
R0700	Excess of assets over liabilities	14,038
R0710	Own shares (held directly and indirectly)	
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	
R0760	**Reconciliation reserve**	14,038
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) —life business	
R0780	Expected profits included in future premiums (EPIFP) —non-life business	
R0790	**Total expected profits included in future premiums (EPIFP)**	

S.25.01.21
Solvency Capital Requirement – for undertakings on standard formula
(£'000)

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
R0010	Market risk	316		
R0020	Counterparty default risk	449		
R0030	Life underwriting risk	141	None	
R0040	Health underwriting risk		None	
R0050	Non-life underwriting risk		None	
R0060	Diversification	(238)		
R0070	Intangible asset risk			
R0100	**Basic Solvency Capital Requirement**	668		

		C0100
	Calculation of Solvency Capital Requirement	
R0130	Operational risk	139
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	807
R0210	Capital add-on already set	
R0220	**Solvency Capital Requirement**	807
	Other information on SCR	
R0400	**Capital requirement for duration-based equity risk sub-module**	
R0410	Total amount of Notional Solvency Capital Requirement for remaining part	
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	

S.28.01.01
Minimum Capital Requirement – only life or only non-life insurance or reinsurance activity
(£'000)

Linear formula component for non-life insurance and reinsurance obligations

		C0010
R0010	MCR_{NL} Result	

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0050	Motor vehicle liability insurance and proportional reinsurance		

		C0040
R0200	MCR_{L} Result	64

		Net (of reinsurance / SPV) best estimate and TP calculated as a whole	Net (of reinsurance / SPV) total capital at risk
		C0050	C0060
R0240	Other life (re)insurance and health (re)insurance obligations	3,026	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070
R0300	Linear MCR	64
R0310	SCR	807
R0320	MCR cap	363
R0330	MCR floor	202
R0340	Combined MCR	202
R0350	Absolute floor of the MCR	3,187
R0400	**Minimum Capital Requirement**	3,187