Solvency and Financial Condition Report

31 December 2018

List of Appendices

SUMMARY

1.1. Purpose

1.1.1. This is Police Mutual Assurance Society Limited's annual report on our solvency and financial condition. It is publicly available. It is based on financial information at 31 December 2018.

1.2. Business and performance summary

1.2.1. Police Mutual Assurance Society Limited ("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 150 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 2014 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.

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 500 people working across the Group in three main locations.

1.2.8. Whilst we have made significant progress this year in rightsizing our Group, the environment in which we operate has changed significantly in the last few years with the introduction of Solvency II and the capital now required to support a with-profits business. The Board has requested that the Executive undertakes a strategic review of the Group, reviewing options for what the future could look like for our Members, taking into account their needs, our capabilities and our industry environment. The outcomes of this work will be presented to the Board in the first half of 2019 and we will develop and agree the future direction of the Group.

1.3. System of governance summary

1.3.1. PMAS recognises the importance of strong corporate governance and has established an appropriately designed governance framework, system of control and committee structure.

1.3.2. PMAS operates a 'three lines of defence' governance model that clearly apportions accountability between those accountable for taking risks, exercising risk oversight and independently reviewing control effectiveness.

1.3.3. During 2018, there has been significant action taken to deliver on the Board approved risk improvement plan. The report highlighted that "Management had substantially completed actions identified in the 2016 KPMG report, or equivalent actions based on subsequent changes that have been incorporated into the function's Target Operating Model". This included establishment of the financial risk team in December 2018.

1.4. Risk profile summary

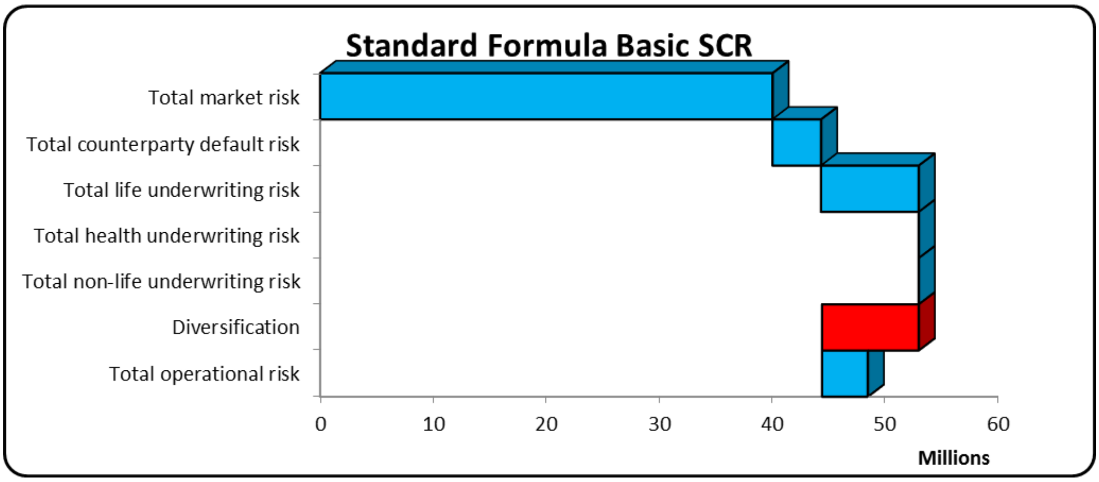
1.4.1. In approving its revised Risk Appetite Statement, the Managing Board codified its three risk management objectives to be achieved over the business planning time horizon, namely to:

- Maintain financial soundness;
- Protect the Police Mutual brand(s) and its reputation; and
- Maintain appropriate levels of organisational capability and capacity.

1.4.2. PMAS articulates and assesses its risk profile by reference to these three risk management objectives, with its Solvency Capital Requirement, (as referenced below) representing an appropriate quantification of relevant risks which comprise its risk profile.

1.4.3. 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.

1.4.4. 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.



1.4.5. Market risk is the main Standard Formula risk. This is driven in part 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 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;
- The inclusion of intangible assets in the financial statements but not in the regulatory reporting.

1.5.2. The differences are summarised below:

	£000k
Fund for future appropriations in the financial statements	113,262
Adjustments for regulatory reporting:	
Excess of valuation of subsidiaries over net asset value	(28,479)
Inclusion of sterling reserves	1,218
Inclusion of the risk margin	(5,685)
Exclusion of intangible assets	(362)
Inclusion of Volatility Adjustment	2,728
Own Funds	**82,683**

Any apparent discrepancies in the sums are due to rounding

1.6. Capital management summary

1.6.1. At 31 December 2018, Own Funds were £82,683k (2017: £89,621k) and there was a Solvency Capital Requirement ("SCR") of £48,538k (2017: £56,726k). The solvency ratio was therefore 170%.

1.6.2. The Own Funds consisted of £78,564k of Tier 1 capital eligible to cover the SCR and Minimum Capital Requirement ("MCR") and £4,119k of Tier 3 capital eligible to cover the SCR.

1.6.3. 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.

1.6.4. 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.

INTRODUCTION

2.1. This is a Report provided to the PRA as part of the 31 December 2018 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. 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.

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. 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, (PMAS) 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 https://www.bankofengland.co.uk/contact. The FCA can be contacted using the details found at https://www.the-fca.org.uk/contact.

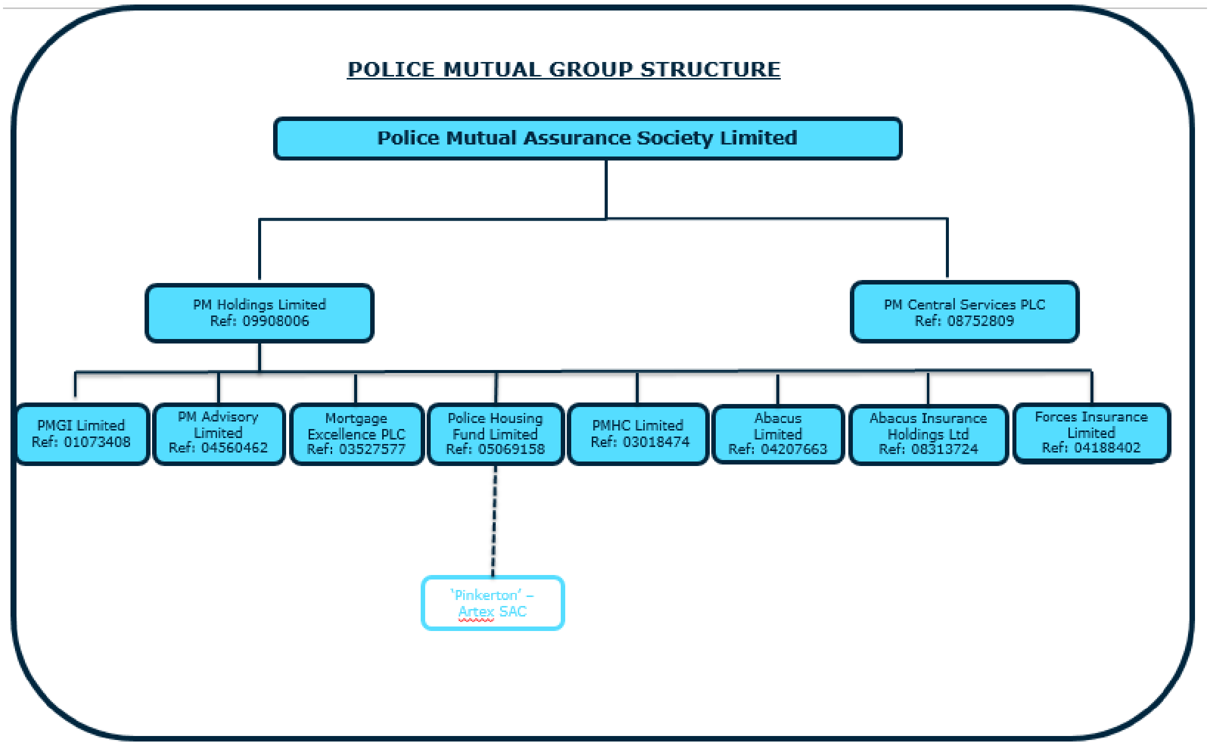
A1.4. In line with PS25/18, the regulatory returns were not externally audited as PMAS meets the requirements of a "small Solvency II firm".

A1.5. Set out below are PMAS’ investments in subsidiary undertakings as at 31 December 2018, all of which are incorporated in England and Wales and are wholly owned.

Name of undertaking	**Principal activities**	**Immediate parent company**	**Legal form**
PM Central Services PLC	Service company for the Group	Police Mutual Assurance Society Limited	Public Limited Company
PM Holdings Limited	An intermediate holding 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 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 Housing Fund Limited	An intermediate holding company	PM Holdings Limited	Private Limited Company
PMHC Limited	Provider of discretionary healthcare* products	PM Holdings Limited	Private Limited Company
Mortgage Excellence PLC	Provider of mortgage placement and related financial services	PM Holdings Limited	Public Limited Company
Abacus Limited	Arranges general insurance policies and acts as an introducer of third party products	PM Holdings Limited	Private Limited Company
Forces Insurance Limited	A dormant company	PM Holdings Limited	Private Limited Company
Abacus Insurance Holdings Limited	A dormant company	PM Holdings Limited	Private Limited Company

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

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



A1.7. PMAS' 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. Throughout 2018 the Group has continued to deliver against its strategic aims of simplifying and consolidating the business following a period of acquisitions, increasing its capital strength and enhancing its overall risk management capabilities. The key progress against these aims in 2018 has been:

- Against the strategic aim of strengthening the Society's capital through reducing losses, good progress has been made in rightsizing the business and the underlying operational cost base (excluding write offs in 2017) has been reduced by 24% year on year. This has been delivered through headcount reduction, consolidating our suppliers and good cost discipline. The Society continues to seek ways of creating efficiencies whilst balancing the focus on maintaining Member services and supporting Affinities more broadly.

- The decision to exit the Basingstoke office from 2020 was taken which now sees the Group's office footprint reduced from eight to two in the past two years and further cost savings are expected in 2019.

- Additionally further action was taken to enhance capital strength by purchasing put options (this provides a right to sell a specified amount of an underlying security at a specified price/time) which provided a capital benefit.

- The investment manager mandate was reviewed and the Society moved from a multi-manager model to a single manager to manage investments across all sectors and markets. In December 2018, the bulk of the investments in the Life Fund were transferred to Bank of Montreal (BMO) who were awarded the investment mandate and this will reduce costs for the Life Members through lower investment management fees.

The Group continues to review its products to ensure that they are meeting Member needs and the following are key to note for 2018-2019:

- There continues to be much focus on motor and household insurance prices, specifically about the price differential between new and renewal business. The Group is fully supportive of the FCA investigations and is aligned with the ABI guiding principles and action points (GPAPs) for general insurance pricing. Police Mutual works with its Insurer Partner to ensure that a fair price is offered to Members whether they are new or existing and irrespective of their tenure with us.

- On-line Military insurance products for motor, kit and contents have been built and the Group is offering stand-alone protection and young driver insurance products launching in 2019.

- Through the healthcare scheme in 2018 19,509 treatments were paid for our Members who receive treatment within an average of 6 to 7 weeks, saving 12 weeks compared to average NHS wait times.

- During 2018 the Children's Bond was closed but the Society is seeking alternatives for its Members.

- For Regular Savings Plan policies that matured in 2018 the return generated was 4.1% p.a., (based on a male, aged 30 next birthday paying £50 per month over a 10 year term).

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 aim to make a profit. The result for the year is transferred to or from the Fund for Future Appropriations.

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

	Insurance with profit participation	
£000	**31 December 2018**	**31 December 2017**
Earned premiums, net of reinsurance[1,2]	92,539	91,288
Claims incurred, net of reinsurance[1,2]	(112,925)	(121,699)
Change in technical provisions, net of reinsurance[2]	(42,309)	(13,051)
Expenses	(11,598)	(13,786)

	Index linked and unit-linked insurance	
£000	**31 December 2018**	**31 December 2017**
Earned premiums, net of reinsurance[1,2]	5,779	5,235
Claims incurred, net of reinsurance[1,2]	(12,568)	(4,192)
Change in technical provisions, net of reinsurance[2]	515	(17,186)
Expenses	(1,274)	(1,121)

	Other life insurance	
£000	**31 December 2018**	**31 December 2017**
Earned premiums, net of reinsurance[1,2]	1,279	20,380
Claims incurred, net of reinsurance[1,2]	(602)	(531)
Change in technical provisions, net of reinsurance[2]	(13,051)	(9,438)
Expenses	(923)	(2,844)

	Total life obligations	
£000	**31 December 2018**	**31 December 2017**
Earned premiums, net of reinsurance[1,2]	99,597	116,903
Claims incurred, net of reinsurance[1,2]	(126,096)	(126,422)
Change in technical provisions, net of reinsurance[2]	(54,845)	(39,675)
Expenses	(13,795)	(17,751)

1 *Net earned premiums and claims incurred include £5,825k (2017: £17,821k) and £12,613k (2017: £5,339k) respectively in respect of policies accounted for under UK GAAP as investment contracts.*
2 *The reinsurer's share of earned premiums is £1,749k (2017: £1,946k), of claims is £1,836k (2017:£2,459k) and of the change in technical provisions is £320k (2017: £355k).*

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 changes seen in the 'Other life insurance' category are due to maturities starting to occur on the Fixed Term Options ISA product and significantly reduced new business volumes for that same product.

A2.5. Expenses include acquisition costs of £6,931k.

A2.6. PMAS has an underwriting policy in place. In relation to the historical 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 2018, a revised investment operating model was agreed and was begun to be implemented and this will continue into 2019. In conjunction with this the investment strategy was confirmed for the investments assets and the assets backing the estate. The investment strategy was reviewed for the unit-linked assets in early 2018, although there will be further changes associated with the investment operating model.

A3.3. During 2018, 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 2018 is shown in Appendix 3, S.02.01.

A3.4. 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
Developed Global 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	***£601m***	***£38m***	***£14m***	***£10m***

	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***	***£2m***	***<£1m***

A3.5. 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.

A3.6. The Anytime Access Options ISA is not shown in the table. This product is backed by a cash-like fund.

A3.7. 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.

A3.8. These central strategic asset allocations are reviewed at least every two years. The allocation for the investment assets was reviewed in 2017 although no changes were made. The allocations for the unit-linked were reviewed during 2018 and changes were made to the regional equity allocations but not to the aggregate asset class weightings.

A3.9. The investment returns achieved in 2018 vary by product. The investment return before tax, charges and smoothing for the Investment Assets, which represents the majority of assets, was minus 3.8% in 2018; +10.8% in 2017. For 2018 this is split by asset class as follows:

Equities	-11.1%
Property	+6.0%
Corporate bonds	-1.6%
Government bonds	+0.2%
Cash	+0.8%

A3.10. The investment returns as reported in the Annual Report & Financial Statements are shown in the following table:

£'000	**2018**	**2017**
Investment income:		
- Income from financial investments	15,282	19,092
- Gains on the realisation of investments	95,382	52,889
- Net foreign exchange loss[1]	(3,401)	7,626
	107,263	**79,607**
Unrealised Gains on investments[2]	**(97,876)**	**6,737**
Investment expenses and charges:		
- Investment management expenses	(2,390)	(5,296)
- Losses on the realisation of investments	(37,007)	(13,783)
	(39,397)	**(19,079)**
Net investment return	**(30,010)**	**67,265**

1 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.

2 In the financial statements, Society unrealised gains include the losses on the revaluation of its investment in subsidiary companies of £7,038k (2017:£27,737k). These losses 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.

A3.11. No gains and losses have been recognised directly into equity.

A3.12. PMAS does not invest in securitisations directly. Where exposures arise indirectly through the holding of collective investments, these are regularly monitored in accordance with the prudent person principle.

A3.13. 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.

A3.14. 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.

A3.15. Realised gains and losses on investments carried at fair value are calculated as the difference between net sales proceeds and purchase price.

A3.16. 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 2018 this equated to £1,104k (2017: £1,047k).

A5. Any other information

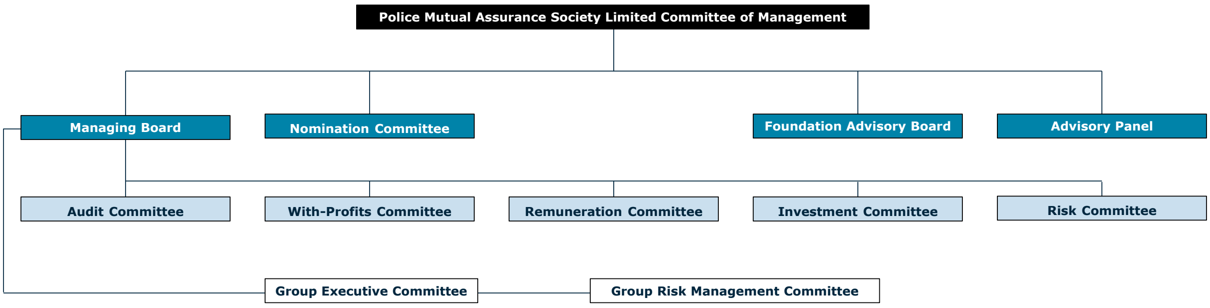
A5.1. No further information.

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 representatives 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:** advises 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:** established in January 2017, provides 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.

B1.7. 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.

The Advisory Panel

B1.8. 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 Group.

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.

The Chief Risk Officer is supported by a team of risk professionals with a blend of relevant skills and experience. The Chief Risk Officer is also the Executive lead for Compliance related matters and is supported by appropriately skilled teams who work collaboratively with the Risk function. The Chief Risk Officer was also the Executive lead for Information Security up until December 2018 when responsibility was re-allocated to the Chief Information Officer.

Compliance Function

B1.13. The Compliance function is led by the Head of Compliance who reports directly to the Chief Risk Officer on a day to day basis, and the Risk Committee and Managing Board. The Head of Compliance is supported by a number of individuals covering various disciplines and subject areas.

B1.14. The Compliance function produce regular written reports on their activities and these are submitted to relevant Senior Managers, Group Executive Committee, GRMC, Managing Board, and its sub-committees as appropriate.

B1.15. A wider explanation of the Compliance function is provided in sections B4.4 – B4.11.

Internal Audit Function

B1.16. The Internal Audit function is headed by a Chief Internal Auditor who reports directly to the Chair of the Audit Committee, and the Chief Executive on an administrative basis. The Chief Internal Auditor is supported by an Internal Auditor and has access to co-sourced resources from external consultancy firms to provide expertise not available in-house, as well as a guest auditor programme to provide capacity. 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.

B1.17. **Actuarial Function**

The Actuarial function is headed by the Head of Actuarial who reports directly to the Chief Finance Officer. The Head of Actuarial has recently received approval from the PRA to be Chief Actuary. The Head of Actuarial is supported by a team of suitably qualified individuals. Activities of the function are reported to the Managing Board or its sub-committees as appropriate to their respective Terms of Reference. Further information on the function is provided in section B6.

Any material changes in the system of governance

B1.18. Following implementation of the Senior Management and Certification Regime from 10 December 2018, PMAS has appropriately apportioned its senior management and key function holder responsibilities and codified these within its Management Responsibilities Map and individual Statements of Responsibility.

B1.19. Due to the resignation of the long term CEO, an interim CEO was appointed in December 2018, on a temporary basis ahead of the permanent CEO joining in April 2019.

B1.20. The Chief Operations Officer left the business in June 2018. The Operations responsibilities were transferred to the Sales & Marketing Director, and the IT & Change responsibilities were transferred to the newly appointed Chief Information Officer. In April 2019 the Operations responsibilities also transferred to the Chief Information Officer, who has now taken on the role of Chief Operations Officer.

B1.21. In January 2018 the Product Director responsibilities were transferred to the Sales & Marketing Director, the Chief Investment Officer later left the business in December 2018 and the responsibilities were suitably apportioned to the Finance Director and the Head of Investments.

B1.22. In December 2018 a Financial Risk team was established, and a new Head of Financial Risk and With-Profits Actuary (Control Function Holder) was appointed. This is a newly created second line role designed to strengthen the controls and governance of market, liquidity and insurance risk.

B1.23. Post the appointment of the new Head of Financial Risk & With-Profits Actuary, a new Head of Actuarial was appointed and has recently received approval from the PRA to be Chief Actuary.

Information on the Remuneration Policy and Practices

B1.24. The Remuneration Committee is responsible for reviewing the ongoing appropriateness and relevance of the Remuneration Policy.

Chair and Non-Executive Director Remuneration

B1.25. The Directors' Remuneration Policy for 2019 – 2022 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 business plan.
- 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.

B1.26. The principles underlying chair and non-executive director remuneration policy are that fees are:

- Neither performance related nor pensionable and non-executive directors do not participate in any incentive plans.
- Designed to recognise the responsibilities and time commitment of non-executive directors and to attract individuals with necessary skills and experience to contribute to the future growth of the Police Mutual Group.
- 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.

Executive and Executive Director Remuneration

B1.27. 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.

B1.28. The principles for Executive remuneration are as follows:

- Remuneration should be fair and competitive.
- 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.

B1.29. 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.

B1.30. 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, which include appropriate reference to demonstrating appropriate risk management behaviours, 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.

B1.31. 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 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.

Employees

B1.32. 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 appropriately linked to performance and the achievement of organisational outcomes, whilst at the same time ensuring that employees receive fair reward for their performance.

B1.33. 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.

B1.34. 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, noting that specific arrangements apply for staff within the Risk, Compliance, Information Security and Internal Audit functions to ensure levels of independence are maintained.

Material Transactions

B1.34 Police Mutual did not enter into any new, material transactions 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 commensurate with regulatory requirements and protection of 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.

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 an aligned 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 relevant risk categories including capital, market, credit, liquidity, insurance, conduct and operational and is codified through the Risk Appetite Statement, Risk Policies and underlying procedures.

B3.3. Police Mutual's approach for risk control is set out in a suite of Risk Policy Statements.

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

First line (All colleagues aside from those in 2nd and 3rd lines)
Only expose the business to the type and quantum of risks as authorised to do so within the Group Risk Policies and Risk Appetite Statement.

- To identify, assess, record and manage risks in accordance with the requirements as set out in the EWRM Framework.
- To identify, investigate, escalate and report on losses, incidents or issues as appropriate.
- To implement appropriate risk monitoring, escalation and, as necessary, remediation processes.
- Periodically confirm that risks and controls are being managed effectively.

Second line (Risk and Compliance)

- Recommending appropriate risk management standards.
- Deploying appropriate risk management processes into first line.
- Advising and challenging first line.
- Providing periodic assurance to the Board that first line is meeting its requirements.

Third line (Internal Audit and other independent sources of control assurance)

- Independently reviewing control effectiveness.
- Assessing control gaps.
- Escalating control breaches and recommending control enhancements.

B3.5. The Board has overall responsibility for setting risk appetite and reviewing the Chief Executive's management of the business in light of this. The Board is supported in its oversight of risk management by the Risk Committee, which meets at least four times a year and receives regular reports on risk, capital and compliance related matters commensurate with its Terms of Reference.

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

B3.6. The Risk function is an established second line of defence function and exercises appropriate levels of authority and influence through:

- The role, position and prescribed responsibilities of the Chief Risk Officer.
- The facilitated implementation of the established EWRM Policies and Framework.
- Its 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 Statement and Risk Policies. The Risk function provides periodic assurance to the Managing Board that Risk Appetite and Policies are being adhered to.

Own Risk and Solvency Assessment (ORSA) process

B3.8. The Managing Board has determined a refreshed ORSA Policy Statement which codifies its requirements for executing the ORSA process. These requirements were fully met in executing the 2018 ORSA.

B3.9. The ORSA process is a continual process encapsulating a range of aligned risk management, capital management and business planning processes. Key outputs from these activities are reviewed and challenged by the Board or its relevant sub-committees as appropriate.

B3.10. Key conclusions from the ORSA process are summarised in the formal ORSA Report which is produced on at least an annual basis and, if deemed appropriate, approved by the Managing Board.

B3.11. The Chief Risk Officer is responsible for executing the ORSA process and making appropriate recommendations to the Managing Board.

Frequency of the ORSA

B3.12. The ORSA is an iterative and continual process with both interim and final deliverables informing Police Mutual's business planning process. A formal ORSA Report is produced at least annually, and more frequently if defined ORSA triggers, as set out in the ORSA Policy, are activated.

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 as part of the ORSA process 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 Police Mutual Group is committed to encouraging high standards of risk management and internal control aimed at supporting the long term goals and success of the Group. The Board, under delegated authority from the Committee of Management, is responsible for ensuring that the Group's management maintains an effective system of risk management and internal control and for reviewing its effectiveness.

B4.2. The Group's system of risk management and internal control covers the full spectrum of business activity and is designed to manage the Group's financial strength and organisational capability whilst ensuring the delivery of fair outcomes for members and customers commensurate with the Board's expectations, as informed by regulatory requirements.

B4.3. The Group's governance and system of risk management and internal control includes independent risk, compliance and audit functions that report to management on the Group's operations and compliance with the Group's policies and standards. During the year, the Board supported by both Audit and Risk Committees has considered the effectiveness of the Police Mutual Group's system of internal control and risk management and engaged management in determining mitigation plans for the principal risks facing the Group. In 2017 the Board identified opportunities to improve the effectiveness of the Police Mutual Group's system of risk management and internal control with management making progress in improving risk management and control effectiveness during the intervening period.

Compliance Function Operation

B4.4. The Group is committed to operating its business in compliance with all legal and regulatory requirements. The Compliance function operates independently of the second line of defence to ensure compliance to the UK Regulatory authorities and the Board approved Conduct Risk Framework.

B4.5. The Compliance function comprises the Compliance Monitoring and the Policy & Advice teams which report directly to the Head of Compliance. The Compliance function is accountable to the Risk Committee and the Managing Board and reports to the Chief Risk Officer.

B4.6. The Head of Compliance is also the Data Protection Officer and Money Laundering Reporting Officer for the Police Mutual Group and has responsibility for:

- Informing and advising the organisation and its employees about their obligations to comply with the GDPR and other data protection laws.
- Monitoring compliance with the GDPR and other data protection laws and with internal policies including assignment of responsibilities and awareness training.
- Oversight of the Group's anti-money laundering arrangements.

B4.7. Working with Internal Audit and Risk in particular, Compliance supports the effective operation of the Group's risk management framework. It forms part of the second line of defence and has ownership and responsibility for maintaining the Conduct Risk Policy and Framework and for providing advice on, and oversight of, conduct risk, specifically in relation to:

- FCA handbook requirements.
- The Senior Managers and Certification Regime.
- Financial crime legislation and guidance.
- Data protection legislation and guidance.

B4.8. Compliance undertakes its oversight activity in a number of ways:

- By developing policies and business-facing guides.
- By providing an advisory 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 and engaging with the wider business to ensure any changes are implemented by the business in a timely and appropriate way (the business area most affected by the change will usually lead and/or sponsor the activity required).
- By proactively reviewing certain regulatory risk areas to verify adherence to applicable standards and reporting conclusions to senior managers, the Executive and the Risk Committee.

B4.9. Regular reports are prepared and submitted to the Managing and Subsidiary Boards, Group Risk Management Committee, the Executive and relevant Senior Managers, as appropriate.

B4.10. Reports vary by audience, as appropriate, but in the main focus on key functional matters, the regulatory change horizon, significant and/or notified breaches, the progress of the agreed monitoring plan, any significant monitoring findings, and any important regulatory/supervisory matters.

B4.11. The Risk function is responsible for periodically assessing and advising on Police Mutual's compliance with the Systems of Governance, with other functions responsible for implementing processes which accord with regulatory requirements.

B5. Internal Audit Function

Internal Audit Function Operation

B5.1. The Internal Audit function consists of a Chief Internal Auditor (Head of Internal Audit), supported by an Internal Auditor and has access to co-sourced resources from external consultancy firms to provide expertise not available in-house, as well as a guest auditor programme to provide capacity.

B5.2. Internal audit, operating as a third line of defence, plays an important role in the Group's internal control environment by providing independent assurance to its management and the Board via the Audit Committee. The Internal Audit function has a mandate and set of plans which are reviewed and approved formally each year by the Audit Committee. The internal audit plans are determined after appropriate risk assessments carried out in conjunction with management to ensure that assurance is sought in the most appropriate areas of the Group. Progress of management actions arising from internal audit findings as well as internal audit's progress against plans is followed up and monitored by management and the Audit Committee.

Maintaining Independence

B5.3. 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 independence.

B5.4. The Chief Internal Auditor is required to confirm to the Audit Committee, on at least an annual basis, the independence of the Internal Audit Function.

B5.5. The Chief Internal Auditor reports directly to the Chair of the Audit Committee and the Chief Executive on an administrative 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. The previous incumbent Chief Actuary has changed role within the Society to Head of Financial Risk and now reports to the Chief Risk Officer. Both the previous and newly appointed Chief Actuary are Fellows of the Institute and Faculty of Actuaries, have complied continuously with the specific professional obligations this requires, and hold appropriate Practising Certificates.

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

B7.1. Police Mutual 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, and governance over outsourcing arrangements is aligned to regulatory requirements.

B7.3. Adequate policies and frameworks exist to control the risks associated with outsourced arrangements and that such arrangements may be subject to Independent Risk Reviews by the Risk function and control assessments by Internal Audit.

Outsourcing of any critical/important operational functions or activities

B7.4. The following table sets out critical/material outsourcing arrangements in place during the reporting period. 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

3. Investment Administration Services		
HSBC Securities Services	Global Custody Services	UK
HSBC Securities Services	Fund Administration	UK

4. Fund Management Services		
BMO Global Asset Management	Investment Management – Multi Asset Investment	UK
Goldman Sachs	Investment Management – US Equity Investment, FX Hedging	USA
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
La Salle	Investment Management – UK Property Investment	UK, Channel Islands and Ireland
Insight Investment	Investment management – Corporate Bonds, Liquidity Funds, 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

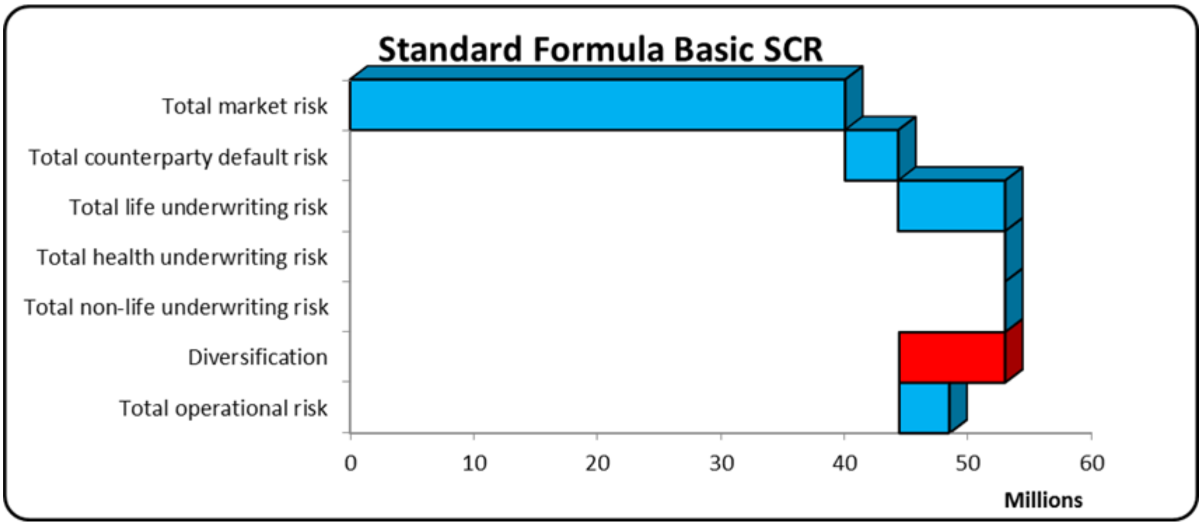
B8. Any other information

B8.1. On an annual basis the Risk and Internal Audit functions provide the Managing Board, via its sub-committees, with a joint assessment of the effectiveness of risk management and internal control to support approval of the Annual Report and Financial Statements. This Assessment is produced alongside Internal Audit's summary of internal control and External Audit's Management Letter.

B8.2. The Board periodically reviews the principal risks to the Group as well as relevant stress tests and monitors the agreed mitigation plans.

C RISK PROFILE

The chart below shows the Standard Formula Solvency Capital Requirement ("SCR") as at 31 December 2018. 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 on the excess over SCR. An increase in 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. However, it does also mean that there are more policies to bear the costs of operating the business.

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 2018 was £8,649k and the gross capital requirement was £34,588k.

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. Concentration risk relates to significant investments in a single entity. For PMAS this is particularly relevant for our investments in our subsidiary companies and with Neyber. Neyber is a strategic partner in which we hold both a corporate bond and an equity investment. The exposure to Neyber has reduced slightly during the year, consequently reducing the associated concentration risk.

C2.8. The liabilities affected by market risk are the best estimate liabilities and Staff Pension Fund liability.

C2.9. Sensitivity analysis shows that market risks, and in particular equity stresses, are material risks.

C2.10. 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.

C2.11. The overall net solvency capital requirement for the Market risk module at 31 December 2018 was £40,076k and the gross capital requirement was £111,445k. 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 credit and counterparty 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 2018 was £4,299k. 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. Once mitigation and controls are allowed for, we do not believe that liquidity risk in terms of meeting our payments to policyholders as they fall due is material. However, we are mindful of liquidity risk in relation to the wider cashflow needs of the Group. As a consequence, during the year the Managing Board refreshed its liquidity risk appetite requirements which has informed Executive management's priorities.

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 2018, the Expected Profit included in Future Premiums ("EPIFP") was £1,060k. 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 B3).

C5.4. The Pillar 1 calculation for operational risk is based on premiums received and was calculated as £4,069k at 31 December 2018.

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. **Risk sensitivity**

C7.1. The calculation of the SCR split by risk module (see E2.3) gives an indication of the relative importance of different risks. This indicates that the most significant risk for PMAS is equity risk and that is supported by the sensitivity analysis shown below.

C7.2. The table below shows the sensitivity of the Own Funds and SCR to the key assumptions. Where possible (in all cases except the EBR change), these sensitivities have been chosen to be of a similar probability to each other.

£m	**Own Funds**	**SCR**	**Excess over SCR**	**Ratio**
31 December 2018 position	83	(49)	34	170%
	Change			
Equity Values -25%	-3	-9	-12	140%
Fixed Interest Yields -1.0%	-12	-1	-13	144%
Equity Volatility +7.5%	-8	+1	-7	160%
Fixed Interest Volatility +1.5%	-1	0	-1	168%
Per Policy Renewal Expenses +13%	-2	-1	-3	164%
Lapse Rates -32%	-4	-2	-6	158%
Mortality +13%	0	0	0	172%
EBR +3% (to 55%)**	-2	-2	-4	161%

*In this sensitivity risk free rates are assumed to be negative at the shorter end of the yield curve.

**This sensitivity assumes that investments are switched from bonds to equities.

C7.3. These sensitivities have been calculated by applying each stress to the assets and liabilities. Agreed management actions have been allowed for in these calculations.

C8. **Any other information**

C8.1. 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 total value of assets at 31 December 2018 is £881,692k.

Asset Class	(£000)
Deferred tax assets	4,119
Directly held property	5,275
Participations	62,931
Listed equities	208,686
Unlisted equities	4,176
Government and supranational bonds	35,688
Corporate bonds	161,753
Collective Investments Undertakings	245,685
Derivatives	8,004
Assets held for unit-linked funds	99,670
Loans & mortgages	2,596
Reinsurance recoverables	8,759
Insurance and intermediaries receivables	1,870
Receivables, trade	349
Cash and cash equivalents	31,072
Other assets	1,060
Total	**881,692**

Any apparent discrepancies in the sums are due to rounding

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 recognised deferred tax asset (with comparatives) are as follows:

£000	2018	2017
Acquisition costs	-	267
Pension scheme	1,115	1,846
Losses on investments	3,004	1,784
Total	**4,119**	**3,897**

D1.5. The components of the unrecognised deferred tax asset (with comparatives) are as follows:

£000	2018	2017
Acquisition costs	2,398	2,187
Tax losses	2,082	607
Losses on investments	3,877	1,282
Capital allowances	302	267
Pension contributions	221	-
Total	**8,880**	**4,343**

D1.6. 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 – a ten year planning period has been used for this calculation. 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 deferred tax will reverse. All deferred tax is calculated at 20% being the current rate for mutuals for which there has been no indication of future change by HMRC.

Directly held property

D1.7. 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. Alexandra House was subject to an external valuation as at 31 December 2018.

Participations

D1.8. The participations comprise investments in subsidiary undertakings and are valued on a net current assets basis. This is covered in more detail in section D4.1.

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 at 31 December 2018 is £61.9m (2017: £54.5m).

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 31 December 2018. 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 recoverable best estimate liabilities are calculated 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 2018 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.
- 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 main 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	£91,409k
Net asset value for solvency purposes	£62,931k
Difference	£28,479k

D1.24. In the financial statements, investments in participations (where the entity is trading) are using an earnings before interest, taxes, depreciation and amortisation (EBITDA) multiple valuation technique which has a prudent regard to their likely realisable value. Non-trading entities and the service company, PM Central Services PLC, are valued based on net assets.

D1.25. As set out in D1.8, all participations are valued on a net current assets basis.

Intangible assets

D1.26. At 31 December 2018 PMAS held some computing software on its balance sheet. Under accounting standards, software is classified as an intangible asset. The software has a value of £362k in the 31 December 2018 financial statements (2017: £560k).

D2. Technical provisions

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

D2.1. The total value of technical provisions at 31 December 2018 is £774,473k.

	£000s
Life Insurance with-profit technical provisions (best estimate)	622,393
Life Insurance with-profit risk margin	4,607
Life Unit-linked technical provisions (best estimate)	98,452
Life Unit-linked risk margin	725
Other life insurance technical provisions (best estimate)	47,943
Other life insurance risk margin	353
Total	**774,473**

Any apparent discrepancies in the sums are due to rounding

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.

D2.4. The process for setting the main assumptions used to calculate the technical provisions at 31 December 2018 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 assumption is set allowing for the anticipated number of policies in force at the end of 2018, the budgeted expenses set out in the Business Plan 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 valuation of best estimate liabilities for 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 £2,295k.

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 valuation of best estimate liabilities for 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 plus an expense 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. The expense reserve is calculated outside of the Prophet model and added into the total technical provisions (see D2.30).

D2.21. No allowance is made for the cost of the guarantee on the Guaranteed Cash Fund for the CTF product or on the Anytime Access Options ISA product because the cost is immaterial.

D2.22. Provisions are calculated individually for each policy by the Prophet model.

Other life insurance technical provisions (best estimate)

D2.23. The valuation of best estimate liabilities for other technical provisions is carried out in the Prophet model. The Prophet model uses a deterministic methodology.

D2.24. 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.

D2.25. Technical provisions are calculated as:

- Present Value of the Future Benefits + Present Value of Future Expenses – Present Value of Future Premiums
- *Plus* expense reserve.

D2.26. Provisions are calculated individually for each policy by the Prophet model.

D2.27. No allowance has been made for the conversion option on the Convertible Term Option policies or the guaranteed insurability option on the Regular Income Life Cover as the probability of these options being exercised is so small.

D2.28. A provision for the claims outstanding is also included in the best estimate liabilities.

D2.29. The expense reserve is calculated outside of the Prophet model and added into the total technical provisions (see D2.30).

D2.30. 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

D2.31. 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.

D2.32. Using the run-off pattern for the projected conventional with-profits asset shares is a simplification. It is appropriate for the business, and proportionate to the nature, scale and complexity of PMAS' risks.

Uncertainty associated with the value of technical provisions

D2.33. 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.

D2.34. 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 (in all cases except the EBR change), 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 as shown in C7.

£m	**Technical Provisions**
31 December 2018 position	774
	Change
Equity Values -25%	-46
Fixed Interest Yields -1.0%*	+26
Equity Volatility +7.5%	+8
Fixed Interest Volatility +1.5%	+1
Per Policy Renewal Expenses +13%	+1
Lapse Rates -32%	+4
Mortality +13%	0
EBR +3% (to 55%)**	+1

*In this sensitivity risk free rates are assumed to be negative at the shorter end of the yield curve.

**This sensitivity assumes that investments are switched from bonds to equities.

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

D2.35. The table below shows the differences.

	£000
Technical provisions in the financial statements	772,734
Adjustments for regulatory reporting:	
Inclusion of sterling reserves on unit-linked business	(1,218)
Inclusion of the risk margin	5,685
Inclusion of volatility adjustment	(2,728)
Technical provisions for regulatory reporting	**774,473**

Any apparent discrepancies in the sums are due to rounding

Life Unit-linked technical provisions in the financial statements

D2.36. The financial statements do not include any sterling reserve.

Risk margin in the financial statements

D2.37. There is no risk margin liability in the financial statements.

Volatility adjustment

D2.38. The volatility adjustment has been used in the calculation of the technical provisions of with-profits business. This also affects the SCR and MCR for 31 December 2018. It was not used in prior years.

D2.39. The table below shows the impact on the results if no allowance was included for the volatility adjustment:

£ m	*With VA (£m)*	*No VA (£m)*	*Impact (£m)*
Technical Provisions	**774**	**777**	**3**
Tier 1	*79*	*76*	*3*
Tier 2	*0*	*0*	*0*
Tier 3	*4*	*4*	*0*
Total basic own funds	**83**	**80**	**3**
Ancillary own funds	0	0	0
Eligible own funds to meet the SCR	**83**	**80**	**3**
SCR	49	51	2
Excess over SCR	34	29	5
Eligible own funds to meet the MCR	**79**	**76**	**3**
MCR	14	14	0

Transitional risk free interest rate-term structure

D2.40. 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 2018.

Transitional deduction

D2.41. No transitional deduction has been applied in the calculation of the technical provisions, SCR and MCR for 31 December 2018.

Description of the recoverables from reinsurance contracts and special purpose vehicles

D2.42. Refer to sections D 1.16 – D 1.20.

Material changes in assumptions compared to the previous reporting period

D2.43. The main assumptions used in order to calculate the technical provisions for regulatory reporting at 31 December 2017 were set in the same way as the assumptions described above for 31 December 2018. An additional expense reserve was held in 31 December 2017 to reflect uncertainty around future expenses. Following a revision to the cost allocation methodology, the expense reserve has been removed.

D3. Other liabilities

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

D3.1. The total value of other liabilities is £24,536k. This is consistent with the value shown in the financial statements.

	(£000)
Pension benefit obligations	9,090
Derivatives	11,390
Insurance and intermediaries payables	3
Payables (trade, not insurance)	4,054
Total	**24,536**

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 liabilities of the fund are valued by an independent actuary based on the most recent triennial actuarial valuation (31 December 2016), updated for FRS 102 purposes to 31 December 2018. The main assumptions used to support the liability calculation are the discount rate, inflation, pension increases and life expectancy. The assumptions used were very similar to prior year with the exception of the discount rate which had increased from 2.55% to 2.95%.

D3.4. 90% of the assets of the pension scheme are held in equities and bonds, this has changed little from the prior year. The assets are held by external fund managers and are valued at market value which is readily available.

Insurance and intermediaries payables

D3.5. Insurance and intermediaries payables are valued at fair value.

Payables (trade, not insurance)

D3.6. Payables (trade, not insurance) are valued at fair value.

Derivatives

D3.7. 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

D3.8. 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, an EBITDA multiple based model is used to value the trading subsidiaries and the investment in Pinkerton in the financial statements. Non-trading subsidiaries (including PMCS) are valued at their net assets. This approach gave a valuation of the subsidiary companies on 31 December 2018 of £91,409k. An EBITDA multiple of 9 has been selected, this is based on multiples observed in the sector.

D4.2. For solvency purposes, Pinkerton has been valued using a discounted cash flow model. This is in line with prior years and this approach was agreed with the regulator in March 2017. Cash flows have been taken over 10 years, this is consistent with prior year and a discount rate of 14.0% for renewals and 16.5% for new business has been applied in both 2018 and 2017.

D4.3. The assumptions used in valuing the participations in subsidiary companies are described in sections D1.24 - D1.25.

D4.4. These assumptions have regard to the likely realisable value of the subsidiary companies.

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 2018 was £20,769k.

D4.7. The main assumption used in order to calculate the value of the Neyber loan at 31 December 2018 is

- The discount rate for the cash flows from Neyber to PMAS. This is based on market evidence of funding rates for similar arrangements. Previously these had been based on yields available on corporate bonds, with some adjustments reflecting the lower marketability of the Neyber loan compared to quoted assets and the security of the underlying loan book providing backing to the loan payments compared to a typical unsecured corporate bond. The revised approach has resulted in a modest increase in the applied discount rate.

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. There are limited levels of current experience, but these are consistent with the lifetime assumptions within the valuation.

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. The monitoring and management of Own Funds includes consideration of quality and liquidity of capital as well as the quantity of capital.

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. At 31 December 2018, PMAS has £82,683k 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:

£000	**31 December 2018**	**31 December 2017**
Tier 1 Surplus Funds	78,564	85,724
Tier 3 Deferred Tax Asset	4,119	3,898
Total	**82,683**	**89,621**

Any apparent discrepancies in the sums are due to rounding

E1.7. The table below shows an analysis of the change in the Own Funds over the year.

£m	**Total Change**
Effect of actual vs expected investment return on cost & charge for guarantees & surrender profits	(3.8)
Change in EBR	0.3
Investment return on assets not backing the asset shares	0.6
Expense variances	(4.8)
Release of expense reserve	1.5
Effect of giving asset shares credit for unrecognised DTA	(2.4)
Other tax impacts	(1.0)
Effect of claims	(2.7)
Impact of new business	(5.1)
Profits on non-profit business after reinsurance	1.1
Change in current liabilities (including SPF)	1.6
Change in economic assumptions	2.5
Change in non-economic assumptions	(3.4)
Impact of subsidiaries*	5.0
Introduction of volatility adjustment	2.7
Other variances	(1.0)
TOTAL CHANGE	**(6.9)**

**The subsidiary value increased by £10m, but this was after a £5m recapitalisation from PMAS.*

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

E1.8. The eligible amount of own funds to cover the SCR is £82,683k. The eligible amount of own funds to cover the MCR is £78,564k.

£000	**Basic own funds**	**Eligible own funds to meet the SCR**	**Eligible own funds to meet the MCR**
Tier 1 – unrestricted	78,564	78,564	78,564
Tier 1 – restricted	0	0	0
Tier 2	0	0	0
Tier 3	4,119	4,119	N/A
Total	**82,683**	**82,683**	**78,564**

Any apparent discrepancies in the sums are due to rounding

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

E1.9. The regulatory value of the excess of assets over liabilities is £82,683k. The financial statements value is £113,263k:

	Notes	Assets (£000)	Liabilities (£000)	Excess (£000)
Financial statements assets and liabilities		**910,532**	**(797,270)**	**113,263**
Adjustments to assets				
Mark to model valuation of subsidiaries in statutory accounts	1	(28,479)		
Intangible assets	2	(362)		
Total adjustments to assets		**(28,840)**		
Adjustments to liabilities				
Sterling reserve	3		1,218	
Risk Margin	4		(5,685)	
Volatility Adjustment	5		2,728	
Total adjustments to liabilities			**(1,739)**	
Regulatory assets and liabilities		**881,692**	**(799,009)**	**82,683**

Any apparent discrepancies in the sums are 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. Intangible assets have a non-zero value in the financial statements but are required to be valued at zero in the regulatory balance sheet.
3. Accounting regulations require that a sterling reserve to cover future expenses is not included in the financial statements but it is included in the regulatory balance sheet.
4. The Risk Margin is a liability specific to the regulatory balance sheet. This is not a liability recognised in the financial statements.
5. The volatility adjustment is specific to the regulatory balance sheet. No allowance is made for this in the financial statements.

E1.10. 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 2018 was £48,538k.

E2.2. The MCR at 31 December 2018 was £14,110k.

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 2018	31 December 2017
Total market risk	40,076	48,679
Total counterparty default risk	4,299	2,431
Total life underwriting risk	8,649	7,872
Total health underwriting risk	0	0
Total non-life underwriting risk	0	0
Diversification	(8,556)	(7,042)
Total operational risk	4,069	4,785
Total	**48,538**	**56,726**

Any apparent discrepancies in the sums are due to rounding

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 2018 (£14,110k) was higher than the MCR floor which is calculated as 25% of the SCR (£12,134k).

Any material change in the SCR and MCR over the reporting period and the reasons

E2.8. The SCR has reduced during the year by £8,188k and the MCR has reduced proportionately. The main reasons for reduction are:

- More favourable economic conditions and a reduction in the equity backing ratio;
- Application of the volatility adjustment; and
- De-risking of the staff pension fund assets.

This has been partially offset by an increase due to a negative investment return in 2018.

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 2018.

E6. **Any other information**

E6.1. No other information.

APPENDIX 1 VALIDATION AND APPROVAL

VALIDATION

Financial period ended 31 December 2018

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 the insurer has continued to comply subsequently and will continue to comply in future.

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

John Perks

Director and Chief Executive Officer

Date: 17 April 2019

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 2018
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	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.22.01.21 - Impact of long term guarantees measures and transitionals
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

	Assets	Solvency II value
		C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	4,119
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	5,275
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	726,922
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	62,931
R0100	*Equities*	212,861
R0110	*Equities - listed*	208,686
R0120	*Equities - unlisted*	4,176
R0130	*Bonds*	197,441
R0140	*Government Bonds*	35,688
R0150	*Corporate Bonds*	161,753
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	245,685
R0190	*Derivatives*	8,004
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	99,670
R0230	Loans and mortgages	2,596
R0240	*Loans on policies*	2,596
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	8,759
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	8,759
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	8,759
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	1,870
R0370	Reinsurance receivables	0
R0380	Receivables (trade, not insurance)	349
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	31,072
R0420	Any other assets, not elsewhere shown	1,060
R0500	**Total assets**	881,692

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*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	675,296
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)*	675,296
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	670,336
R0680	*Risk margin*	4,960
R0690	Technical provisions - index-linked and unit-linked	99,177
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	98,452
R0720	*Risk margin*	725
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	9,090
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	11,390
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	3
R0830	Reinsurance payables	0
R0840	Payables (trade, not insurance)	4,054
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	799,009
R1000	**Excess of assets over liabilities**	82,683

S.05.01.02

Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	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	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross		92,541	5,779	3,026					101,346
R1420	Reinsurers' share		1	0	1,747					1,749
R1500	Net		92,539	5,779	1,279				0	99,597
	Premiums earned									
R1510	Gross		92,541	5,779	3,026					101,346
R1520	Reinsurers' share		1	0	1,747					1,749
R1600	Net		92,539	5,779	1,279				0	99,597
	Claims incurred									
R1610	Gross		113,030	12,568	2,334					127,932
R1620	Reinsurers' share		105		1,731					1,836
R1700	Net		112,925	12,568	602				0	126,096
	Changes in other technical provisions									
R1710	Gross		42,309	-515	13,371					55,165
R1720	Reinsurers' share				320					320
R1800	Net		42,309	-515	13,051				0	54,845
R1900	**Expenses incurred**		11,598	1,274	923				0	13,795
R2500	**Other expenses**									
R2600	**Total expenses**									13,795

S.05.02.01

Premiums, claims and expenses by country

Life

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	101,346						101,346
R1420	Reinsurers' share	1,749						1,749
R1500	Net	99,597	0	0	0	0	0	99,597
	Premiums earned							
R1510	Gross	101,346						101,346
R1520	Reinsurers' share	1,749						1,749
R1600	Net	99,597	0	0	0	0	0	99,597
	Claims incurred							
R1610	Gross	127,932						127,932
R1620	Reinsurers' share	1,836						1,836
R1700	Net	126,096	0	0	0	0	0	126,096
	Changes in other technical provisions							
R1710	Gross	55,165						55,165
R1720	Reinsurers' share	320						320
R1800	Net	54,845	0	0	0	0	0	54,845
R1900	**Expenses incurred**	13,795						13,795
R2500	**Other expenses**							
R2600	**Total expenses**							13,795

S.12.01.02

Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	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)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
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	622,393			98,452		8,740	39,203		0	768,788						
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						2,399	6,360		0	8,759						
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	622,393		0	98,452		6,341	32,843		0	760,029						
R0100	Risk margin	4,607	725			353				0	5,685						
	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	627,000	99,177			48,296				0	774,473						

S.22.01.21

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	774,473	0	0	2,728	0
R0020	Basic own funds	82,683	0	0	-2,728	0
R0050	Eligible own funds to meet Solvency Capital Requirement	82,683	0	0	-2,728	0
R0090	Solvency Capital Requirement	48,538	0	0	2,418	0
R0100	Eligible own funds to meet Minimum Capital Requirement	78,564	0	0	-2,728	0
R0110	Minimum Capital Requirement	14,110	0	0	255	0

S.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	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	78,564	78,564			
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	4,119				4,119
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**	82,683	78,564	0	0	4,119
	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	82,683	78,564	0	0	4,119
R0510	Total available own funds to meet the MCR	78,564	78,564	0	0	
R0540	Total eligible own funds to meet the SCR	82,683	78,564	0	0	4,119
R0550	Total eligible own funds to meet the MCR	78,564	78,564	0	0	
R0580	**SCR**	48,538				
R0600	**MCR**	14,110				
R0620	**Ratio of Eligible own funds to SCR**	170.35%				
R0640	**Ratio of Eligible own funds to MCR**	556.78%				
	Reconcilliation reserve	C0060				
R0700	Excess of assets over liabilities	82,683				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges					
R0730	Other basic own fund items	82,683				
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	1,060				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	1,060				

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	111,445		
R0020	Counterparty default risk	4,299		
R0030	Life underwriting risk	34,588		
R0040	Health underwriting risk	0		
R0050	Non-life underwriting risk	0		
R0060	Diversification	-24,332		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	126,001		

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	4,069
R0140	Loss-absorbing capacity of technical provisions	-81,532
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	48,538
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	48,538
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

USP Key

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

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

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

S.28.01.01

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

		C0010
	Linear formula component for non-life insurance and reinsurance obligations	
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		

		C0040
	Linear formula component for life insurance and reinsurance obligations	
R0200	MCR_L Result	14,110

		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	501,992	
R0220	Obligations with profit participation - future discretionary benefits	120,401	
R0230	Index-linked and unit-linked insurance obligations	98,452	
R0240	Other life (re)insurance and health (re)insurance obligations	39,184	
R0250	Total capital at risk for all life (re)insurance obligations		407,775

		C0070
	Overall MCR calculation	
R0300	Linear MCR	14,110
R0310	SCR	48,538
R0320	MCR cap	21,842
R0330	MCR floor	12,134
R0340	Combined MCR	14,110
R0350	Absolute floor of the MCR	3,288
R0400	**Minimum Capital Requirement**	14,110