Solvency and Financial Condition Report

31 December 2016

List of Appendices

SUMMARY

1.1. Purpose

1.1.1. This is Police Mutual Assurance Society's annual report on our solvency and financial condition. It is publicly available. It is based on financial information at 31 December 2016.

1.1.2 This report replaces the SFCR originally provided on 18 May 2017. The changes are in respect of the correction of an error in the original calculation of the valuation of investments in participations (as shown in D1.23) and the resulting calculation of the SCR and MCR (as set out in E2). The net impact has been to reduce the ratio of eligible own funds to SCR/MCR shown in S23.01 from the previously stated 164% to 149% and 625% to 565% respectively.

1.2. Business and performance summary

1.2.1. Police Mutual Assurance Society ("PMAS") is an incorporated directive friendly society and, as a mutual organisation, has no shareholders. PMAS is at the head of the Police Mutual Group and has a number of subsidiaries carrying out a range of activities. The subsidiary companies do not carry out insurance business.

1.2.2. PMAS sells a range of savings and investment products exclusively to the Police Family. The Police Family covers serving and retired Police officers, staff and their families.

1.2.3. The Police Mutual Group (the Group), which includes PMAS, is an affinity led business whose principal relationship is with the Police service. It was established by Police officers over 140 years ago to look after the financial welfare of Police officers, staff and their families. Its unique position within the Police service is characterised by its strong relationship and high levels of advocacy from stakeholder organisations through to the support of volunteer members of the Police service on the Committee of Management and Authorised Officers who act as local champions at force level, as well as access to the workplace at all levels including payroll deduction facility.

1.2.4. In 2015 the Group was expanded to include the military market. Products and services are offered to the military through the subsidiary companies rather than PMAS.

1.2.5. Police Mutual is trusted as a brand and recognised for its specialism in driving value and exclusivity for its members. PMAS guards these bestowed qualities consciously through our low appetite for reputational risk. Its progressive strategy has led it to seek opportunities and, in 2014, it extended its proposition to similar affinities such as the military service with advocacy being maintained through an 'on-base' presence along with an accepted approval from the service itself. We now have nearly 216,000 members from all ranks and around 100,000 policyholders from the military.

1.2.6. With an affinity led business model that has been built on trust and reputation, good governance and effective management of risks is necessary and central to the way Police Mutual operates.

1.2.7. To deliver what we were set up to do, we expect to grow and change with the evolving needs of our affinities in the Police and Military service in a sustainable way. Our not-for-profit mutual business model is run commercially yet firmly anchored in the wellbeing of our affinities. We have nearly 600 people working across the Group in three main locations.

1.2.8. As a progressive organisation, we expect the business model to evolve and grow allowing greater opportunities for supporting our not-for-profit approach while continuing to deepen our relationships with our chosen affinities.

1.3. System of governance summary

1.3.1. PMAS recognises the importance of strong corporate governance and has established a well-defined governance framework, system of control and committee structure.

1.3.2. PMAS employs a "three lines of defence" governance model that aims to ensure that risk management is effective, appropriate decisions are made and best practice is implemented and maintained.

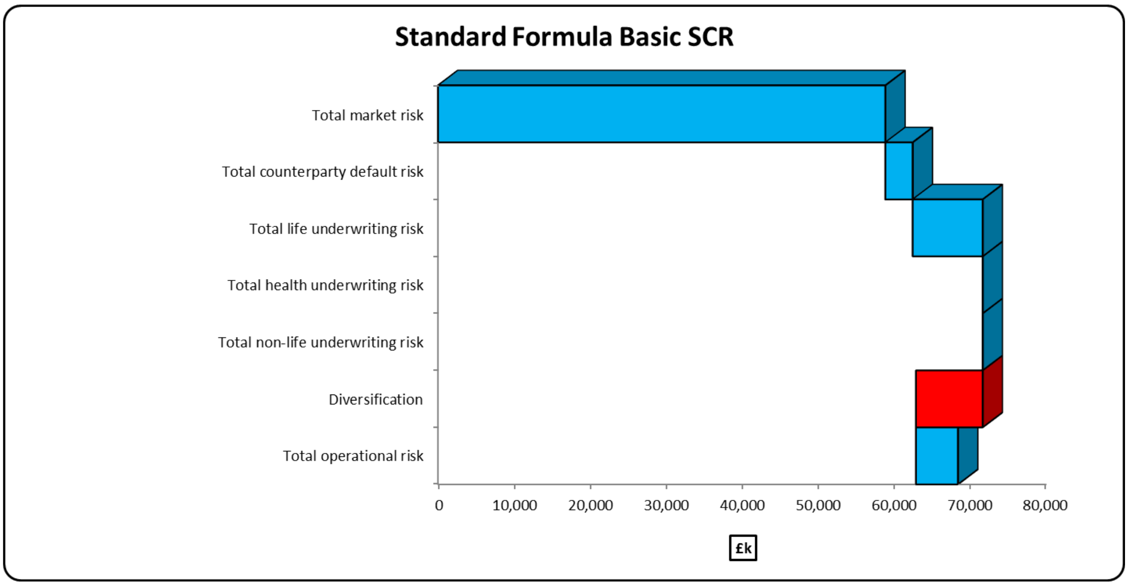
1.3.3. The Group Risk Management Committee was established in January 2016 and in the same year a decision was made to establish a Board level Risk Committee. The first meeting of the Board Risk Committee was held in January 2017.

1.3.4.

1.4. Risk profile summary

1.4.1. PMAS writes a range of savings and investment policies on a with-profits, non-profit and unit-linked basis. Many of the policies include a guaranteed element. It also has some non-profit term and whole of life assurance business which is no longer open to new business.

1.4.2. The chart below shows how PMAS' Solvency Capital Requirement is made up, demonstrating the relative impact of the different risks to which the business is exposed.



1.4.3. Market risk is the main Standard Formula risk. This is driven by the guarantees offered on the with-profits business.

1.5. Valuation for solvency purposes summary

1.5.1. The valuation basis for assets and liabilities for Solvency II purposes is the same as for the Annual Report & Financial Statements except for:

- The valuation of the subsidiary companies;
- The inclusion of sterling reserves for the unit-linked business in the regulatory reporting but not the financial statements; and
- The inclusion of the risk margin in the regulatory reporting but not the financial statements.

1.5.2. The differences are summarised below:

	£000
Fund for future appropriations in the financial statements	192,473
Adjustments for regulatory reporting:	
Excess of valuation of subsidiaries over net asset value	(87,214)
Inclusion of sterling reserves	2,289
Inclusion of the risk margin	(5,585)
Own Funds	**101,962**

Any apparent discrepancies in the sums are due to rounding

1.6. Capital management summary

1.6.1. At 31 December 2016, Own Funds were £101,962k and there was a Solvency Capital Requirement ("SCR") of £68,428k.

1.6.2. As stated in the PPFM, Own Funds are managed to:

- Meet statutory solvency and internal capital requirements;
- Give investment freedom for with-profits policyholders;
- Provide working capital;
- Provide capital support for guarantees;
- Finance other business ventures including providing support for benevolent activities consistent with the Society's purposes and for the overall commercial benefit and/or protection of all current and future members recognising the support the Society receives from the Police;
- Enable smoothing of investment returns and payouts;
- Meet any excess costs over charges for business other than the conventional with-profits business; and
- Meet any exceptional costs in managing the business arising as a result of legislation, taxation or other circumstances which, in the opinion of the Managing Board, should not be directly charged to policyholder benefits.

1.6.3. Management of the Own Funds is reviewed annually. However, they are monitored monthly and any significant changes could trigger a review of their management more frequently.

INTRODUCTION

2.1. This is a Report provided to the PRA as part of the 31 December 2016 regulatory submission.

2.2. It covers the relevant regulated entity 'Police Mutual Assurance Society Limited' ('PMAS'). PMAS is a solo entity for regulatory reporting purposes. However, this entity is part of the wider Police Mutual Group and therefore there are also references to the Group and Group policies.

2.3. The report has been prepared in line with the Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) Articles 290-303. In this regard, the content covers the Managing Board's annual Solvency and Financial Condition Report (SFCR).

2.4. This report replaces the SFCR originally provided on 17 May 2017. The changes are in respect of the correction of an error in the original calculation of the valuation of investments in participations (as shown in D1.23) and the resulting calculation of the SCR and MCR (as set out in E2). The net impact has been to reduce the ratio of eligible own funds to SCR/MCR shown in S23.01 from the previously stated 164% to 149% and 625% to 565% respectively.

2.5. The validation and sign off by the Managing Board as the Administrative, Management or Supervisory Body is shown in **Appendix 1.**

A BUSINESS AND PERFORMANCE

A1.Business

A1.1. Police Mutual Assurance Society Limited is an incorporated directive friendly society.

A1.2. As a mutual organisation, PMAS has no shareholders.

A1.3. Police Mutual Assurance Society is authorised and regulated by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA). The PRA can be contacted using the details found at http://www.bankofengland.co.uk/pages/contact.aspx. The FCA can be contacted using the details found at https://www.the-fca.org.uk/contact.

A1.4. The external auditor used for the 31 December 2016 valuation was PricewaterhouseCoopers LLP. They can be contacted using the details found at http://www.pwc.co.uk/who-we-are/contact-pwc.html. The following parts of the disclosures are not audited:

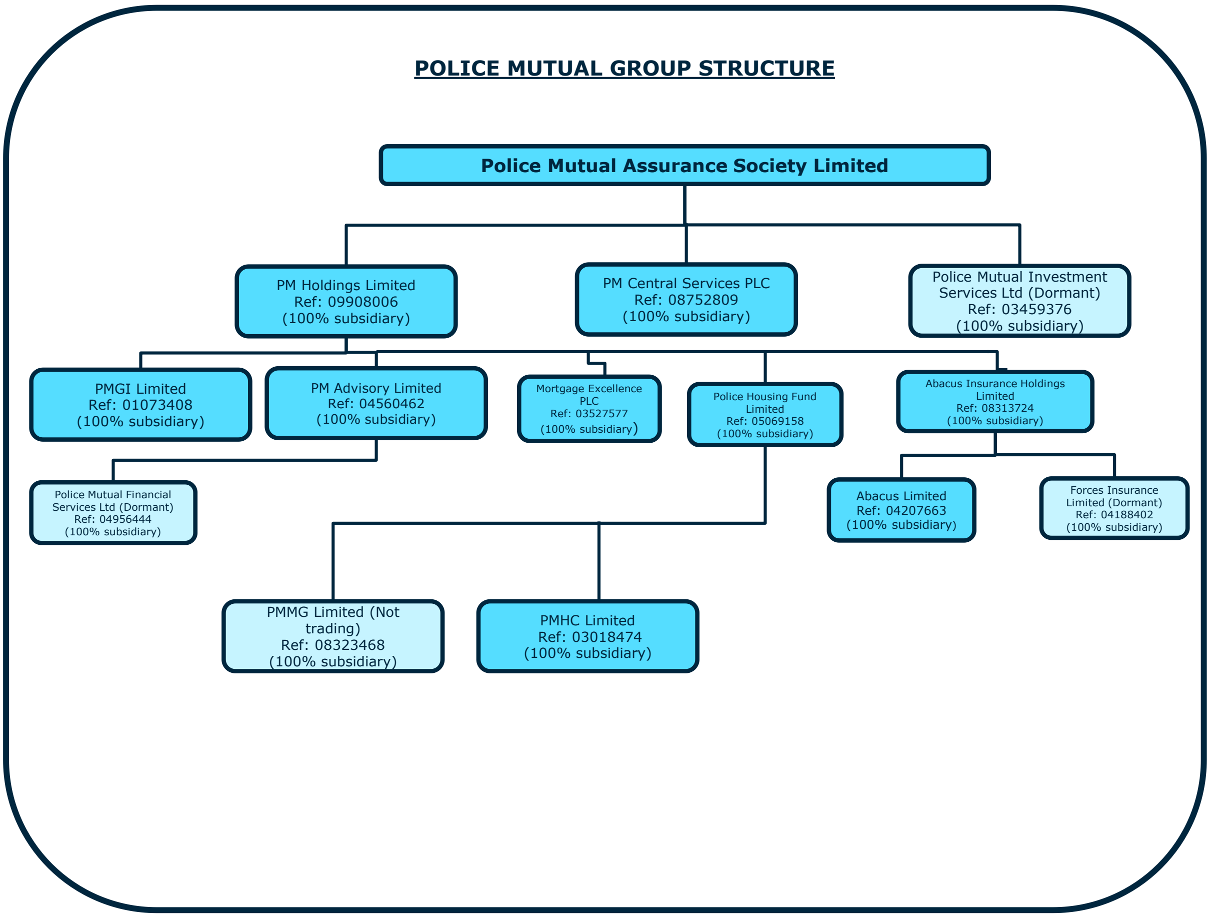
- ‘Business performance’, ‘System of governance’ and ‘Risk profile’ elements.
- Company templates S.05.01 and S.05.02.
- The written acknowledgement by management of their responsibilities.

A1.5. Set out below are PMAS' investments in subsidiary undertakings as at 31 December 2016, all of which are incorporated in the United Kingdom and wholly owned.

Name of undertaking	**Principal activities**	**Immediate parent company**	**Legal form**
PM Holdings Limited	Provider of support services to certain Group companies.	Police Mutual Assurance Society Limited	Private Limited Company
Police Mutual Investment Services Limited	A dormant company.	Police Mutual Assurance Society Limited	Private Limited Company
PMGI Limited	Arranges general insurance policies and acts as an introducer of third party products.	PM Holdings Limited	Private Limited Company
PM Central Services PLC	Service company for the Group.	Police Mutual Assurance Society Limited	Public Limited Company
PM Advisory Limited	Offers independent financial advice and also acts as an introducer for the Police Mutual Investment Choice platform.	PM Holdings Limited	Private Limited Company
Police Mutual Financial Services Limited	A dormant company.	PM Advisory Limited	Private Limited Company
Police Housing Fund Limited	Administrator for an affordable housing scheme for the Police.	PM Holdings Limited	Private Limited Company
PMHC Limited	Provider of discretionary healthcare* products to the Police Family.	Police Housing Fund Limited	Private Limited Company
Mortgage Excellence PLC	Provider of mortgage placement and related financial services.	PM Holdings Limited	Public Limited Company
Abacus Insurance Holdings Limited	An intermediate holding company	PM Holdings Limited	Private Limited Company
Abacus Limited	Arranges general insurance policies and acts as an introducer of third party products.	Abacus Insurance Holdings Limited	Private Limited Company
Forces Insurance Limited	Arranges general insurance policies and acts as an introducer of third party products.	Abacus Insurance Holdings Limited	Private Limited Company

*As this is discretionary healthcare it does not constitute insurance business.

A1.6. A simplified structure chart of the Police Mutual Group and its subsidiaries is shown below:



A1.7. Police Mutual Assurance Society's material lines of business are:

- Insurance with profit participation
- Unit-linked insurance
- Other life insurance

The subsidiary companies carry out other non-insurance activities and contribute to the Own Funds position. For example, this would include the brokering of general insurance business, mortgage broking, the provision of discretionary healthcare benefits and the provision of independent financial advice.

A1.8. The PMAS Life Fund is open to new with-profits, unit-linked and non-profit business.

A1.9. PMAS carries out its business in the United Kingdom, Channel Islands and Isle of Man.

A1.10. There have been no changes to product lines during the year.

A1.11. In March 2016 the Financial Conduct Authority (FCA) started an investigation into the practices of Police Mutual together with five other companies to assess whether we had failed to meet the regulator's standards in respect of a small number of policies that we no longer market (less than 0.5% of our total policy numbers). The concern is whether we provided adequate information to enable our members to take informed decisions when plans were cashed in. We have co-operated fully with the FCA's requests for information to enable the FCA to determine whether customers have suffered detriment as a result of our practices and those of five other firms. The Managing Board has undertaken independent reviews and taken external legal advice as part of the investigation. These confirm that we did provide adequate information. We remain committed to working with the FCA to secure an outcome which is fair and reasonable to all our members.

A1.12. On 19th April 2016 PM Holdings Limited acquired 100% of the share capital of Abacus Insurance Holdings Limited.

A1.13. On 30th December 2016 Police Housing Fund Limited sold 100% of the share capital of the following companies:

- R3: Financial Services Group Limited,
- Harrison Beaumont Insurance Services Limited,
- R3: Affinity Alliance Limited,
- Stuart Harvey Insurance Brokers Limited and
- Abacus Investments Solutions Limited.

A2. Underwriting Performance

A2.1. PMAS prepares its financial statements in accordance with the special provisions relating to friendly societies as set out in the Friendly Society (Accounts and related Provisions) Regulations 1994 and United Kingdom Generally Accepted Accounting Practice (UK GAAP). As a mutual, PMAS does not make a profit. The result for the year is transferred to or from the Fund for Future Appropriations.

A2.2. The table below shows PMAS' premiums, claims and expenses split by its material lines of business, all of which is written in the UK.

Period ended 31 December 2016 £000	**Insurance with profit participation**	**Index linked and unit-linked insurance**	**Other**	**Total life obligations**
Earned premiums, net of reinsurance[1,2]	94,896	5,850	37,467	138,212
Claims incurred, net of reinsurance[1,2]	(116,667)	(1,787)	426	(118,029)
Change in technical provisions, net of reinsurance[2]	(8,050)	(6,955)	(44,047)	(59,052)
Expenses	(9,679)	(597)	(4,037)	(14,313)

1 *Net earned premiums and claims incurred include £44,669k and £1,782k respectively in respect of policies accounted for under UK GAAP as investment contracts.*
2 *The reinsurer's share of earned premiums is £2,100k, of claims is £1,608k and of the change in technical provisions is £1,977k.*

A2.3. Earned premiums include both new single premium investments, new regular premium business and continued payments on existing regular premium policies. Claim payments relate to the maturity, surrender and death benefit payments, predominantly in relation to with-profits business.

A2.4. The large change in technical provisions for Other business reflects the significant sales of the Fixed term Options ISA during 2016. This is a non-profit, largely single premium product. It was launched at the end of 2015 but this figure represents a full year of sales.

A2.5. Expenses include acquisition costs of £7,009k.

A2.6. PMAS has an underwriting policy in place. In relation to the historic term assurance business, reinsurance is used to limit the overall risk exposure.

A3. Investment Performance

A3.1. PMAS aims to develop an ongoing investment strategy which is appropriate for individual products in terms of risk and future expected returns. The investment strategy is reviewed regularly to ensure that it remains suitable.

A3.2. During 2016, the business continued to hold investment assets primarily in the form of listed equities together with corporate and Government bonds. The business also held indirect investments in UK commercial property. A detailed split of the assets held at 31 December 2016 is shown in Appendix 2, S.02.01.

A3.3. PMAS' investment strategy complies with the requirements of the 'prudent person principle'. The allocations to asset classes depend upon the product to which they are related. The following table shows our long term average expected asset allocations together with an indication of the relative size of these asset pools.

Asset Allocations

	Investment Assets	CTF Balanced Growth Fund	CTF Cautious Managed Fund	CTF Cash Fund
Listed Developed Equities	38.0%	60.0%	40.0%	0.0%
Emerging Markets Equities	4.0%	0.0%	0.0%	0.0%
UK Property	13.0%	0.0%	0.0%	0.0%
Return Seeking Assets	**55.0%**	**60.0%**	**40.0%**	**0.0%**
Corporate Bonds	30%	20.0%	30.0%	0.0%
Government Bonds	15%	20.0%	30.0%	0.0%
Cash	0.0%	0.0%	0.0%	100.0%
Asset shares/linked assets	***£624m***	***£34m***	***£13m***	***£8m***

	SHP Balanced Growth Fund	SHP Fixed Interest Fund	SHP Cash Fund
Listed Developed Equities	60.0%	0.0%	0.0%
Emerging Markets Equities	0.0%	0.0%	0.0%
UK Property	0.0%	0.0%	0.0%
Return Seeking Assets	**60.0%**	**0.0%**	**0.0%**
Corporate Bonds	20.0%	50.0%	0.0%
Government Bonds	20.0%	50.0%	0.0%
Cash	0.0%	0.0%	100.0%
Linked assets	***£27m***	***£1m***	***<£1m***

A3.4. The Fixed Term Options ISA is not shown in the table. This product is backed by a combination of a corporate loan and cash. The proportion allocated to each will change over time as repayments are made on the loan book.

A3.5. Whilst the expectation is that in the long term the allocations will, on average, be in line with these asset allocations, the business will consider the expected outcomes from individual asset classes, economic conditions and other investment related factors to enhance investment returns by tactically adjusting the allocations above and below those noted in the table.

A3.6. The investment returns achieved in 2016 vary by product. The investment return before tax, charges and smoothing for the Investment Assets, which represents the majority of assets, was 6.5% in 2016.

A3.7. The investment returns as reported in the Annual Report & Financial Statements is shown in the following table:

	2016 **£'000**
Investment income:	
- Income from financial investments	19,047
- Gains on the realisation of investments	53,457
- Net foreign exchange loss[1]	(47,630)
	24,874
Unrealised Gains on investments[2]	**43,138**
Investment expenses and charges:	
- Investment management expenses	(4,146)
- Losses on the realisation of investments	(17,681)
	(21,827)
Net investment return	**46,185**

1 PMAS invests in a number of overseas asset classes. The currency risks in relation to the majority of these assets is hedged. Currency hedging takes the form of forward exchange contracts. This means that currency losses/gains may be seen in the financial statements but this will be offset by equal and opposite gains/losses from currency within the overall investment return for those asset classes bearing the currency exposure.

2 In the financial statements, unrealised gains included the gains on the investment in subsidiary companies. These gains (£41,005k) have been excluded from this table as the valuation of the subsidiary companies is carried out on different bases in the financial statements and the regulatory reporting.

A3.8. Investment return comprises all investment income, realised investment gains and losses, net of investment expenses, charges and interest payable on financial liabilities carried at amortised cost.

A3.9. Dividends are included as investment income on the date that the shares are quoted ex-dividend and include the imputed tax credits. Interest and expenses are included on an accruals basis.

A3.10. Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price.

A3.11. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price, if acquired in the current period or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in respect of investment disposals in the current period.

A4. Performance of other activities

A4.1. Other technical income consists of income which does not relate to long term insurance products, this includes fee income on investment contracts. In 2016 this equated to £923k.

A5. Any other information

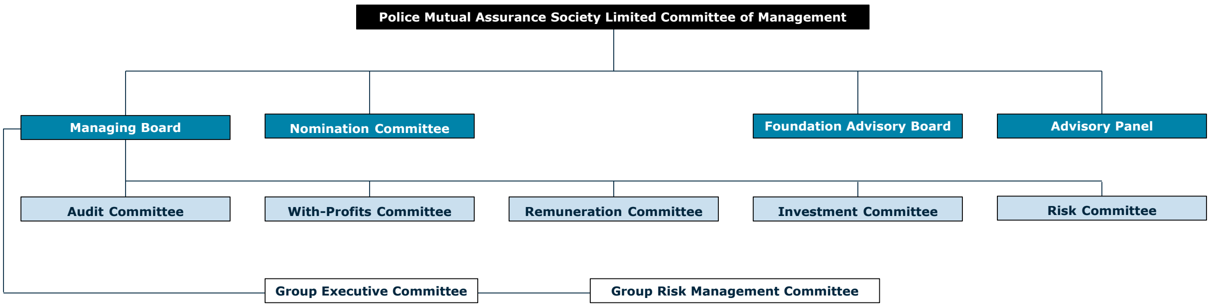
A5.1. No further information.

B SYSTEM OF GOVERNANCE

B1.General information on the system of governance

Corporate Governance Framework

B1.1. Police Mutual operates within a clear governance framework as outlined in the diagram below.



B1.2. Police Mutual is governed by two committees – the Committee of Management and the Managing Board (the Board).

Committee of Management

B1.3. Police Mutual's ultimate managing body, the Committee of Management, is responsible for articulating our members' aspirations and ensuring these and the reputation of the company are upheld in the decisions made by the Managing Board regarding members, relationships with the Police Service and product/service provisions. The Committee of Management mainly consists of lay persons from the Police Service and as such all its regulatory, financial and commercial responsibilities are delegated to the Board and other sub-committees.

Principal sub committees

The Managing Board (the Board)

B1.4. The Board's primary objective is to develop and implement the strategic direction of the business in line with the Committee of Management's expectations. The Board's main duties include:

- Strategic and business planning
- Investment management strategy
- Financial and capital management
- Risk management
- Legal and regulatory compliance

B1.5. The Board is supported by the work of its sub-committees that include:

- **Investment Committee**: provides oversight and delivery of the Board approved investment strategy;
- **Audit Committee:** provides oversight of the financial reporting process, the integrity of financial statements and information in the Annual Report and Financial Statements. The Committee also provides assurance over the internal systems of control, the adequacy and scope of the internal audit function and oversight of the relationship with the external auditors;
- **With-Profits Committee:** provides in the main an independent assessment of compliance with the Principles and Practices of Financial Management (PPFM);
- **Remuneration Committee:** provides the framework and policy for Executive team remuneration, oversight of major changes in employees' benefit structures and compliance with remuneration policies;

- **Nomination Committee:** responsible for advising the Committee of Management on matters relating to its composition and to ensure succession planning is in place for key roles on the Committee of Management, Managing Board and for the Chief Executive;
- **Risk Committee:** establishment of this committee was agreed by the Managing Board in November 2016; responsible for providing assurance that the Chief Executive is managing the Group in accordance with the Board's risk appetite requirements and that the Enterprise Wide Risk Management Framework (EWRM) remains appropriate.

The Foundation Advisory Board

B1.6. The Police Mutual Foundation supports the welfare of Police officers, staff and their families. The Foundation Advisory Board is responsible for the allocation and oversight of funds allocated to the Police Mutual Foundation and related activity in line with the Committee of Management's aims in establishing the Police Mutual Foundation.

The Advisory Panel

B1.7. The Advisory Panel is responsible for consideration of matters concerning HR policies and procedures which may involve the Chief Executive, an Executive Director, or the Company Secretary or threaten the reputation of the Society.

B1.8. The Committee of Management and principal sub-committees operate within clearly defined terms of reference, which are available on the Police Mutual website at policemutual.co.uk.

Executive Level

Group Executive Committee

B1.9. The Group Executive Committee is responsible for the development, implementation, alignment and monitoring of the strategy and business operations. This involves monitoring the financial performance, implementation of policies and procedures, assessment and control of risk, and prioritisation and allocation of resources.

Group Risk Management Committee

B1.10. The Group Risk Management Committee's (GRMC) primary role is to support the Chief Executive in exercising oversight of the EWRM Framework, ensuring that risks are being managed in accordance with the Board's risk appetite requirements.

Key functions

B1.11. The following provides a summary of the main roles and responsibilities of key functions:

Risk Function

B1.12. The Risk Function is headed by a Chief Risk Officer who reports directly to the Chair of the Risk Committee, and the Chief Executive on a day to day basis. The Chief Risk Officer supports the delivery of strategic objectives by providing the Board with objective, expert advice and assurance over risk management performance, and supporting the Chief Executive in meeting the Board's risk management requirements. The Chief Risk Officer prepares regular reports and management information for the Executive and Board that are commensurate with their role and responsibilities.

B1.13. The Chief Risk Officer is supported by a team of risk and information security professionals with a blend of relevant skills and experience.

Compliance Function

B1.14. The Compliance Function is led by the Head of Group Compliance who reports directly to the Chief Risk Officer on a day to day basis. The Compliance Function is accountable to the Risk Committee and the Board. The Head of Group Compliance is supported by a number of individuals covering various disciplines and subject areas.

B1.15. The Compliance Function produce regular written reports on their activities and these are submitted to the relevant Senior Managers, Group Executive Committee, GRMC and Risk Committee as appropriate.

B1.16. A wider explanation of the Compliance Function is provided in section B4.5.

Internal Audit Function

B1.17. Internal Audit is headed by a Chief Internal Auditor who reports directly to the Chair of the Audit Committee, and the Chief Executive on a day to day basis. The Chief Internal Auditor is supported by an internal member of staff and a consultancy firm to ensure access to a range of skills commensurate with Police Mutual's business model. Internal audit findings are reported to the Audit Committee and progress with internal audit recommendations is monitored on an ongoing basis. Further information on the function is provided in section B5.

B1.18. **Actuarial Function**

The Actuarial Function is headed by the Chief Actuary who reports directly to the Chief Finance Officer. The Chief Actuary is supported by a team of suitably qualified individuals. Activities of the function are reported to the Audit Committee and Managing Board. Further information on the function is provided in section B6.

Any material changes in the system of governance

B1.19. The GRMC was established in January 2016 and in the same year a decision was made to establish a Risk Committee at Board Level. The first meeting of the Risk Committee was held in January 2017. The Terms of Reference for other relevant sub-committees, the Group Risk Management Committee and Group Executive Committee are in the process of being updated accordingly.

B1.20. The Chief Risk Officer and Compliance Director relinquished her Approved Person status (SIMF 4 and CF 10) on the 23rd December 2016. CF 10 is now held by the Group Head of Compliance. The Chief Executive holds SIMF 4 on a temporary basis pending the long term appointment of a Chief Risk Officer.

B1.21. As explained in section B5, some changes were made to the internal audit arrangements in October 2016 and an in-house Chief Internal Auditor (SIMF 5) was appointed.

Information on the Remuneration Policy and Practices

B1.22. Police Mutual's principles for executive remuneration are designed to reflect performance and allow the business to attract, retain and motivate a sufficient number of good quality Executives. It is Police Mutual's aim to ensure that the total remuneration package is aligned to the interests of members and the long term sustainability of the business.

B1.23. The Remuneration Committee is responsible for reviewing the ongoing appropriateness and relevance of the Policy.

B1.24. The principles for Executive remuneration are as follows:

- Remuneration should be fair and competitive.
- Total remuneration should reflect performance and support the delivery of benefits and services to members and the Police Service by being demonstrably linked to the delivery of the strategy.
- Remuneration should enable Police Mutual to attract, retain and motivate Executives of the quality required to run the organisation successfully whilst avoiding paying more than necessary.

B1.25. The key principle in setting base salaries is that they should permit Police Mutual to recruit, motivate and retain employees with the skill and experience required to deliver the strategic plan. Base salaries will therefore reflect:

- The value of the individual in the organisation;
- Their role, experience and performance;
- Comparator salaries within Police Mutual to ensure equal pay for equal work;
- Average change in broader employee salaries within Police Mutual;

- Total salary budgets;
- Market survey data i.e. what they might reasonably expect to be paid in comparable organisations;
- The affordability of the salary, taking into account the overall financial performance of Police Mutual.

B1.26. Variable pay is made up of two elements; annual bonus and deferred annual bonus. The key principles in setting bonuses are that they reward achievement of annual financial and strategic business targets; delivery of the Executive team objectives and achievement of personal objectives. Collectively these are aimed at delivering the benefits and services for members and the Police service. The Remuneration Committee aims to ensure that the scheme is clearly articulated, transparent and supports the aim of the strategic plan to ensure a sustainable business that will benefit both current and future membership.

B1.27. Police Mutual provides a pension scheme which complies with the Government's mandatory auto-enrolment requirements. Directors may participate in that scheme which operates on a defined contribution/money purchase basis. The level of employer contributions to the pension scheme for Executives is set by the Remuneration Committee. In setting those contributions, the Remuneration Committee aims to ensure that the pension benefits provided are comparable with the market and within HM Revenue and Customs allowable limits.

Executive Director, Chairman and Non-Executive Director Remuneration

B1.28. The Directors' Remuneration Policy for 2013-2016 is described in Police Mutual's Annual Governance and Directors' Remuneration Reports which are available on the Police Mutual website at policemutual.co.uk. The principles underpinning the Policy are:

- Remuneration should reflect performance and support the delivery of benefits and services to members and the Police service by being demonstrably linked to the delivery of the 3 year strategy.
- Remuneration should enable Police Mutual to attract, retain and motivate Executives of the quality required to run the organisation successfully while avoiding paying more than is necessary for the purpose.
- The total of basic salary and performance related elements (total cash) to be benchmarked within the lower quartile range for target performance, and median for exceptional performance.

B1.29. The Principles for Executive Director fixed and variable pay are the same as those outlined in B 1.23 and B 1.24 above. Executive Directors are eligible to receive employer contributions to a personal pension plan of their choosing or a cash alternative. Bonus and other benefits are excluded from the calculation.

B1.30. The principles underlying chairman and Non-Executive Director remuneration policy are outlined as:

- Fees are neither performance related nor pensionable and Non-Executive Directors do not participate in any incentive plans.
- Fees are designed to recognise the responsibilities and time commitment of Non-Executive Directors to attract individuals with necessary skills and experience to contribute to the future growth of the Police Mutual Group.
- Fees to be benchmarked to the median with some discretion around that point to allow for the need to attract different skills, experience and knowledge in Non-Executive Directors.

Employees

B1.31. Police Mutual aims to ensure that total remuneration levels are appropriate and incentivise behaviours that are aligned to the interests of members and the long term sustainability of the business. Pay is therefore linked to performance and the achievement of organisational outcomes, whilst at the same time ensuring that employees receive fair reward for their performance.

B1.32. Base salaries are normally reviewed by reference to jobs carrying similar responsibilities in comparable organisations. It is generally the policy of the Group to determine benchmark salaries by reference to the market median point.

B1.33. Variable pay is seen as an integral component of our remuneration approach. The primary vehicle for this is the Group-wide annual bonus scheme which is approved by the Remuneration Committee each year. The aim of this scheme is to ensure recognition and reward for individual performance within the context of the business' over-arching performance and objectives. Employees providing services for PMAS are only subject to the Group-wide annual bonus scheme.

Material Transactions

B1.34. No material transactions for Police Mutual during the reporting period.

B2. Fit and proper requirements

Requirements concerning skills, knowledge and expertise

B2.1. It is Police Mutual's policy to recruit, develop and maintain competent and appropriately skilled persons to perform key functions within the organisation as defined by the Approved Persons/Solvency II regime and which is consistent with protecting our good reputation. This is achieved through appropriate vetting at recruitment, clear statements of responsibilities and a continual reassessment of competency, fitness and propriety that is embedded in the individual's performance management process.

B2.2. Police Mutual's approach is designed to ensure that the people who effectively run the organisation collectively possess appropriate qualifications, experience and knowledge about:

- Insurance and financial markets;
- Business strategy and business model;
- System of governance;
- Financial and actuarial analysis
- Regulatory framework requirements.

Recruitment

B2.3. Prior to recruitment a role profile must be documented and authorised. The profile will highlight if the role is subject to the Approved Persons Regime and if the person will be a key function holder. The profile will detail the following:

- Purpose of the role;
- Core responsibilities;
- Regulated responsibilities
- Skills, qualifications, knowledge and experience required;
- Personal characteristics required.

B2.4. Candidates will be assessed against a set of pre-determined screening criteria to establish if they meet the requirements set out in the role profile. The recruiting manager is responsible for ensuring they have undertaken sufficient due diligence to satisfy themselves on the appropriateness of the applicant and they have sufficient evidence to conclude that the selected candidate is fit and proper.

B2.5. The following pre-employment checks will be carried out to establish fitness and propriety:

- Employment references will be obtained for the individual's last five years employment history;
- Regulatory references will cover the last 5 year period and include:
  - Any outstanding liabilities of the candidate from commission payments
  - Any relevant outstanding or upheld complaint against the candidate from an eligible complainant
  - Any information about the fitness and propriety of the individual

- Proof of qualifications and professional memberships;
- Right to work, asylum and immigration checks;
- Standard disclosure and barring service checks, which shows all conviction information, spent and unspent including cautions;
- Credit checks;
- Directorship checks (where appropriate)

B2.6. Upon recruitment approved persons and key function holders are provided with information on the Approved Person's/Solvency II regime which they are required to read and confirm they have understood.

On-going Assessment

B2.7. Once approved and appointed approved persons and key function holders will be subject to annual declarations of fitness and propriety in respect of credit worthiness and other tests including criminal record checks and credit checks.

B2.8. Performance management assessments take place at least twice a year and require the agreement of personal objectives, achievements and development plans. The manager responsible for an approved person or key function holder is required to confirm whether or not the individual in question has attained an appropriate level of competency and remained fit and proper in the period. If areas of development have been identified, the manager will be required to indicate what actions and/or support have been put in place to help ensure the individual remains able to discharge his/her responsibilities appropriately.

B2.9. Triggers for reassessment of fitness and propriety outside of the normal annual cycles have been identified as a single or combined number of incidents, which indicate a potential trend in a deterioration of standard of performance or judgement. Examples include:

- Fraud, financial misdemeanour or financial misstatement;
- Material complaint from customers, or an increase in complaint numbers, attributed to the individual and/or their area of responsibilities;
- Business analysis highlighting the quality of sales files and/or poor advice provided to members;
- Misconduct that could lead to disciplinary action as determined by HR and related policies.

B3. Risk management system including the own risk and solvency assessment

Description of the Risk Management System

B3.1. Police Mutual's EWRM (Enterprise Wide Risk Management) Framework promotes a joined up approach to management of strategy, capital and risks across the organisation. The objective is to ensure the business takes well-informed risks that support Police Mutual's fundamental purpose and values.

B3.2. Police Mutual's EWRM Framework covers all risk categories (market, credit, liquidity, operational and insurance) and is codified in the Risk Function's policies and procedures.

B3.3. Police Mutual's strategy for managing each risk category is provided by a Risk Policy which sets out the governance of the risk as well as the assessment, monitoring and reporting process against the Board's risk appetite statements and tolerances. A collated view of these risks and how they are being managed against appetite is provided in the Risk Report submitted to the Risk Committee.

B3.4. Police Mutual operates a three lines of defence model with the following accountabilities:

First line (Executive and senior management)

- Only expose the business to the type and quantum of risks as authorised to do so within the Group Risk Policies and Risk Appetite Statements.
- To identify, assess, record and manage risks in accordance with the requirements as set out in the Risk Framework.
- To identify, investigate, escalate and report on losses, incidents or issues as appropriate.

- To escalate any risk issues as would be reasonably expected to notify.
- Periodically confirm that risks and controls are being managed effectively.

Second line (Risk and Compliance)
- Establishing the overall risk management requirements.
- Deploying appropriate risk tools into first line.
- Advising and challenging first line.
- Providing assurance to the Board that first line is meeting its requirements.

Third line (Internal Audit and other independent sources of assurance)
- Independently reviewing risks.
- Assessing control gaps.
- Escalating breaches.
- Recommending control enhancements.

B3.5. The Board has overall responsibility for setting risk appetite and monitoring the management of risk accordingly. The Board has delegated its responsibility to the Risk Committee. The Risk Committee meets at least four times a year and receives regular and appropriate risk reporting.

Implementation of the Risk Management system including the Risk Function into the organisational structure and decision making processes

B3.6. The Risk Function, which is an established second line of defence function, is integrated in the organisation's decision making process at both strategic and operational levels in three main ways:
- Through the reporting lines at both the Executive and Board levels and assigned responsibilities of the Chief Risk Officer.
- Through the facilitation and implementation of established EWRM Framework and underlying risk policies in the business.
- Clearly defined role and interactions with the Actuarial Function in the assessment process of the organisation's solvency and capital management requirements.

B3.7. Decisions within the business are made with reference to the Board's Risk Appetite statements and tolerances (described in the Risk Policies) that cover key decisions taken across the business that relate to our reputation, financial management, capability (people, systems, security, change and growth) and compliance culture. The Risk Management Function is custodian of the Risk Policies and champions their application in day to day management of the business and strategy.

B3.8. To ensure that more strategic and commercial decisions are risk informed, preparation of Board papers follows a template which prompts the appropriate consideration of risks. The focus of the Board on risks also helps reinforce and ensure that appropriate discussions ensue before decisions are taken.

Own Risk and Solvency Assessment process

B3.9. The Own Risk and Solvency Assessment (ORSA) process is a continual process that is conducted throughout the year via the different activities that form part of Police Mutual's risk management, capital management and business planning processes. Key outputs from these activities are reviewed and challenged by the Board and or/or relevant sub-committees and form part of management's decision making process.

B3.10. Key conclusions from the ORSA process are summarised in the ORSA Report which is produced on at least an annual basis. The ORSA Report will be discussed and challenged at the Risk Committee and approved by the Board.

B3.11. The Risk Function co-ordinate production of the ORSA report in conjunction with subject matter experts from across the business including members of Actuarial, Compliance, Internal Audit, Finance, HR and Investment Accounting.

Frequency of the ORSA

B3.12. The ORSA is an iterative and continual process that will form part of Police Mutual's business planning process. An ORSA Report will be produced on at least an annual basis (in-line with the business planning cycle) and may be re-run if one of the ORSA triggers, as defined in the ORSA Policy, is hit.

Determining own solvency needs

B3.13. An own solvency needs assessment, based on the business' risk profile, is performed on at least an annual basis and compared to the organisation's regulatory capital assessment which is calculated using the Standard Formula. The results are presented in the ORSA Report along with a description of any material deviations in the business' risk profile from the risk modules included in the Standard Formula.

B4. Internal control system

B4.1. The executive management is responsible for ensuring that risks and controls are evaluated across the Group and for determining those of most significance for closer monitoring. It has put in place an organisational structure with formally defined roles of responsibility and delegation of authority.

B4.2. Operational responsibility rests with the Chief Executive and devolves through an executive structure with clearly delegated and appropriate levels of authority. Members of executive management are therefore accountable for the establishment of appropriate policies and procedures that ensure the operation of the systems of internal controls within Police Mutual. The executive management also actively encourages a culture of continuous improvement to ensure systems of internal control are maintained in line with risk appetite.

B4.3. Senior managers are responsible for implementing key controls in line with the Board's risk appetite statements and tolerances (as set out in the Risk Policies) and for reporting on their effectiveness. The Risk function is responsible for providing assurance to the Risk Committee that first line reporting is meeting requirements i.e. that controls are managing risk in line with appetite.

B4.4. An independent assessment of the system of internal control relating to key risks and business processes is carried out by the Internal Audit Function who report their findings to the Audit Committee.

Compliance Function Operation

B4.5. Group Compliance is accountable to the Risk Committee and the Board and reports to the Chief Risk Officer on a day to day basis.

B4.6. Working with Risk and Internal Audit in particular the Compliance Function supports the effective operation of the EWRM Framework. It forms part of the second line of defence and has ownership and responsibility for maintaining the conduct risk framework and providing advice on and oversight of conduct risk, specifically in relation to:

- FCA Handbook requirements and associated European legislation.
- Certain aspects of the PRA Handbook.
- The Joint Money Laundering Steering Group Guidance Notes.
- The Data Protection Act 1998 and associated legislation and the forthcoming General Data Protection Regulation.

B4.7. The Compliance Function undertakes its oversight activity in a number of ways:

- By developing policies and business-facing guides.
- By providing an advisory/consultancy service to the business in relation to business as usual activities, change initiatives and identified breaches.
- By approving certain financial promotions/customer communications prior to issue.
- By identifying new regulatory developments, assessing the impact of those developments on the Group and engaging with the wider business to ensure any changes are implemented by the business in a timely and appropriate way.

- By proactively reviewing certain regulatory risk areas to verify adherence to applicable standards and reporting conclusions to Senior Managers and the Executive.

B4.8. Group Compliance prepare regular written reports to the relevant Senior Managers, the Executive, GRMC and Risk Committee as appropriate. Reports vary by audience and focus, as appropriate, on key functional matters, the regulatory change horizon, the progress of the agreed monitoring plan, monitoring outcomes, any significant or notified breaches and any important regulatory/supervisory matters.

B4.9. The Risk Function and Actuarial Function take primary responsibility for ensuring compliance with PRA regulations. Other areas that ensure Police Mutual complies with relevant legislation and regulation are detailed in the table below.

Other areas performing a 'compliance role'	**Scope of activity that supports the firm's 'compliance risk' management under Solvency II**
CEO Office	All industry regulatory matters of a strategic nature.
HR	Employment and compensation policies including Fit and Proper requirements.
Legal and Secretariat	Constitutional, corporate governance, legal and contractual matters.
Procurement and Outsourcing	Development and implementation of Police Mutual's approach to procurement and outsourcing.
Finance	Tax legislation and accounting standards.

B5. Internal Audit Function

Internal Audit Function Operation

B5.1. The Internal Audit model during the reporting period was based on an outsourced arrangement with KPMG which provided the Head of Internal Audit, a core audit team and a range of subject matter experts. This was complemented by an in-house internal auditor.

B5.2. In October 2016 an in-house Chief Internal Auditor was appointed to meet the increased size and complexity of Police Mutual and the growing expectations across the financial services sector around the provision of internal audit, particularly with regards to Solvency II and the new Senior Insurance Manager Regime. The Chief Internal Auditor continues to be supported by KPMG and an in-house internal auditor.

B5.3. Internal Audit's Charter defines the purpose, authority, responsibility and framework within which the Internal Audit function operates and formalises the arrangements approved by the Audit Committee for its role within Police Mutual. Final approval of the Internal Audit Charter resides with the Audit Committee on behalf of the Board.

B5.4. The following diagram provides an overview of how the Internal Audit process was implemented during the reporting period:

PHASE	WHAT WE DO	OUTPUT	MANAGEMENT INTERFACE	TIMING
Audit Plans	Prepare Annual Plan based on risk assessment Plans presented to Audit Committee for Approval	Annual Audit Plan	Consultation with Executive management and Audit Committee	Annual process
Engagement Planning	Allocation of audit work Prepare Audit Scope Document and Audit Programme	Audit Scope Document and Audit Programme	Individual Audit Scope discussed and agreed with line management and Executive	Initial notification: 30 Proposed scope: 15 Executive approval: 5 (number of days prior to fieldwork)
Audit Field Work	Perform audit tests Record results on working papers Manager review of working papers	Audit working papers and completed Audit Programme	Ongoing contact with line management during the audit	Ongoing
Audit Reporting	Audit close meeting Draft Report Issued Management response to Draft Report Report meeting Issue Final Audit Report	Draft and Final Audit Reports	Consultation with management and Executive via close meeting and management responses	Draft Report : 5 days after close meeting Management responses: 10 days after draft report Report meeting/ Final report: 5 days after management responses
Issues Tracking	Issues recorded in the tracking database Regular progress updates to the Audit Committee	Findings and actions input into the Tracking Database and updates to the Audit Committee	Dashboard Circulated quarterly to Executive management and Audit Committee	Ongoing monthly database updates

Maintaining Independence

B5.5. Internal Auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any activity that may impair their judgement.

B5.6. The Chief Internal Auditor is required to confirm to the Audit Committee, on at least an annual basis, the organisational independence of the Internal Audit Function.

B5.7. The Chief Internal Auditor reports directly to the Chair of the Audit Committee and the Chief Executive on a day to day basis.

B6. Actuarial Function

B6.1. Police Mutual has an in-house actuarial team which carries out the day-to-day actuarial role.

B6.2. The position of Chief Actuary is filled internally and reports to the CFO. The individual is a Fellow of the Institute and Faculty of Actuaries, has complied continuously with the specific professional obligations this requires, holds a Practising Certificate and is an Approved Person.

B6.3. The Actuarial Function produces a suite of written reports which are submitted to the Managing Board and/or other corporate committees setting out the tasks that have been undertaken in line with the PRA rulebook, their results and any relevant recommendations.

B7. Outsourcing

Description of the Outsourcing Policy

B7.1. Police Mutual's considers outsourcing only where doing so will better support the delivery of our strategic goals and make economic sense.

B7.2. Police Mutual's definition of outsourcing and what is deemed to be material/critical is aligned to FCA/Solvency II requirements regarding material/critical outsourcing.

B7.3. Police Mutual's approach to outsourcing of material/critical functions/activities is summarised as follows:

- **Preparation:** Prior to engaging a material outsourced arrangement a business case must be prepared for approval by the Managing Board. At this stage the relevant stakeholders across the business are engaged.
- **Supplier Selection:** A competitive selection process will be held and an invitation to tender and evaluation criteria bespoke to the operational function/activity being outsourced will be developed. Sufficient due diligence will be carried out prior to selection to ensure the supplier can satisfy Police Mutual's evaluation criteria and the requirements set out in the Business Case.
- **Engaging a Supplier:** All business arrangements will be documented in a written contract containing all of the agreed components of the arrangement between the parties. The Legal team will be involved during this stage to ensure all key commercial points are covered and to ensure that the terms of agreement and any associated risks have been understood.
- **Contract and Relationship Management:** Key performance indicators and service levels will be agreed as part of the contract and will be monitored on an ongoing basis to ensure that poor performance is identified and managed.

Outsourcing of any critical/important operational functions or activities

B7.4. Police Mutual's critical/material outsourcing arrangements are described in the table below. Note: all non-regulated operational and employment contracts are with PM Central Services PLC (PMCS):

Provider	Function/Activity Outsourced	Jurisdiction
1. Intra-Group Agreement		
PMCS	Services Company	UK
2. Professional Services		
Deloitte	Actuarial Services – With-Profits Actuary	UK
KPMG	Internal Audit Services	UK
3. Investment Administration Services		
HSBC Securities Services	Global Custody Services	UK
HSBC Securities Services	Fund Administration	UK

4. Fund Management Services		
Baillie Gifford	Investment Management – Japan Equity Investment	UK
Goldman Sachs	Investment Management – US Equity Investment, FX Hedging	USA
Lazards	Investment Management – Europe Equity Investment	Luxembourg
Legal & General	Investment Management – Pacific ex. Japan, UK Equity and International equity ex. UK Investments	UK
Dimensional Fund Advisors	Investment management – Emerging Markets Equities	UK
Aviva Investors	Investment Management – UK Property Investment	UK, Channel Islands and Ireland
Insight Investment	Investment management – UK Treasury, Supranational, Corporate Bonds, Liquidity Funds, FX Hedging, Interest Rate Hedging	UK and Ireland

5. IT Services		
Avanade	IT Development and Support	England and Wales

6. Print Services		
APS	Bulk mailing of member letters and statements for Life products.	England and Wales

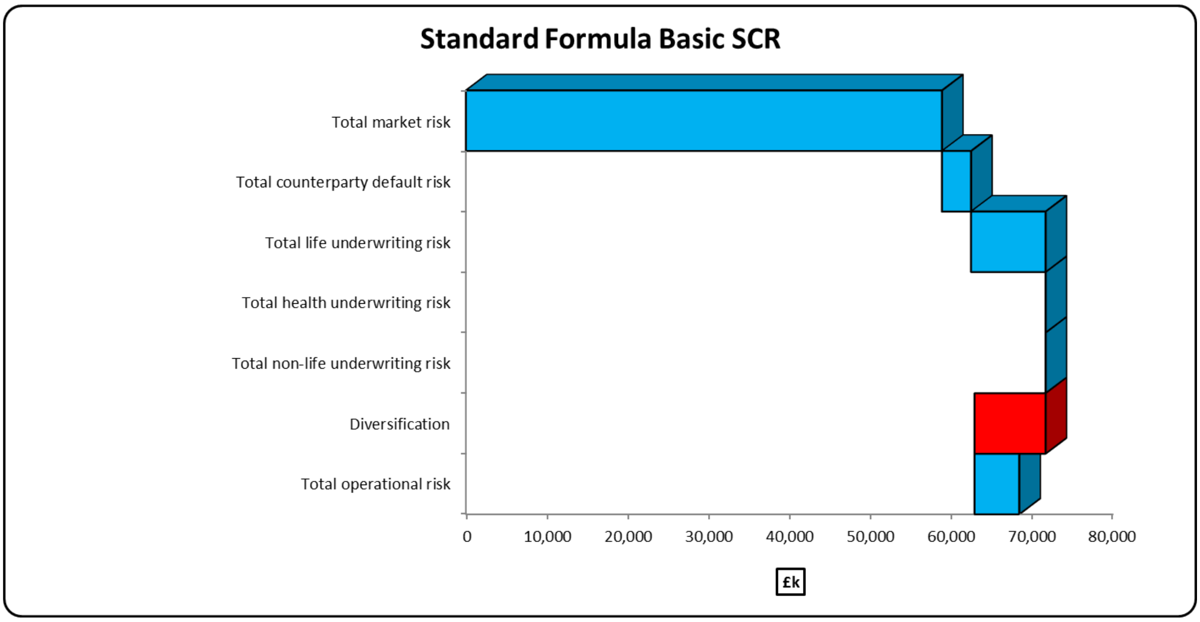
B8. Any other information

B8.1. On an annual basis the Risk Function provides the Audit Committee with a statement on internal control (The Statement) to support approval of the Annual Report and Financial Statements. The Statement is produced alongside Internal Audit's summary of internal control and External Audit's Management Letter.

B8.2. The statement pertaining to 2016 highlighted the need to evolve the Group's governance, system of risk management and internal control to keep pace with the growing needs of the business. Notwithstanding this the statement noted that the business had been managed appropriately given the level of change it had been exposed to.

C RISK PROFILE

The chart below shows the Standard Formula Solvency Capital Requirement ("SCR") as at 31 December 2016. Each bar in the chart is calibrated to the same confidence level and so this chart shows the sensitivity of PMAS to each of the risks.



The standard formula SCR risk profile is dominated by market risk. This is because of the guarantees offered on the with-profits business.

C1.Underwriting risk

C1.1. PMAS considers underwriting risk in terms of:
- Timing of death and surrender claims (i.e. mortality and persistency risk) including selection risk for surrender claims;
- Severity of death and surrender claims (in terms of volumes of claims);
- Risks relating to underwriting practices (e.g. selection risk); and
- Expense experience being worse than allowed for in pricing or reserving calculations and/or in excess of budget.

C1.2. PMAS does not have any underwriting risk with respect to disability-morbidity or revision.

C1.3. The best estimate liabilities are affected by this risk. The only assets affected by this risk are the reinsurance recoverables from the non-profit life business.

C1.4. The life catastrophe risk has been calculated using a simplified method so the assets and liabilities affected by this risk have not been specified.

C1.5. Recent experience is analysed annually. It shows the risk profile of the company in relation to mortality, persistency and expenses. The most recent assessment showed that there had been no material changes since the previous reporting period.

C1.6. Sensitivity analysis shows that mortality risk and expense risk are not material risks, but persistency risk is material to PMAS. A 5% increase in persistency rates (i.e. fewer policies surrender or lapse) has around a £1m impact. Worsening persistency means a reduction in policies lapsing and this means more with-profits policies reach maturity and potentially incur guarantee costs and more non-profit policies claim death benefits.

C1.7. Reinsurance is used to mitigate the mortality risks in relation to non-profit business. The appropriateness and effectiveness of the reinsurance arrangements are also reviewed annually.

C1.8. The overall net solvency capital requirement for the Life underwriting module at 31 December 2016 was £9,212k and the gross capital requirement was £34,805k.

C2.Market risk

C2.1. Market risk affects the value of PMAS' investment assets and, therefore, the size of its liabilities, its other investments and hence its solvency position.

C2.2. It is important to recognise that market risk cannot be eliminated and that it is an inherent element of many of the policies that PMAS sells.

C2.3. For the standard formula SCR, PMAS considers market risk in terms of:

- Falls in equity values including the value of our subsidiary companies;
- Rises and falls in fixed interest yields and the impact on the valuation of assets and liabilities;
- Falls in property values;
- Adverse currency movements;
- Concentration risk; and
- Credit risk (increases in the yields available on corporate bonds relative to gilts reduce the value of the corporate bonds/loans held).

C2.4. PMAS does not have any credit derivatives.

C2.5. Government and corporate bonds held in the Life Fund and the Staff Pension Fund are affected by the interest rate risk. Equities held in the Life Fund and Staff Pension Fund are affected by the equity risk. Property held for own use and property held within the investment funds are affected by the property risk. The reinsurance recoverables from the non-profit life business are also affected by these risks.

C2.6. PMAS invests in a number of overseas asset classes. The currency risks in relation to the majority of these assets are hedged. Currency hedging takes the form of forward exchange contracts. This means that currency losses/gains may be seen in the financial statements but this will be offset by equal and opposite gains/losses from currency within the overall investment return for those asset classes bearing the currency exposure. A small amount of assets held in the Life Fund and the Staff Pension Fund are unhedged and retain foreign currency exposure and the associated risk.

C2.7. The liabilities affected by this risk are the best estimate liabilities and Staff Pension Fund liability.

C2.8. Sensitivity analysis shows that market risks, and in particular equity stresses, are material risks.

C2.9. PMAS uses equity sale triggers and market options to mitigate market risk. The impact of the triggers on the solvency position of the company is assessed each year and the appropriateness and effectiveness of the risk mitigation techniques are reviewed annually.

C2.10. The overall net solvency capital requirement for the Market risk module at 31 December 2016 was £58,875k and the gross capital requirement was £157,146k. These figures include the effect of credit risk as described below.

C3.Credit risk

C3.1. Changes in credit risk affect the value of PMAS' investments and, therefore, the size of its liabilities and hence its solvency position. Credit risk could also have a cashflow impact on the business through the failure of a counterparty or an impact on the liquidity of an investment.

C3.2. For the standard formula SCR, PMAS considers credit risk in terms of:

- Widening of credit spreads, where appropriate, on its holdings in Government debt, supranational debt, corporate bonds and cash deposits. This is the primary source of credit risk;
- Defaults in securities lending arrangements;
- Defaults on reinsurance arrangements; and
- Exposure to various business counterparties.

C3.3. It should be noted that a significant element of investment activity conducted by PMAS concerns assets which are exempt from the statutory counterparty limits. Credit exposure to reinsurance counterparties is very low in the context of PMAS' total assets.

C3.4. Corporate bonds held within the Life Fund and the Staff Pension Fund are affected by the credit spread risk.

C3.5. The liabilities affected by this risk are the best estimate liabilities.

C3.6. PMAS assesses its counterparty risk on an individual counterparty basis. The net solvency capital requirement for counterparty risk at 31 December 2016 was £3,597k. This is not included in the Market risk figure quoted above.

C3.7. Sensitivity analysis shows that credit risk, in particular arising from corporate bond holdings, is a material risk.

C3.8. PMAS uses corporate bond sale triggers to mitigate credit risk. The impact of the triggers on the solvency position of the company is assessed each year and the appropriateness and effectiveness of the risk mitigation techniques are reviewed annually.

C4. Liquidity risk

C4.1. PMAS considers liquidity risk in terms of:

- The ability to pay stakeholders, e.g. policyholders, employees, suppliers; and
- The impact on the Group's credit ratings and therefore relationships with key third parties.

C4.2. Liquidity risk is not considered as a separate risk stress under the Standard Formula SCR. It has not been identified as a material risk once mitigation and controls are allowed for.

C4.3. Liquidity risk is mitigated by the following:

- Monthly cashflow projections are carried out so that the Investment Accounting team knows when cash income can be invested or needs to be held on deposit to meet upcoming outflows; and
- PMAS has significant holdings in cash and gilts that can readily be realised at their full market value if required.

C4.4. Liquidity risk is assessed each year by considering whether any situations have arisen that would mean that the reasons outlined above are no longer the case.

C4.5. At 31 December 2016, the Expected Profit included in Future Premiums ("EPIFP") was £1,622k. This item is disclosed in the QRTs but does not affect the size of the liabilities.

C5. Operational risk

C5.1. PMAS considers operational risk in terms of the following:

- Management and strategy
- Market environment (product/customer)
- Customer administration
- Systems/technology
- Financial processes
- Compliance/legal
- People
- Premises
- Fraud

- Third party and outsourcing

C5.2. Detailed policies and procedures are in place to manage all key operational risks.

C5.3. Analysis of operational risk against appetite is included in Risk Reporting to the GRMC and Risk Committee (refer to section B 3).

C5.4. The Pillar 1 calculation for operational risk is based on premiums received and was calculated as £5,519k at year-end 2016.

Compliance with the Prudent Person Principle

C5.5. In line with the prudent person principle, the business has systems and controls in place to identify, measure, monitor, manage, control and report on the risks and rewards of the assets in which it invests.

C5.6. The Managing Board sets out its appetite in relation to investment risk and this is captured by the relevant risk policies. It also specifies the types of assets that can be invested in and the amounts that can be invested and imposes credit, counterparty and other restrictions. These controls are implemented through the mandates agreed with each investment manager. Monitoring of risks and investment performance is carried out at all levels with reporting to both the Board and Investment Committee.

C6. Other material risks

Affinity Risk

C6.1. As an affinity led business PMAS is sensitive to risks that could impact on the infrastructure of the Police service. Politically driven changes such as budget cuts, the introduction of Police and Crime Commissioners, and the merging of forces have implications for the way PMAS interacts with the Police service and are therefore closely monitored.

C6.2. PMAS' structure with the Committee of Management as its ultimate managing body ensures the business remains closely aligned to changes within the Police service. Affinity risks are also closely monitored via our Affinity Risk Dashboard which includes an analysis of our relationship with each force and highlights any areas of concern. The Affinity Risk Dashboard is considered by the Board on a six monthly basis.

C6.3. The Police Mutual Group also has an affinity with the military and this relationship is also closely managed. However, PMAS only conducts business with the Police affinity.

Risks not included in the SCR

C6.4. On an annual basis PMAS conducts an assessment of its risk profile against the risk elements included in the standard formula calculation. This assessment considers key risks, stresses and the correlations between them and has concluded that the standard formula remains appropriate to the business.

C7. Any other information

C7.1. No other information.

D VALUATION FOR SOLVENCY PURPOSES

D1.Assets

Value of each asset class and a description of the bases, methods and main assumptions used for valuation for solvency purposes

D1.1. The Solvency II total value of assets is £926,554k.

Asset Class	(£000)
Deferred tax assets	5,321
Directly held property	5,330
Participations	57,654
Listed equities	210,262
Unlisted equities	4,157
Government and supranational bonds	39,274
Corporate bonds	219,553
Collective Investments Undertakings	254,225
Derivatives	3,462
Assets held for unit-linked funds	83,364
Loans & mortgages	3,463
Reinsurance recoverables	8,187
Insurance and intermediaries receivables	1,361
Receivables, trade	753
Cash and cash equivalents	11,912
Other assets	3,167
Total	**911,446**

D1.2. This report sets out the approach taken for asset valuations. We have also assessed the ability to achieve the market prices used. For example, if the size of the asset was significant compared to available liquidity then this might result in a different overall value being realised and therefore the value should be adjusted.

D1.3. It also sets out the process for setting the main assumptions used.

Deferred tax asset

D1.4. The components of the deferred tax asset include the spreading of acquisition expenses and any excess expenses that are deemed recoverable within the recognition period. There is no deferred tax asset in relation to past equity losses.

D1.5. The deferred tax asset is only recognised to the extent that the Group considers that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. The methodology for recognising the deferred tax asset is in line with FRS 102 and it is calculated at the rates at which it is expected that the tax will arise.

Directly held property

D1.6. The valuation of Alexandra House and any other property investments not traded in an active market is the fair value in accordance with Royal Institution of Chartered Surveyors guidelines.

D1.7. No depreciation is provided in respect of Alexandra House as it is considered that its useful economic life and residual value is such that its depreciation is immaterial.

Participations

D1.8. The participations comprise investments in subsidiary undertakings and are valued on a net current assets basis.

D1.9. The value of goodwill and other intangible assets is not included in the above figure.

D1.10. The net asset value subsidiary valuation includes PHFL's investment in Pinkerton. Pinkerton is not a subsidiary of PMAS or of PHFL. Pinkerton is a segregated account within Artex SAC. Pinkerton is therefore not a quoted company so, in accordance with relevant accounting standards, the value of the investment has been calculated on a "mark to model" basis. The value of this investment is £59.5m.

Equities, Bonds, Collective Investment Undertakings, Derivatives, Receivables, Assets held for unit-linked funds and cash and cash equivalents

D1.11. PMAS has an investment in a corporate loan with Neyber plc which is valued separately. Further details on the valuation of the Neyber loan are found in sections D 4.6 – D 4.8. With this exception, the assets detailed here are valued at market value and include accrued interest.

D1.12. Financial instruments traded in active markets are based on quoted bid prices on 31st December 2016. 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.

D1.13. Financial instruments not traded in an active market are held at their fair value.

Loans and mortgages

D1.14. Loans and mortgages are measured at fair value. This includes receivables arising from insurance contracts.

Derivatives

D1.15. Derivatives used by the business are listed on recognised exchanges. Prices for these assets are calculated with reference to the prices that are quoted by the exchange. These reflect the fair value of the derivatives.

Reinsurance recoverables

D1.16. Reinsurance recoverables are valued on a realistic basis using the EIOPA specified yield curve.

D1.17. They are calculated using a discounted cashflow projection of all future benefit payments, future expenses and future premiums and adjusted for tax where applicable.

D1.18. Reinsurance recoverables are calculated individually for each policy by the valuation model.

D1.19. Reinsurance treaties are in place for all non-profit business other than annuities and the Fixed term Options ISA.

D1.20. The main assumptions used in order to calculate the reinsurance recoverables at 31 December 2016 are:

- Valuation interest rates are set using the EIOPA specified yield curve.
- Expense inflation is set based on scenarios of future RPI inflation which are an output from the Economic Scenario Generator and vary by simulation.
- Renewal expense assumption is set allowing for the anticipated number of policies in force at the end of 2016, the 2017 budget and the anticipated split of expenses between acquisition and non-acquisition costs.
- Mortality assumptions are set by adjusting industry mortality tables to reflect PMAS' most up to date mortality experience. The '00' series of tables is used.
- Lapse assumptions are based on averages of the previous 2 years' worth of PMAS' lapse experience. This averaging smooths out variations from year to year which might result from the relatively small experience being analysed but does ensure that changes in experience are reflected in the assumptions. The assumptions are derived by rounding down the lapse rates for policy years 1 and 10+ to the nearest 0.5% and averaging the other lapse rates over the preceding and following year, where applicable, then rounding down to the nearest 0.5%.

Other assets

D1.21. Accrued income is valued at quoted market value.

D1.22. Deposits other than cash equivalents are held either as term deposits with approved deposit takers or through investments in money market funds. Term deposits are recorded at initial investment amount plus accrued interest. Deposits in money market funds are valued with reference to the quoted price in the same way as investment funds.

Material differences between the bases, methods and main assumptions used for the valuation for solvency purposes and those used for their valuation in financial statements

Investments in participations

D1.23. The only difference between the asset values used in the valuation for solvency purposes and those used for the financial statements (UK GAAP) is the value of the investment in participations.

Mark to model valuation in financial statements	£144,868k
Net asset value for solvency purposes	£ 57,654k
Difference	£(87,214)k

D1.24. In the financial statements, investments in participations are valued on a mark to model basis using valuation techniques which have a prudent regard to their likely realisable value. This may include, but is not limited to, discounted cash flow techniques and underlying net asset value.

D1.25. The mark to model basis includes discounted cash flow techniques and underlying net asset value. The same model and economic assumptions are applied to each subsidiary. However, for the Abacus business and PMHC a further discount rate premium has been applied to reflect the inherent uncertainty for businesses new to our Group. For the service company, PM Central Services PLC, profit is derived from recharges to the other Group companies and therefore its risk profile is linked to theirs. A weighted average cost of capital, based on the recharge profile, has been applied to reflect the underlying risks. This will ensure that the value recognised in this entity is matched by an equal and opposing downside adjustment in the Group entities resulting in nil net impact.

D1.26. As set out in D1.8, all participations are valued on a net current assets basis.

D2. Technical provisions

Value of technical provisions including the amount of best estimate and the risk margin; the level of uncertainty associated with the amount of technical provision

D2.1. The Solvency II total value of technical provisions is £788,319k.

	(£000s)
Life Insurance with profit technical provisions (best estimate)	645,364
Life Insurance with profit risk margin	5,154
Life Unit-linked technical provisions (best estimate)	81,076
Life Unit-linked risk margin	-18
Other life insurance technical provisions (best estimate)	56,294
Other life insurance risk margin	449
Total	**788,319**

D2.2. The approaches taken to the calculations are set out in the following sections, including any simplified approaches that have been used.

D2.3. The risk margin on the unit-linked business is very small. This is a reflection of the fact that the majority of the risk is borne by the policyholder rather than the business. The negative sterling reserves mean that the risk margin is negative.

D2.4. The process for setting the main assumptions used to calculate the technical provisions at 31 December 2016 is:

- Valuation interest rates are set using the EIOPA specified yield curve.
- The expense inflation is set based on scenarios of future RPI inflation which are an output from the Economic Scenario Generator and vary by simulation.
- Renewal expense assumptions are set allowing for the anticipated number of policies in force at the end of 2016, the 2017 budget and the anticipated split of expenses between acquisition and non—acquisition costs.
- Mortality assumptions are set by adjusting industry mortality tables to reflect PMAS' most up to date mortality experience. The '00' series of tables is used.
- Lapse assumptions are based on averages of the previous 2 years' worth of PMAS' lapse experience. This averaging smooths out variations from year to year which might result from the relatively small experience being analysed but does ensure that changes in experience are reflected in the assumptions. The assumptions are derived by rounding down the lapse rates for policy years 1 and 10+ to the nearest 0.5% and averaging the other lapse rates over the preceding and following year, where applicable, then rounding down to the nearest 0.5%.

Life Insurance with profit technical provisions (best estimate)

D2.5. The realistic valuation of best estimate with profit technical provisions is carried out using PMAS' asset-liability model, Prophet ALS. The ALS model uses a Monte Carlo simulation methodology.

D2.6. The exception is Children's Bond policies which have passed the end of their premium paying period. These provisions are calculated as the policy value at the end of the premium paying period plus interest between the end of the premium paying period and the valuation date. The best estimate liability for these policies is £2,016k.

D2.7. The simulations of future investment returns are supplied by the Moody's Economic Scenario Generator (ESG). These are used by the ALS model to produce projected cash flows. The average discounted value of the cash flows across all the simulations generates a market consistent valuation of PMAS' liabilities. This is regarded as PMAS' best estimate basis, making allowance for the time value of guarantees and options embedded in the liabilities.

D2.8. 5,000 simulations of the ALS model are carried out in order to reduce the statistical error to an acceptable level.

D2.9. Technical provisions are calculated as:

- Asset shares, including any past enhancements made to asset shares
- *less* charges for guarantees
- *less* surrender profits
- *plus* cost of guarantees
- *plus* smoothing asset
- *plus* expense reserve.

D2.10. Asset shares are calculated individually for each policy by the Prophet model.

D2.11. For each product, model points are grouped by year of entry, term and age at entry (in 5 year bands). These model points are used in order to calculate charges for and cost of guarantees and surrender profits.

D2.12. No significant attributes have been lost in these groupings as they are consistent with the way that bonuses are set and the premium rate bands for the majority of products.

D2.13. Some approximations have been made in the calculations of guarantee costs. There is one noteworthy approximation: the model does not allow for the tax on the assets backing the cost of the guarantees; however the impact of this approximation is negligible.

D2.14. The smoothing asset and expense reserve are calculated outside of the Prophet and ALS models and added into the total technical provisions.

D2.15. The smoothing cost is calculated on an individual contract basis with no grouping. No significant approximations are made in relation to this calculation.

Life Unit-linked technical provisions (best estimate)

D2.16. The realistic valuation of best estimate 'Unit-linked' technical provisions is carried out in the Prophet model. The Prophet model uses a deterministic methodology.

D2.17. They consist of a unit reserve plus a sterling reserve.

D2.18. The unit reserve for each policy is:

Number of units at the valuation date x unit price for valuation date.

D2.19. The sterling reserve is calculated as the present value of future expenses expected to be incurred less the present value of future charges that are expected to be collected. Negative sterling reserves are permitted.

D2.20. No allowance is made for the cost of the guarantee on the Guaranteed Cash Fund for the CTF product or on the Anytime access Fund for the Options ISA product because the cost is immaterial.

D2.21. Provisions are calculated individually for each policy by the Prophet model.

Other life insurance technical provisions (best estimate)

D2.22. The realistic valuation of best estimate 'Other' technical provisions is carried out in the Prophet model. The Prophet model uses a deterministic methodology.

D2.23. They are calculated using a discounted cash flow projection of all future benefit payments, future expenses and future premiums and adjusted for tax where applicable.

D2.24. Provisions are calculated as:

Present Value of the Future Benefits + Present Value of Future Expenses – Present Value of Future Premiums.

D2.25. Provisions are calculated individually for each policy by the Prophet model.

D2.26. No allowance has been made for the conversion option on the Convertible Option Policies or the guaranteed insurability option on the Regular Income Life Cover as the probability of these options being exercised is so small.

D2.27. A provision for the claims outstanding is also included in the best estimate liabilities.

D2.28. The expense reserve is held to the extent that aggregate budget expenses exceed the allowances made elsewhere in the best estimate liabilities. This essentially amounts to expenditure approved by the Managing Board to be charged to the Estate for which a contractual commitment has been made. The calculation of this provision allows for discounting at risk free rates and the impact of tax relief on the amounts.

Risk margin

D2.29. The method used to estimate the risk margin is to:
Estimate the SCR for the reference undertaking using the standard formula;
Project the future SCRs using the run-off pattern for the projected conventional with-profits asset shares.

D2.30. Using the run-off pattern for the projected conventional with-profits asset shares is a simplification. It is appropriate for the business, proportionate to the nature, scale and complexity of PMAS's risks.

Uncertainty associated with the value of technical provisions

D2.31. Technical provisions are calculated on a best estimate basis allowing for all relevant cash flows. The main source of uncertainty involved in this calculation relates to future experience and how this will differ from the best estimate assumptions, in particular in relation to future market conditions and policyholder lapse rates. Assumptions are set based on past experience and allowing for events not in the data which may impact the future.

D2.32. The calculation of the SCR split by risk module (see E2.3) gives an indication of the relative importance of different risks. The table below shows the sensitivity of the technical provisions to the key assumptions. Where possible (the first seven rows of the table), these sensitivities have been chosen to be of a similar probability to each other. Note that some of these assumption changes will also impact asset values and the SCR.

£m	**Technical Provisions**
31 December 2016 position	788.3
	Change
Equity Values -25%	-78.0
Fixed Interest Yields -1.4%*	+19.8
Equity Volatility +7.5%	+14.6
Fixed Interest Volatility +5.0%	+3.5
Per Policy Renewal Expenses +13%	+1.1
Lapse Rates -32%	+4.8
Mortality +13%	-0.1
EBR -3% (to 55%)	-1.4

Material differences between the bases, methods and assumptions used for the valuation of technical provisions for solvency purposes and those used for their valuation in financial statements

D2.33. The table below shows the differences.

	£000
Technical provisions in the financial statements	785,023
Adjustments for regulatory reporting:	
Inclusion of sterling reserves on unit-linked business	(2,289)
Inclusion of the risk margin	5,585
Technical provisions for regulatory reporting	**788,319**

Life Unit-linked technical provisions in the financial statements

D2.34. The financial statements do not include any sterling reserve.

Risk margin in the financial statements

D2.35. There is no risk margin liability in the financial statements.

Volatility adjustment

D2.36. The volatility adjustment has not been used in the calculation of the technical provisions, SCR and MCR for 31 December 2016.

Transitional risk free interest rate-term structure

D2.37. The transitional risk free interest rate-term structure has not been applied in the calculation of the technical provisions, SCR and MCR for 31 December 2016.

Transitional deduction

D2.38. No transitional deduction has been applied in the calculation of the technical provisions, SCR and MCR for 31 December 2016.

Description of the recoverables from reinsurance contracts and special purpose vehicles

D2.39. Refer to sections D 1.16 – D 1.20.

Material changes in assumptions compared to the previous reporting period

D2.40. The main assumptions used in order to calculate the Solvency II technical provisions at 31 December 2015 were set in the same way as the assumptions described above.

D3. Other liabilities

Value of other liabilities and a description of bases, methods and main assumptions used for their valuation

D3.1. The Solvency II total value of other liabilities is £21,164k. This is consistent with the value shown in the financial statements.

	(£000)
Pension benefit obligations	16,031
Derivatives	2,480
Insurance and intermediaries payables	237
Payables (trade, not insurance)	2,417
Total	**21,164**

Pension benefit obligations

D3.2. The pension benefit obligations are the present value of the defined benefit pension scheme's liabilities less the market value of the scheme's assets.

D3.3. The main financial assumptions used in order to calculate the present value of the pension scheme liabilities at 31 December 2016 are determined in line with FRS102. The demographic assumptions are as adopted for the most recently completed triennial actuarial valuation (31 December 2013).

Insurance and intermediaries payables

D3.4. Insurance and intermediaries payables are valued at fair value.

Payables (trade, not insurance)

D3.5. Payables (trade, not insurance) are valued at fair value.

Derivatives

D3.6. The same approach is taken whether a derivative has a positive or a negative value, see D1.15.

Material difference with the valuation bases, methods and main assumptions used by the undertaking for the valuation of other liabilities for solvency purposes and those used for their valuation in financial statements

D3.7. There are no material differences between valuations of other liabilities for solvency purposes and those used in financial statements.

D4. Alternative methods for valuation

Detail on mark to model techniques

D4.1. In the absence of quoted market values of the subsidiary companies, a mark to model basis is used to value the subsidiaries in the financial statements. The mark to model valuation of the subsidiary companies on 31 December 2016 was £144,868k. The value of the investment in Pinkerton has also been calculated on a mark to model basis in both the financial statements and for solvency purposes. This approach was agreed with the regulator in March 2016.

D4.2. The assumptions used in valuing the participations in subsidiary companies are described in sections D1.24 - D1.26.

D4.3. These assumptions have regard to the likely realisable value of the subsidiary companies.

D4.4. The nature of these calculations means that there is no single “correct” figure for the valuation of the best estimate liabilities. The valuation process determines a value based on our best estimate assumptions. However, the sensitivity of the value to changes in the assumptions used is also assessed to determine a range of results that could be considered appropriate. This then informs the value used given the position of the value in the range and its position relative to previous years.

D4.5. There is an element of uncertainty around the figures, relating to a number of assumptions, approximations and modelling simplifications inherent in the calculations. These areas, together with other areas of uncertainty are matters of expert judgement. PMAS has procedures in place to govern and document the exercise of expert judgement.

Detail on cash flow techniques

D4.6. In the absence of quoted market values of the Neyber loan, a discounted cash flow model basis is used in accordance with Article 10(7)(b) of the Delegated Acts. The same approach has been used in both the financial statements and for solvency purposes. The discounted cash flow valuation of the Neyber loan on 31 December 2016 was £36,157k.

D4.7. The main assumption used in order to calculate the value of the Neyber loan at 31 December 2016 is

- The discount rate for the cash flows from Neyber to PMAS which is based on yields available on corporate bonds, with some adjustments reflecting the lower marketability of the Neyber loan compared to quoted stocks and the security of the underlying loan book backing the loan payments compared to a typical unsecured corporate bond.

The assumed performance of the underlying loan book is based on assumptions for the rates of default, early repayment and recoverability in the event of default and these are set based on the expert judgement within Neyber due to the small levels of current experience.

D4.8. The main source of uncertainty in the valuation comes from the assumptions used, in particular the discount rate. Sensitivity analysis shows that the assumptions for rates of default, early repayment and recoverability in the event of default are not material to the valuation.

D5. Any other information

D5.1. No other information.

E CAPITAL MANAGEMENT

E1.Own funds

Information on the objectives, policies and processes for managing Own Funds

E1.1. A firm's Own Funds comprise the sum of its basic own funds and ancillary own funds. PMAS has no ancillary own funds therefore the Own Funds and basic own funds are the same.

E1.2. As a mutual without share capital the Own Funds of PMAS are broadly equivalent to its inherited estate as defined and explained in the PPFM which has accumulated over the life of the Society. Such estate belongs to the Society and is applied for the purposes of its business as set out in the Memorandum and Rules of the Society and the PPFM. The approach to management of the assets representing the estate takes into account its expected uses as listed below, in particular that it is intended to provide long term capital support for the continued operation of the Society's business. As a result the investment policy applied to the estate may differ from the policy applied to manage assets supporting insurance liabilities of the Society, including the asset shares and guarantees applicable to with profits policies.

E1.3. As stated in the PPFM, Own Funds are managed to:

- Meet statutory solvency and internal capital requirements;
- Give investment freedom for with-profits policyholders;
- Provide working capital;
- Provide capital support for guarantees;
- Finance other business ventures including providing support for benevolent activities consistent with the Society's purposes and for the overall commercial benefit and/or protection of all current and future members recognising the support the Society receives from the Police;
- Enable smoothing of investment returns and payouts;
- Meet any excess costs over charges for business other than the conventional with-profits business; and
- Meet any exceptional costs in managing the business arising as a result of legislation, taxation or other circumstances which in the opinion of the Managing Board should not be directly charged to policyholder benefits.

The management of these different components will vary and is set out in PMAS' Capital Management Policy.

E1.4. Management of the Own Funds is reviewed annually however, they are monitored monthly and any significant changes could trigger a review of their management more frequently.

Structure, amount and quality of basic own funds and ancillary own funds, including an analysis of the significant changes in each tier over the reporting period

E1.5. PMAS has £101,962k of Own Funds. Regulations require that Surplus Funds are calculated as with-profits assets minus with-profits liabilities (where non-profit liabilities have also been deducted from the with-profits assets in the fund). Surplus funds must also satisfy the criteria for Tier 1 own funds. This means that, with the exception of the deferred tax asset, all of PMAS' Own Funds are classified as "Surplus Funds". However, in line with PMAS' PPFM, there is no established practice of any particular percentage of these funds being distributed to any particular group or groups of members or policyholders or of any particular group or groups of members or policyholders having any priority interest in the funds. The detailed uses of the Own Funds are set out in the PPFM and section E1.3.

E1.6. The Own Funds is comprised of:

	31/12/2016 (£000)
Tier 1 Surplus Funds	96,641
Tier 3 Deferred Tax Asset	5,321
Total	**101,962**

Note that the figures in the above table may not sum to the totals shown due to rounding

The eligible amount of own funds to cover the SCR and MCR

E1.7. The eligible amount of own funds to cover the SCR is £101,962k. The eligible amount of own funds to cover the MCR is £96,641k.

(£000)	Basic own funds	Eligible own funds to meet the SCR	Eligible own funds to meet the MCR
Tier 1 – unrestricted	96,641	96,641	96,641
Tier 1 – restricted	0	0	0
Tier 2	0	0	0
Tier 3	5,321	5,321	N/A
Total	**101,962**	**101,962**	**96,641**

Material differences between equity in the financial statements and excess of assets over liabilities as calculated for solvency purposes

E1.8. The Solvency II value of the excess of assets over liabilities is £101,962k. The financial statements value is £192,473k:

	Notes	Assets (£000)	Liabilities (£000)	Excess (£000)
Financial statements assets and liabilities		**998,660**	**(806,187)**	**192,473**
Adjustments to assets				
Mark to model valuation of subsidiaries in statutory accounts	1	(87,214)		
Total adjustments to assets		**(87,214)**		
Adjustments to liabilities				
Sterling reserve	2		2,289	
Risk Margin	3		(5,585)	
Total adjustments to liabilities			**(3,296)**	
Solvency II assets and liabilities		**911,446**	**(809,484)**	**101,962**

Note that the figures in the above table may not sum to the totals shown due to rounding

Notes:
1. Solvency II requires that subsidiaries are valued on a net current assets basis. This adjustment reflects the higher subsidiary valuation used in the financial statements which is based on a mark to model basis.
2. Accounting regulations require that a sterling reserve to cover future expenses is not included in the financial statements but it is included in the Solvency II balance sheet.
3. The Risk Margin is a liability specific to the Solvency II balance sheet. This is not a liability recognised in the financial statements.

E1.9. PMAS has not deducted any items from the own funds. There is no restriction affecting the availability and transferability of own funds.

E2. Solvency Capital Requirement (SCR) and Minimum Capital Requirement (MCR)

Solvency Capital Requirement and Minimum Capital Requirement

E2.1. The SCR at 31 December 2016 was £68,428k.

E2.2. The MCR at 31 December 2016 was £17,107k.

SCR split by risk module

E2.3. The standard formula has been used to calculate the SCR. The SCR split by risk modules is shown in the table below.

(£000s)	**31 December 2016**
Total market risk	58,875
Total counterparty default risk	3,597
Total life underwriting risk	9,212
Total health underwriting risk	0
Total non-life underwriting risk	0
Diversification	(8,774)
Total operational risk	5,519
Total	**68,428**

Information on simplified calculations in the Solvency Capital Requirement

E2.4. The life catastrophe sub-risk module, within the total life underwriting risk module, has been calculated using simplified calculation methods. No other elements of the SCR have been calculated using simplified methods.

Information on undertaking specific parameters used in the Solvency Capital Requirement

E2.5. None of the parameters of the standard formula are undertaking specific.

The amount of capital add-on applied to the Solvency Capital Requirement

E2.6. No capital add-on has been applied to the SCR.

Information on the inputs used to calculate the Minimum Capital Requirement

E2.7. The linear MCR for 31 December 2016 was lower than the MCR floor which is calculated as 25% of the SCR.

E3. Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

E3.1. The duration-based equity risk sub-module was not used in the reporting period.

E4. Differences between the standard formula and any internal model used

E4.1. No internal model was used in the reporting period.

E5. Non-compliance with the Minimum Capital Requirement and non-compliance with the Solvency Capital Requirement

E5.1. There has been no period of non-compliance with the MCR or SCR during the year to 31 December 2016.

E6. Any other information

E6.1. No other information.

APPENDIX 1 VALIDATION AND APPROVAL

VALIDATION

Financial period ended 31 December 2016

We certify that:

1. The Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations; and

2. We are satisfied that:

(a) 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
(b) It is reasonable to believe that, at the date of the publication of the SFCR, the insurer has continued to comply, and will continue to comply in future.

Approval by the Administrative, Management or Supervisory Body (AMSB) of the SFCR and reporting templates

Stephen Mann

Director and Chief Executive Officer

Date: 15 September 2017

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

Report of the external independent auditors to the Directors of Police Mutual Assurance Society Limited ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Opinion

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

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Company as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and

- Company templates S.02.01.02, S.12.01.02, S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

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

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

- The 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

- Company templates S.05.01.02 and S.05.02.01.

- The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the

Auditors' Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report section of our report.

Emphasis of Matter - Basis of Accounting[i]

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

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report 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. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the Solvency and Financial Condition Report and our knowledge obtained in the audits of the Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP
Chartered Accountants
Birmingham
17 May 2017

- The maintenance and integrity of the Police Mutual Assurance Society Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

- Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

Report of the external independent auditors to the Directors of Police Mutual Assurance Society Limited('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

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

Opinion

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

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the revised Solvency and Financial Condition Report of the Company as at 31 December 2016, ('**the Narrative Disclosures subject to audit**'); and

- Revised Company templates S.02.01.02, S.12.01.02,S.23.01.01, S.25.01.21 and S.28.01.01 ('**the Templates subject to audit'**).

This revised Solvency and Financial Condition Report replaces the original Solvency and Financial Condition Report approved by the directors on 18th May 2017.

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

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

- The'Business and performance', 'System of governance' and 'Risk profile' elements of the revised Solvency and Financial Condition Report;

- Revised Company templates S.05.01.02, S.05.02.01;

- The written acknowledgement by management of their responsibilities, including for the preparation of the revised Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the revised information subject to audit in the relevant elements of the revised Solvency and Financial Condition Report of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & I)), International Standard on Auditing (UK) 800 and International Standard on Auditing (UK) 805, and applicable law. Our responsibilities under those standards are further described in the

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report section of our report.

Emphasis of matter – revision of the valuation of holdings in related undertakings, including participations

In forming our opinion on the relevant elements of the revised Solvency and Financial Condition Report, which is not modified, we have considered the adequacy of the disclosures made in Section 1.1 to this revised Solvency and Financial Condition Report concerning the need for revision of the original SFCR. The original Solvency and Financial Condition Report was approved on 18th May 2017. We have not performed a subsequent events review for the period from the date the original Solvency and Financial Condition Report was approved to the date of this report.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the revised Solvency and Financial Condition Report, which describe the basis of accounting. The revised 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 revised Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the revised Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Directors for the Solvency and Financial Condition Report

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

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

Auditors' Responsibilities for the Audit of the relevant elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion, in accordance with applicable law, ISAs (UK & I) and ISAs (UK) 800 and 805 as to whether the information subject to audit in the relevant elements of the revised Solvency and Financial Condition Report 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. ISAs (UK & I) require us to comply with the Auditing Practices Board's Ethical Standard for Auditors

An audit involves obtaining evidence about the amounts and disclosures in the relevant elements of the revised Solvency and Financial Condition Report sufficient to give reasonable assurance that the relevant elements of the revised Solvency and Financial Condition Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the relevant elements of the revised Solvency and Financial Condition Report. In addition, we read all the financial and non-financial information in the revised Solvency and Financial Condition Report to identify material inconsistencies with the audited relevant elements of the revised Solvency and Financial Condition Report. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

This report, including the opinion, has been prepared for the Directors of the Company to comply with their obligations under External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are required to read the Other Information and consider whether it is materially inconsistent with the relevant elements of the revised Solvency and Financial Condition Report and our knowledge obtained in the audits of the revised Solvency and Financial Condition Report and of the Company's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

Chartered Accountants

Birmingham

18th September 2017

- The maintenance and integrity of the Police Mutual Assurance Society website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Solvency and Financial Condition Report since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Solvency and Financial Condition Reports may differ from legislation in other jurisdictions.

APPENDIX 2 REPORTED TEMPLATES

General information

Undertaking name	Police Mutual Assurance Society Limited
Undertaking identification code	6IGISLDY4F59DOEQR694
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2016
Currency used for reporting	GBP
Accounting standards	The undertaking is using local GAAP (other than IFRS)
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet

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

S.05.02.01 - Premiums, claims and expenses by country

S.12.01.02 - Life and Health SLT Technical Provisions

S.23.01.01 - Own Funds

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

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

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	5,321
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	5,330
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	788,587
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	57,654
R0100	*Equities*	214,419
R0110	*Equities - listed*	210,262
R0120	*Equities - unlisted*	4,157
R0130	*Bonds*	258,827
R0140	*Government Bonds*	39,274
R0150	*Corporate Bonds*	219,553
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	254,225
R0190	*Derivatives*	3,462
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	83,364
R0230	Loans and mortgages	3,463
R0240	*Loans on policies*	2,993
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	471
R0270	Reinsurance recoverables from:	8,187
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	8,187
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	8,187
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	1,361
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	753
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	11,912
R0420	Any other assets, not elsewhere shown	3,167
R0500	**Total assets**	911,446

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	
R0540	*Best Estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	
R0580	*Best Estimate*	
R0590	*Risk margin*	
R0600	Technical provisions - life (excluding index-linked and unit-linked)	707,262
R0610	*Technical provisions - health (similar to life)*	0
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	707,262
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	701,658
R0680	*Risk margin*	5,604
R0690	Technical provisions - index-linked and unit-linked	81,057
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	81,076
R0720	*Risk margin*	-18
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	16,031
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	
R0790	Derivatives	2,480
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	237
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	2,417
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	809,484
R1000	**Excess of assets over liabilities**	101,962

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations					
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations
		C0210	C0220	C0230	C0240	C0250	C0260
	Premiums written						
R1410	Gross		94,896	5,850	39,567		
R1420	Reinsurers' share		0	0	2,100		
R1500	Net		94,896	5,850	37,467		
	Premiums earned						
R1510	Gross		94,896	5,850	39,567		
R1520	Reinsurers' share		0	0	2,100		
R1600	Net		94,896	5,850	37,467		
	Claims incurred						
R1610	Gross		116,667	1,787	1,182		
R1620	Reinsurers' share		0	0	1,608		
R1700	Net		116,667	1,787	-426		
	Changes in other technical provisions						
R1710	Gross		8,051	6,955	46,024		
R1720	Reinsurers' share				1,977		
R1800	Net		8,051	6,955	44,047		
R1900	**Expenses incurred**		9,680	597	4,036		
R2500	**Other expenses**						
R2600	**Total expenses**						

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Life reinsurance obligations		
		Health reinsurance	Life reinsurance	Total
		C0270	C0280	C0300
	Premiums written			
R1410	Gross			140,312
R1420	Reinsurers' share			2,100
R1500	Net		0	138,212
	Premiums earned			
R1510	Gross			140,312
R1520	Reinsurers' share			2,100
R1600	Net		0	138,212
	Claims incurred			
R1610	Gross			119,636
R1620	Reinsurers' share			1,608
R1700	Net		0	118,029
	Changes in other technical provisions			
R1710	Gross			61,030
R1720	Reinsurers' share			1,977
R1800	Net		0	59,052
R1900	**Expenses incurred**		0	14,313
R2500	**Other expenses**			
R2600	**Total expenses**			14,313

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations		
R1400					
		C0220	C0230	C0240	C0250
	Premiums written				
R1410	Gross	140,312			
R1420	Reinsurers' share	2,100			
R1500	Net	138,212	0	0	0
	Premiums earned				
R1510	Gross	140,312			
R1520	Reinsurers' share	2,100			
R1600	Net	138,212	0	0	0
	Claims incurred				
R1610	Gross	119,636			
R1620	Reinsurers' share	1,608			
R1700	Net	118,029	0	0	0
	Changes in other technical provisions				
R1710	Gross	61,030			
R1720	Reinsurers' share	1,977			
R1800	Net	59,052	0	0	0
R1900	**Expenses incurred**	14,313			
R2500	**Other expenses**				
R2600	**Total expenses**				

S.05.02.01

Premiums, claims and expenses by country

Life

		C0190	C0200	C0210
		Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400				
		C0260	C0270	C0280
	Premiums written			
R1410	Gross			140,312
R1420	Reinsurers' share			2,100
R1500	Net	0	0	138,212
	Premiums earned			
R1510	Gross			140,312
R1520	Reinsurers' share			2,100
R1600	Net	0	0	138,212
	Claims incurred			
R1610	Gross			119,636
R1620	Reinsurers' share			1,608
R1700	Net	0	0	118,029
	Changes in other technical provisions			
R1710	Gross			61,030
R1720	Reinsurers' share			1,977
R1800	Net	0	0	59,052
R1900	**Expenses incurred**			14,313
R2500	**Other expenses**			
R2600	**Total expenses**			14,313

S.12.01.02

Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance		
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees
		C0020	C0030	C0040	C0050	C0060	C0070	C0080
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**	645,364		0	81,076		6,118	50,175
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						1,565	6,621
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	645,364		0	81,076		4,553	43,554
R0100	**Risk margin**	5,154	-18			450		
	Amount of the transitional on Technical Provisions							
R0110	Technical Provisions calculated as a whole							
R0120	Best estimate							
R0130	Risk margin							
R0200	**Technical provisions - total**	650,519	81,057			56,743		

S.12.01.02

Life and Health SLT Technical Provisions

		Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)	Health insurance (direct business)		
						Contracts without options and guarantees	Contracts with options or guarantees
		C0090	C0100	C0150	C0160	C0170	C0180
R0010	**Technical provisions calculated as a whole**		0	0			
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		0	0			
	Technical provisions calculated as a sum of BE and RM						
	Best estimate						
R0030	**Gross Best Estimate**		0	782,734			
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		0	8,187			
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		0	774,547			
R0100	**Risk margin**		0	5,585			
	Amount of the transitional on Technical Provisions						
R0110	Technical Provisions calculated as a whole			0			
R0120	Best estimate			0			
R0130	Risk margin			0			
R0200	**Technical provisions - total**		0	788,319			

S.12.01.02

Life and Health SLT Technical Provisions

		Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**			
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole			
	Technical provisions calculated as a sum of BE and RM			
	Best estimate			
R0030	**Gross Best Estimate**			
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default			
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re			
R0100	**Risk margin**			
	Amount of the transitional on Technical Provisions			
R0110	Technical Provisions calculated as a whole			
R0120	Best estimate			
R0130	Risk margin			
R0200	**Technical provisions - total**			

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	96,641	96,641			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	0	0			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	5,321				5,321
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0	0	0	0	
R0290	**Total basic own funds after deductions**	101,962	96,641	0	0	5,321

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	101,962	96,641	0	0	5,321
R0510	Total available own funds to meet the MCR	96,641	96,641	0	0	
R0540	Total eligible own funds to meet the SCR	101,962	96,641	0	0	5,321
R0550	Total eligible own funds to meet the MCR	96,641	96,641	0	0	

S.23.01.01

Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0580	**SCR**	68,428				
R0600	**MCR**	17,107				
R0620	**Ratio of Eligible own funds to SCR**	149.01%				
R0640	**Ratio of Eligible own funds to MCR**	564.92%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	101,962
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	101,962
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	0

	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	1,622
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,622

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0080	C0090
R0010	Market risk	157,146		
R0020	Counterparty default risk	3,597		
R0030	Life underwriting risk	34,805		
R0040	Health underwriting risk			
R0050	Non-life underwriting risk	0		
R0060	Diversification	-25,257		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	170,291		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	5,518
R0140	Loss-absorbing capacity of technical provisions	-107,380
R0150	Loss-absorbing capacity of deferred taxes	
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	68,428
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	68,428
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	
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

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_L Result	14,204

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	516,010	
R0220	Obligations with profit participation - future discretionary benefits	129,354	
R0230	Index-linked and unit-linked insurance obligations	81,076	
R0240	Other life (re)insurance and health (re)insurance obligations	48,106	
R0250	Total capital at risk for all life (re)insurance obligations		371,473

	Overall MCR calculation	C0070
R0300	Linear MCR	14,204
R0310	SCR	68,428
R0320	MCR cap	30,793
R0330	MCR floor	17,107
R0340	Combined MCR	17,107
R0350	Absolute floor of the MCR	3,332
R0400	**Minimum Capital Requirement**	17,107